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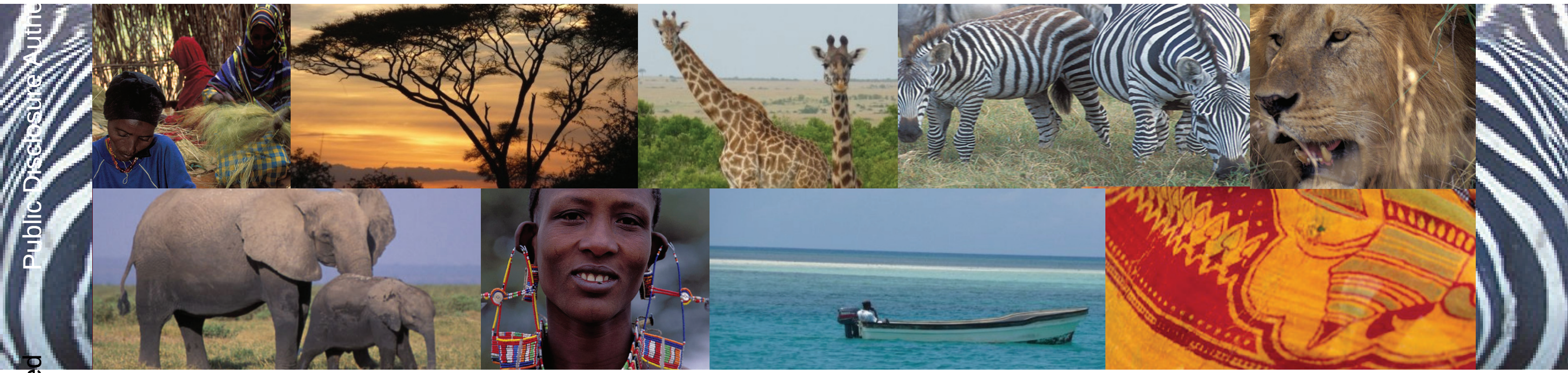
Kenya's Tourism: Polishing the Jewel



Finance and Private Sector Development
Africa Region
Final Report
2010

World Bank Group
Africa Region
Finance and Private Sector Development

Abbreviations and Acronyms

BBC	British Broadcasting Corporation
BOK	Bomas of Kenya
CAS	Country Assistance Strategy
CC Africa	Conservation Corporation Africa
CCK	Communications Commission of Kenya
CDA	Coast Development Authority
CLEF	Community Leaders Education Fund
CNN	Cable News Network
DFI	Development Financial Institution
DMO	destination management organization
DRDRS	Department of Resources Surveys and Remote Sensing
ECMA	Environmental Management and Coordination Act
EMG	Emerging Markets Group
ENWDA	Ewaso Nyiro South Development Authority
ESOK	Eco-tourism Society of Kenya
EU	European Union
FIAS	Foreign Investment Advisory Service
GDP	gross domestic product
GDS	Global Development Solutions, LLC
GIG	Gambia Is Good
GNI	gross national income
HIV/AIDS	Human Immunity Virus/Acquired Immune-Deficiency Syndrome
IATA	International Air Transport Association
ICA	Investment Climate Assessment
ICCA	International Congress and Convention Association
ISP	Internet service provider
JRO	Kilimanjaro Airport (Arusha)
KAA	Kenya Airport Authority
KAHC	Kenya Association of Hoteliers and Caterers
KATA	Kenya Association of Travel Agents
KATO	Kenya Association of Tour Operators
KCAA	Kenya Civil Aviation Authority
KIA	Kenya Investment Authority
KICC	Kenyatta International Convention Centre
KLM	KLM Royal Dutch Airlines
KMA	Kenya Maritime Authority
KPA	Kenya Port Authority
KRA	Kenya Hotels and Restaurants Authority
KTB	Kenya Tourism Board
KTDC	Kenya Tourism Development Corporation
KTF	Kenya Tourism Federation
KUC	Kenya Utalii College
KWS	Kenya Wildlife Service
MCTA	Mombasa Coastal Tourism Association
MENR	Ministry of Environment and Natural Resources
MICE	Meetings, Incentives, Conferences and Exhibitions
MMMA	Maasai Mara Management Association
MOF	Ministry of Finance

MOT	Ministry of Tourism
MSF	Multi-Stakeholder Forum
NEC	National Environmental Council
NEMA	National Environment Management Authority
NBO	Jomo Kenyatta Airport (Nairobi)
NGO	nongovernmental organization
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
NTIMS	National Tourism Information Management System
OECD	Organisation for Economic Co-operation and Development
PERAK	Pub, Entertainment and Restaurant Association of Kenya
PSV	public service vehicle
RPED	Regional Program on Enterprise
SME	small and medium enterprise
TAP	Tanzania Airfreight Project
TLCT	Tanzania Land Conservation Trust
TPU	Tourist Police Unit
TSMPP	Tourism Strategic Marketing and Promotion Programme
UFTAA	Universal Federation of Travel Agents' Association
UNWTO	United Nations World Tourism Organization
VAT	value-added tax
VCA	value chain analysis
WTTC	World Travel and Tourism Council

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Executive Summary

1. **Kenya's tourism product lines (that is, supply) and their source markets (that is, demand) function in a cross-sectoral context, which leads to cross-cutting public and private sector issues.** Tourism has played a major role in Kenya's development despite economic jolts from time-to-time by internal and external shocks. In 2006 and 2007 the economy grew rapidly and tourism, after a jolt in early 2008, rebounded thanks to market conditions and some solid marketing. The global recession, of course, has since intervened, and Kenya will have to continue with bold and committed actions if it is to clawback its iconic position in world tourism.

2. **Value chain analysis of safari, coastal, and business and conference tourism highlights constraints and opportunities.** Current tourism enterprises are hampered by significant taxation and regulation. Peaks and valleys in tourism flows have exacerbated already limited access to capital necessary for the sector to be competitive. The key to sustainability lies in Kenya's ability to provide a mix of tourism products—safari, coastal, cultural/heritage and business and conference—while protecting the very assets these products celebrate.

3. **The sector faces four critical issues.** They are: i) natural and wildlife asset degradation; ii) a tired product offering in need of upgrade and diversification; iii) a constrained business environment with weak institutional backup; and iv) a workforce with limited capacity to consistently deliver a world-class tourism experience. Key findings are summarized as follows:

ISSUE	KEY FINDINGS
1. Natural and wildlife asset degradation threatens the future of tourism.	• Increasing human population, invasive cultivation, and overdevelopment are negatively affecting wildlife and natural resources (and vice versa). • Overcrowding and unplanned tourism developments are having detrimental effects. • Cross-jurisdictional and cross-sector policy challenges are limiting the effectiveness of land and wildlife management. • Coastal assets are being unevenly used and developed.
2. Product offering is increasingly noncompetitive.	• The tourism product offering is fragmented. • New product development is hampered due to poor access to finance
3. The sector struggles with a disabling "enabling environment" facilitated by ineffective institutions.	• Private sector development is constrained by limited access to finance, complicated taxation, regulation and licensing schemes; and shortage of up-to-date technical expertise. • Insufficient public services and infrastructure disable delivery of a competitive and economically viable tourism experience in destination areas. • Responsibility for natural and cultural resources crosses multiple ministries, contributing to inefficiency and ineffectiveness. • There is limited public sector capacity to support tourism policy functions, investment promotion, and strategic destination marketing.
4. An insufficient and inadequately trained labor force is crippling the sector's ability to be agile and competitive.	• Hotel and tourism education institutions are insufficient and outdated. • There is a lack of adequately trained labor for developed and developing coastal destinations. • There is insufficient capacity building for natural and cultural resource tour guides.

4. **Tourism in Kenya can grow stronger and contribute further economic gains if the government commits to policy reform that enhances the enabling environment, comprehensively protects the sector's asset base, and builds capacity.** Kenya has been a tourism leader and has pioneered products that are world class. The country has a great asset base, entrepreneurial people, and a geography and climate that allow year-round tourism activity. Kenya invented the photo safari and still defends it strongly; it moved into private game ranches and private conservancies, which illustrates Kenya's ability to be progressive yet practical in its goal for sustainability. On the other hand, Kenya's beach tourism is a "tired" and less competitive product in today's marketplace; but could rebound if the necessary rehabilitation is achieved. Strategic development of business and conference tourism also holds promise. Cultural heritage tourism resources are also abundant and command further development.

5. **Government and the private sector must work more effectively in partnership** building lasting cooperation, new products, and a stronger institutional framework to implement strategic programs.

ISSUE	POLICY MANDATES
1. Natural and wildlife asset degradation threatens the future of tourism.	1. Support a process of enabling cross-jurisdictional entities to effectively protect and manage natural and wildlife assets 2. Develop integrated destination development plans based on defined zones, appropriate uses and effective regulation. 3. Draft policy and complete implementation steps incorporating MOT sustainable tourism development taskforce findings and recommendations 4. Revise framework which establishes comprehensive environmental park and business management plans 5. Facilitate integrated policy and legislation on management of marine resources and coastal areas 6. Gazette beaches as protected areas for recreational use
2. Product offering is increasingly noncompetitive.	1. Develop cohesive tourism portfolio of: • Environmentally and economically viable safari tourism products (parks and ranches) • Coastal tourism product which attracts a profitable mix of tourists from package to high-end • Expanded business and conference tourism with capability to cross-sell safari and coastal tourism offerings • Cultural heritage tourism attractive to domestic, intra-Africa and international tourists 2. Support community and association groups to determine needs, assess resources, and prepare business plans for economically viable niche tourism products 3. Drive development of targeted tourism products through documentation of domestic and intraregional demand
3. The sector struggles with a disabling "enabling environment" facilitated by ineffective institutions.	1. Analyze *Doing Business* and *Investment Climate* findings to define prioritized next steps for enabling the private sector 2. Increase access to finance for new and established private sector operators through a revolving fund offering capital at attractive rates 3. Review sector specific tax, licensing, and regulation schemes to introduce best practices enabling efficient and effective policies 4. Utilize technical assistance to foster innovation and business development 5. Utilize more widely public-private partnerships to support environmentally sustainable electricity, water, and sanitation systems in tourism development areas 6. Support continued upgrading of roads and airstrips enabling improved access and facilitation of wider community involvement in tourism 7. Energize investment promotion specifically targeting tourism investment

(continued)

ISSUE	POLICY MANDATES
4. An insufficient and inadequately trained labor force is crippling the sector's ability to be agile and competitive.	1. Upgrade Utalii Hotel School infrastructure; update curriculum reflective of sector needs; and retrain faculty and staff; reclassify within the Kenyan higher education framework to enable attracting high-quality faculty and staff 3. Assess labor force and training needs for existing and planned tourism products to build career paths and professionalization 4. Establish a hospitality and tourism education center of excellence in the coastal region 5. Expand efforts to train and license natural resource and wildlife guides 6. Establish PPP to support demand-driven skills training nationally

6. **Remedial actions to be taken require prioritization and cohesive strategies as follows.**

STRATEGIC ACTION	RESPONSIBLE STAKEHOLDERS	TIME FRAME
1. Natural and Wildlife Asset Protection Support implementation steps incorporating MOT sustainable tourism development taskforce findings and recommendations; revise framework that establishes comprehensive environmental park and business management plans	MOT, MENR	Within 12 months
2. Product Development Support strategic product development through engaging the private sector and communities in integrated destination planning and product development	MOF, MOT, and private sector enterprise owners	12–18 months
3. Enabling Environment and Investment Increase access to finance for new and established private sector operators through a revolving fund offering capital at attractive rates; Draw upon knowledge of best practices and up-to-date marketplace trends to develop attractive incentives and a long-term, balanced tourism investment program beneficial to communities and investors	MOT, MOF, and private sector enterprise owners	18–46 months
4. Institutional Support Utilize technical assistance to establish public-private partnerships to foster innovation and streamline delivery of services (such as water, electricity, and sanitation) in tourism areas to benefit visitors and locals	MOT, MENR, MOF and the private sector	12–24 months
5. Capacity Building Define industry-specific labor force gaps, establish demand driven skills training through a public-private partnership, and upgrade Utalii College to a regional center of excellence	MOT, the private sector	12–24 months

Acknowledgments

This report was prepared by a team led by a team lead by Hannah Messerli (AFTFE) and comprising; Iain Christie (consultant); Yasuo Konishi (consultant); and Glenn Surabian (consultant). Throughout, the team was guided by Dileep Wagle (consultant) and Yira Mascaro (AFTFE) and appreciated inputs from Dimitri Stoelinga (consultant) and Muteshi Musabi (AFTFE).

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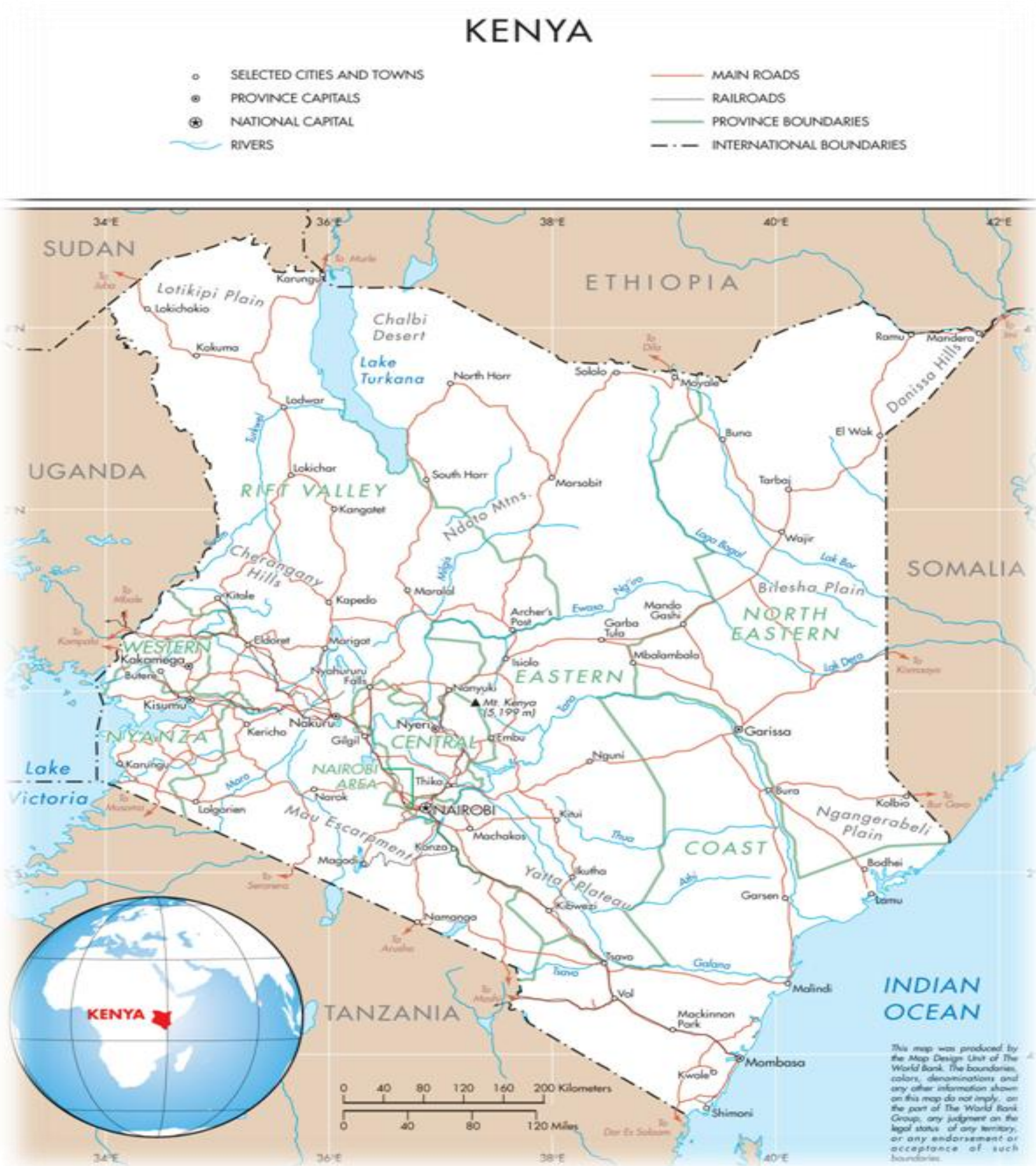
Primary research contracted by the Bank for this report included market demand reviews for North America by Beta Research and for Europe by Emerging Markets Group (EMG). Value chain analyses were conducted by Global Development Solutions, LLC (GDS) particularly for this study.



Source: Map Design Unit, World Bank

I. Kenya's Tourism Sector

A. Why Tourism in Kenya?

1. The Importance and Approach of This Study

Kenya has a number of strengths that support its potential for long-term growth.[1] Its natural beauty and coastal location provide significant potential, bolstered by an English-speaking work force. Policy choices continue to evolve in the right direction and structural reforms over the past two decades have positioned the country well to fully tap its advantageous geography and promote private-led growth. Kenya's outward-looking orientation and global integration enhance the prospects for continued private sector–led growth.

Yet Kenya's mature tourism industry is facing stiff competition and grappling with fallout from global financial uncertainties. This economic jewel needs polishing in the form of support for prioritization of its strategic priorities; redefinition of its product line (including the traditional segments, while adding more in terms of culture and adventure offerings); strengthening of linkages to other sectors through ongoing initiatives to increase access to the private sector; and enhancement of the quality of service. Kenya's tourism has successfully faced adversity in the past, and there is every reason to believe that each of these challenges can be met through a strengthened private sector and effective public institutions that implement sound policy and facilitate investment. However, for the sector to return to excellence and be sustainable, strategic questions must be addressed:

- With a sector battered by internal and external events, how can Kenya **move up the value chain** to become more competitive and capture greater value from tourism?
- What strategies can be followed to **protect the natural and cultural assets** that are the building blocks of Kenya's safari experiences, coastal and heritage offerings?
- How can **bottlenecks be corrected** to ensure the most beneficial mix of tourism products, quality services, and linkages delivered through private and public sector collaboration?

Ultimately, defining and delivering an effective mix of tourism experiences that ensure visitors stay longer and spend more will drive the success of this sector. To answer these questions, this analysis presents tourism as an economic development tool and introduces value chain analysis (VCA). With this foundation, supply and demand components of Kenya's tourism product are explored, followed by an in-depth value chain analysis of specific safari, coastal, and business and conference tourism products. Against economic, institutional, and environmental contexts for the sector, issues and challenges in the delivery of tourism are discussed, followed by a call to action based on recommendations and policy considerations.

This study, requested by Kenya's Ministry of Tourism (MOT), profiles Kenya's tourism sector in depth, drawing upon public policy documents, published reports, primary research commissioned by the World Bank, and extensive field research, and analyzes how the sector can best move forward.

This study presents the tourism sector in an economic context in Section I. Issues and recommendations for action are presented in Sections II and III, followed by annexes providing technical background and detailing value chain analysis. This study also provides a consolidated view of a sector driven to regain its shine. In today's global marketplace, Kenya's tourism is dynamic and faces many challenges. This synthesis and analysis is provided as a tool to inform subsequent policy discussions.

[1] World Bank (2008) "Kenya: Accelerating and Sustaining and Inclusive Growth." Poverty Reduction and Economic Management Unit 2, Kenya Country Department.

B. The Tourism Sector

As an economically productive activity, tourism is a vital sector—globally and in Kenya. Unlike manufacturing or agriculture, tourism is a services industry, and the product is consumed at the point of production. Given its structure (that is, mix of small and large businesses that draw upon domestic, regional, and international markets) and components (especially natural and manmade attractions), it is complex, cross sectoral and highly dynamic. It is subject to seasonal fluctuations and multiple external factors, such as changes in foreign exchange rates, health and security concerns, and catastrophic events. It is perishable, competes in a global marketplace, and is subject to consumer trends. Travel and tourism is experienced by all—yet understood fully by few.

Notably, the tourism sector generates jobs in diverse areas, including those in which it is typically difficult to generate employment. When absorbing international demand, tourism can contribute positively to foreign exchange earnings and serve as a leading demonstration sector fostering enterprise development. To capture such benefits requires careful design and implementation of environmentally, socially, and economically grounded integrated policy frameworks.

Tourism is a catalyst for investment in other sectors, and it stimulates economic diversification across sectors. It offers strong potential for environmental and cultural linkages by providing an economic incentive to preserve natural and cultural sites, undertake environmental cleanup efforts, and improve local environmental management. Tourism expenditures can turn over 7 to 11 times in an economy. Pro-poor tourism studies have shown tourism linkages clearly benefiting the poor.

As the third highest contributor to gross domestic product, Kenya's tourism is being promoted by the government as a source of economic growth and poverty alleviation. It is also a cornerstone of the country's *Vision 2030*. In the absence of a comprehensive land-use plan, an integrated wildlife conservation policy, or an institutional and regulatory infrastructure with authority to effectively implement conservation policies across the entire country, the promise of economic gain from tourism is likely to accelerate the degradation of national assets, including wildlife; areas of natural resource value, such as mountains, forests, and coastal ecosystems; and cultural heritage. Achieving the country's vision for the sector will involve protecting natural and wildlife asset protection against degradation: development of dynamic product offerings; streamlining the enabling and regulatory environment; improving the institutional framework, and attending to capacity-building needs.

C. Kenya's Tourism Product Lines

Kenya's tourism product has "grown up" through offering memorable products in its three major product lines: safari, coastal, and business and conference travel. Cultural heritage tourism activities cut across each of these product lines and, in particular, offer potential to develop further as the next distinct product line.

1. **Safari tourism** is dependent on natural and wildlife assets, which are typically remote and difficult to access, and is highly seasonal with peaks and valleys tied to animal migration patterns. It has limited capacity given the fragility of ecosystems and the sensitivities of the animal population. This segment faces a number of key issues: 1) effective protection and management of wildlife and natural resources; 2) transparent land management (registration, regulations, and use); and 3) sustainably managed development that allows for delivery of exceptional tourism experiences while benefiting the livelihoods of local stakeholders.

2. Kenya's **coastal tourism** offering ranges from the mass-packaged tourism of Mombasa's large coastal resorts to sleepy and culturally rich destinations, such as Lamu Island, appreciated by more independent tourists. Attracting Europeans and Brits who hop on charter flights, coastal tourism offers the allure of a relaxed beach experience with the potential for day trips to nearby animal parks and cultural sites. After several years of consistent revenue growth, this segment was negatively affected by post-election violence, charter flight cancellations, and a continuing drop in arrivals as global financial markets faltered. Currently, this segment suffers from 1) out-of-date and tired lodging options, which are not attractive to travelers able to select from numerous beach destinations; 2) decreasing access and increasing transport prices; 3) inadequate infrastructure (that is, poor roads, water shortages, expensive and limited utilities, and insufficient waste management); and 4) a predictable product mix (that is, lack of innovative and exciting product offerings for travelers).

3. Kenya's third major tourism product line is **business and conference** travel. Independent business travelers originate from domestic, intraregional, and international source markets and choose specific Kenyan destinations depending upon their business activities. In contrast, conference and meeting attendees are drawn to major meetings typically hosted at the Kenyatta International Convention Center (KICC) in Nairobi. While Africa has a relatively small share of the growing global convention and conference demand, Kenya has East Africa's largest convention facility, which is able to support up to 5,000 attendees in its newly renovated facility. Bolstering this segment is the fact that Kenya is an international airline hub with direct access that far exceeds the capacity of any other country in East Africa. However, the current volume of business and conference tourism is eclipsed by the other major product lines. Systematically cultivated through the development of tailored products, the business and conference product line holds potential. Likely to have disposable income, business and conference travelers here can be tempted to stay longer and spend more, such as by taking a weekend on the coast or taking a safari package.

Given the current state and potential of these segments, Kenya's tourism product lines must be carefully examined to understand historic patterns, current activity, and future options. Analysis of Kenya's historical tourism patterns and current activity points to strategic economic options.

Table 1.1. Tourism Product Line Overview

PRODUCT LINE	HISTORIC	CURRENT	POTENTIAL
Safari	World class tourism experiences with limited competition	Increasing pressure as other African destinations develop wild animal tourism and assets are threatened	Regain market position as premier safari destination and tap increasing interest from emerging markets (that is, Brazil, Russia, India and China)
Coastal	Thriving exotic beach destination that matured into a popular mass-tourism destination	Outdated product unable to compete with new destinations offering stylish tourism experiences at an appropriate price or value	Offer demand-driven mix of established and innovative coastal tourism offerings for mass, mid-scale and boutique segments drawing niche and special interest segments (that is, cultural heritage, adventure, and so on)
Business and Conference	Small segment catering to high-end international clientele	Low volume mix of international, intraregional, and domestic business travelers; independent and group profile	Build volume, length of stay, and consumption of multiple products (that is business/conference stay combined with other tourism activities) through targeted and tailored products attractive to domestic, intraregional, and long-haul travelers

Source: Based on public and private sector interviews.

D. Demand for Kenya's Tourism Product

Kenya's tourism demand has followed a pattern of peaks and valleys. In 2008, after a very strong year in 2007, demand for Kenya's tourism products dropped significantly. The Kenya Tourism Board reports that the 40.25 percent drop in visitor arrivals from 2007 to 2008 led to a 20 percent drop in revenues. Demand is best understood as a combination of activity indicators from these two divergent years. According to the Kenya National Bureau of Statistics, self-reported visitor arrivals by purpose of visit for 2008 were holiday (77.8 percent), business (9.0 percent), transit (5.2 percent), and other (8.0 percent). In terms of bed nights, the highest concentration of activity, at 59.5 percent and 50.2 percent in 2007 and 2008, respectively, was in the coastal region (beach, other, and hinterland). Visitor volume at Kenya's game parks and reserves in particular fluctuates throughout the year as a result of animal movements and climate variations. Other annual fluctuations in arrivals reflect the impact of macro-events, such as political instability and the global financial crisis.

Table 1.2. Demand Comparison, 2007 and 2008

INDICATOR/YEAR	2007	2008
Arrivals (via air and sea)	1,048,732	729,000
Revenues, Ksh bil (USD mil)	65.4 (1,022.3)	52.7 (627.9)
Average length of stay (days)	11.9	10.4
Top 5 source markets	United Kingdom (19.5%) United States (9.6%) Germany (8.0%) Italy (8.0%) India (3.3%)	United Kingdom (16.9%) United States (10.4%) Germany (6.1%) Italy (5.4%) India (4.8%)
Bed nights (thousands)	6,939.4	3,699.0
Charter flights (total)	1,533	782
Conference delegates (days)	Local: 776,729 International: 227,633 Total: 1,004,362	Local: 5,807 International: 871 Total: 6,678
National parks and reserves visitation	2,495,100	1,633,900
Occupancy at national parks and reserves lodges	871,500	330,700

Source: Ministry of Tourism and Ministry of Environment and Natural Resources

Historically, after declines in activity, Kenya has returned to admirable levels of growth through policy, institutional, and market responses. Current demand issues, which can be addressed similarly, include ease, frequency, and price of transport to Kenya; comparative price or value of tourism offerings in times of financial uncertainty; and safety, security, and health considerations as perceived by tourists.

E. Economic Profile

Kenya's sizable population continues to grow consistently while gross domestic product (GDP) in constant prices and per capita fluctuates (table 1.3).

Table 1.3. Kenya GDP Overview

	2004	2005	2006	2007	2008[a]
Population (mil)	34.2	35.1	36.1	37.2	38.3
GDP growth (constant prices, %)	5.1	5.9	6.3	7.1	1.7
GDP per capita (constant prices, KSh)	32,463	33,441	34,570	36,000	35,611

a. Provisional.

Source: Government of Kenya, National Bureau of Statistics, *Economic Survey 2009*.

Kenya's GDP growth experienced a positive economic momentum from 2003 to 2007, with 2008 marking a change in this trend. In comparison, Africa's GDP growth reached 6.3 percent in 2007, fueled in part by Sub-Saharan Africa's GDP growth of 6.9 percent. This slowed to 5.9 percent and 6.1 percent, respectively, in 2008 when Kenya's GDP growth only reached 1.7 percent (table 1.4)

Table 1.4. Real GDP Growth for Africa and Selected Countries (2006–9)

	2006	2007	2008[a]	2009[b]
Kenya	6.3	7.1	1.7	2.5
Tanzania	6.7	7.1	7.5	8.0
Uganda	10.8	7.9	9.8	8.1
Sub-Saharan Africa	6.6	6.9	6.1	6.3
Africa	6.1	6.3	5.9	6.0

a. Provisional.
b. Projected.

Source: Government of Kenya, national Bureau of Statistics, *Economic Survey 2009* as reported by the World Economic Forum.

The tourism industry in its depth and breadth adds to the economic and social welfare of all Kenyans. The government of Kenya reports that the tourism sector through its direct and multiplier effects contributed 10 percent of the GDP during fiscal 2007/8 and employed 9 percent of the total workforce.[2] As noted in the following sections, the sector's contribution to GDP, public revenues, and employment is significant.

1. TOURISM'S CONTRIBUTION TO GDP

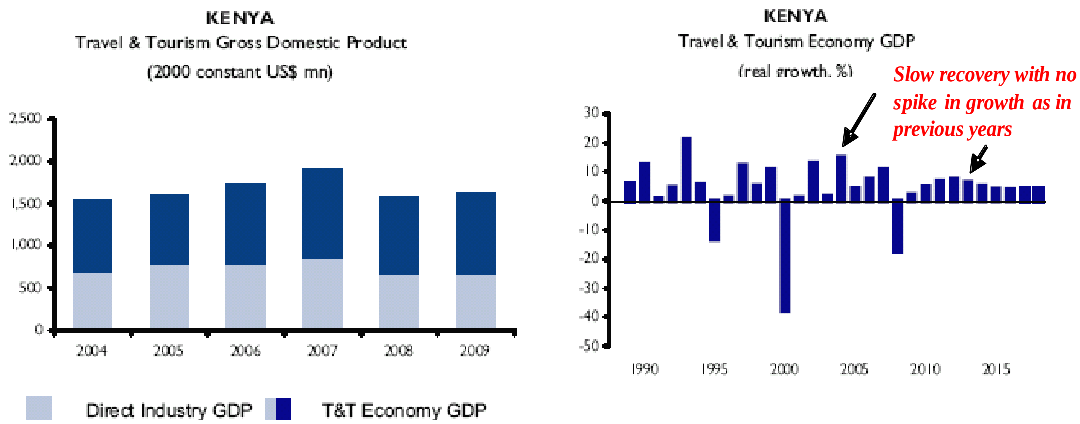
Initial projections put Kenya's direct GDP contribution from tourism for 2009 at about US$1.5 billion, which is approximately 3.7 percent of GDP.[3] This figure is on par with competing tourism destinations in Africa, including Tanzania, Uganda, and South Africa. However, real growth in tourism for 2009 is now revised down to 1.6 percent.

Based on 2000 constant dollars, the direct industry contribution to GDP peaked in 2007, and as anticipated, dropped to below the 2004 level in 2008 with only limited growth expected in 2009, as follows:

[2] Kenya National Tourism Policy, Ministry of Tourism (August 2008).

[3] Based on WTTC estimates. See www.WTTC.org.

Figure 1.1. World Travel and Tourism Council's Profile of Kenya's Travel and Tourism GDP Trends



Source: The World Travel and Tourism Council

With respect to the real growth rate of the travel and tourism sector, the decline in growth rate during 2008/9 was not as dramatic as in 2000. Perhaps more worrisome is the fact that according to the World Travel and Tourism Council (WTTC) estimates, the recovery of the sector is likely to be slower than in the past, and they indicate little or no spike in growth. This leveling of growth suggests low levels of reinvestment in the sector and only a gradual reemergence of confidence in the overall political-economic condition of the country.

Growth in GDP was around 6.9 percent in 2007, but dropped to 2.2 percent in 2008. While average growth for the past five years was positive, it is not clear that such growth levels will be enough, in light of continuing political risks and instability, for sustained welfare improvements and poverty alleviation. Kenya's inspirational *Vision 2030* posits an ambitious 10 percent growth rate.[4] The country has a good debt position with domestic and external debt each at about 22 percent of GDP. Kenya needs to address distributional inequalities and focus on removing the constraints to growth, particularly in transport and other infrastructure, if it is to achieve higher growth rates. In addition, foreign direct investment is very low and will need to be enhanced, if these targets are to be realized.

On the other hand, there is plenty of room for improvement. Gross national income (GNI) is at about US $680/per capita; inflation at about 10 percent; unemployment in a population of 37.5 million[5] is about 40 percent (2008); and the provision of infrastructure lags behind other countries. The distribution of income remains inequitable with the poorest 20 percent of families receiving only 6 percent of national income and the highest 20 percent receiving 49 percent (Country Assistance Strategy [CAS] Update 2007) To address these issues, the current World Bank stance as expressed in the CAS, is to support

- Strengthening public sector management and accountability;
- Reducing the cost of doing business and improving the investment climate;
- Reducing vulnerability and strengthening communities; and
- Investing in people.

[4] Vision 2030 identifies tourism, agriculture, retail and wholesale trade, manufacturing business process outsourcing, and financial services as engines of growth.

[5] Development Economics, Development Data Group (DECDG), World Bank, 2008.

Current discussions leading to a 2009 CAS continue to focus on these issues. Going forward, attention on equity and better governance is a priority. Tourism is fully compatible with these objectives. It offers an array of entry points that help reform policy, catalyze investment, support private sector development and continue capacity enhancement, to improve Kenya's competitiveness in the international arena.

2. Employment

The tourism sector is a significant employer in both the formal and informal sectors. According to the WTTC, total direct employment in the sector is estimated at 217,000; 483,000 if indirect jobs are included. The growth in job creation in the formal sector grew by 14 percent per annum from 2001 to 2004— slightly faster than the growth in tourist arrivals but far slower than the growth in the travel and tourism GDP. The FY 2007/2008 level of 9 percent tourism sector employment, noted by the Ministry of Tourism compares positively with 12.3 percent in the United Kingdom and 10.5 percent in the United States. If the sector grew by 20 percent it would generate one million jobs and be responsible for nearly 30 percent of Kenya's national employment level.[6]

The World Bank's *2007 Investment Climate Assessment* indicates that the cost of labor in Kenya does not hurt competitiveness. Labor costs per worker have increased, but more slowly than the increase in productivity, leading to a decline in unit labor costs. Unit labor costs in Kenya have fallen from 31 percent of value added in 2002 to 25 percent of value added in 2006.

For manufacturing firms, labor market constraints impede productivity-enhancing growth such as the shortage of skilled workers affecting the operation and growth of manufacturing firms in Kenya. However, this is not the case in the tourism sector, where skilled laborers are in high demand at all levels of operations from the busboy at a local restaurant to professional safari guides.

The sector's potential is unquestionable if supported with a progressive enabling environment.

3. Taxation

Businesses in Kenya ranked tax rates as the top factor constraining growth and competitiveness when queried during the 2007 *Investment Climate Assessment.*[7] While Kenya has reduced its corporate tax rate in recent years by making it comparable to its neighbors in East Africa, more than 57 percent of survey respondents identified taxes as a major problem. Although tax rates have fallen, Kenyan firms still pay half (50.9 percent) of their profits as tax.

Value-added tax (VAT) rates in Kenya appear to be competitive with neighboring countries. As reported in a 2006 by the Foreign Investment Advisory Service (FIAS), while Kenya's VAT rate is 16 percent overall, for restaurant and accommodation entities, the rate drops to 14 percent.

Table 1.5. Regional VAT Rates

Country	VAT Rate
Kenya*	16%
Lesotho	14%
Malawi	17.5%
Mozambique	17%
Namibia	15%

Country	VAT Rate
Rwanda	18%
South Africa	14%
Tanzania	20%
Uganda	18%
Zambia	17.5%

[6] Kenya *National Tourism Policy*, Ministry of Tourism (August 2008).

[7] This section draws heavily on the Investment Climate Assessment. Some parts of this section are direct excerpts from the ICA report.

Note: A reduced rate of 14 percent is applied to the restaurant and accommodation industries.
Source: FIAS 2006.

For enterprises for which information is available, levies and tariffs, including taxes paid by businesses in the tourism sector, can range from approximately 30 percent to 51 percent of tourists' in-country expenditure (table 1.6). Ironically, within the tourism sector, private conservancy operators who are trying to preserve Kenya's natural assets are paying the ***highest*** share of their revenue to the public sector in the form of levies and tariffs. At the same time, foreign operators handling all-inclusive packages, which tend to place the greatest demand on local natural assets and infrastructure, appear to be contributing the ***least*** to public sector revenue.

Table 1.6. Kenya Public Sector Levies and Tariffs in Tourism

	% of Tourism Expenditure		% Distribution*	
Tourism Product	Total	Local	MOF	MOT/KWS
Wildlife safari: Private conservancy	51.2	51.2	77.1	10.4
Wildlife safari: Multi-destination	10.5	44.9	52.4	28.2
Beach: Sport-fishing package	38.5	44.1	90.4	0.1
Beach: Package tour	15.6	36.7	53.1	0.5
Safari-Beach combination	17.1	33.6	45.1	26.9
Beach: All-inclusive package	17.4	29.7	80.4	0.2

* Indicates distribution of levies and tariffs related to tourism collected by the government of Kenya (MOF: Ministry of Finance; MOT: Ministry of Tourism; KWS: Kenya Wildlife Service)
Source: Global Development Solutions, LLC.

F. The Tourism Value Chain

1. Value Chain Analysis and Tourism

As presented FIAS in *Moving toward Competitiveness: A Value Chain Approach*, value chain analysis identifies each of the raw inputs that combined form a product or service. Previous World Bank studies have used value chain analysis to define sector-specific issues from which public policy can be developed and implemented. VCA is used as an empirical tool to highlight constraints that hamper industry growth and deter competitiveness. Earlier value chain studies have guided the design and implementation of growth and competitiveness strategies, small and medium-size enterprise projects, and technical assistance projects. In such cases, the value chain analysis has strengthened business environments and improved job productivity. A further benefit of value chain analysis is its ability to define key industry-specific issues while calling attention to issues that cut across sectors and firms throughout an economy.

Value chain analysis of eight distinct products from Kenya's three major tourism product lines are presented in Annex III. These provide key insights to the strengths of the sector as well as challenges to its competitiveness. While the product lines and products analyzed range from mass to premium offerings, each provides a useful in-depth snapshot of the building blocks of Kenya's tourism (table 1.7).

Table 1.7. Tourism Product Lines and Value Chain Analysis

PRODUCT LINE	VALUE CHAIN ANALYSIS PRODUCT
Safari	1. Private conservancy safari 2. Multi-destination safari 3. Safari-beach combination
Coastal	1. Full-board beach 2. All-inclusive beach 3. Beach and sport-fishing package
Business/Conference	1. Business/Conference Nairobi hotel 2. Business/Conference weekend safari excursion

A sample value chain (box 1.1) highlights the various components and expenditures for a popular full-board beach package in Mombasa.

Box 1.1. Beach Package Example: The Full-Board Option

Full-board packages, a keystone of Kenya's coastal tourism products, offer travelers the convenience of many aspects of their travel (such as lodging, airfare, transfers, and food) being included in one price. In the case of the full-board package, all meals are included and generally served within the hotel. This provides a convenience and sense of security for travelers, particularly those coming to the destination for the first time to have a greater assurance of eating safe food.

In this example, the cost structure of such packaging is detailed. It highlights the challenge hidden in such a structure that hampers local enterprises becoming less dependent on foreign tour operators to supply an on-going flow of international tourists.

THE PRODUCT

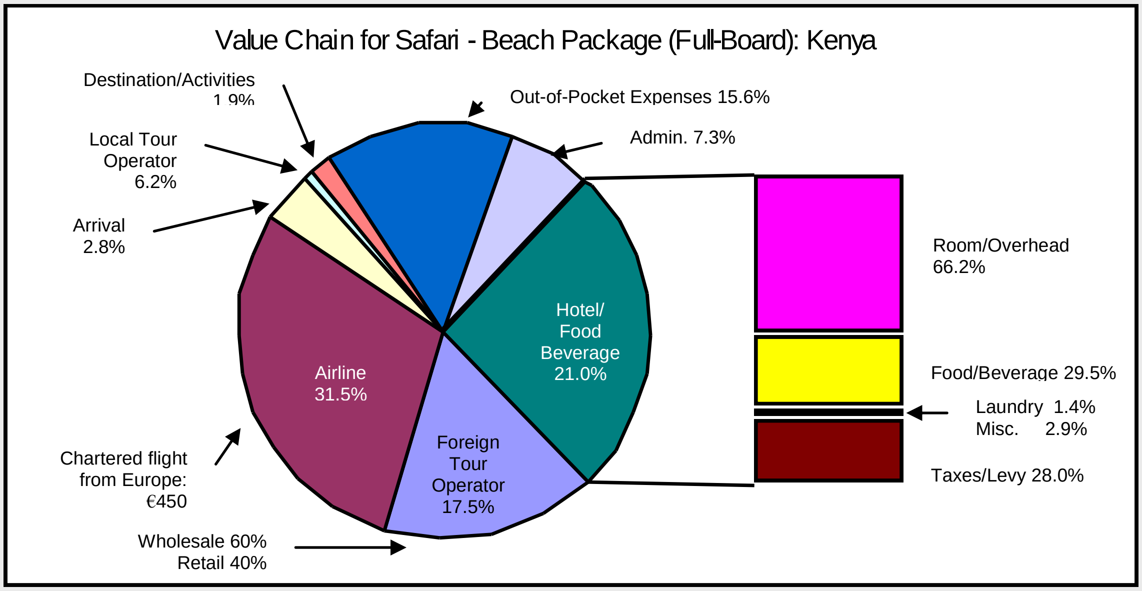
The tour package selected for this value chain analysis is an example of a beach package with full board. It is a nine-day, seven-night package at a three-star hotel on the Mombasa coast. In this instance, the tourist from Europe paid a retail price of US$1,300 for the package, which includes round-trip airfare, commission payments to the foreign tour operator, arrival charges, transfer to and from the airport, hotel, and food and beverages. When out-of-pocket expenditures are accounted for, the total expenditure was US$1,854.20.

THE VALUE CHAIN

Beach Package (Full-Board): Kenya

Package Features:	9 days/7 nights beach package (full board)
Retail Package Price:	$1,300.00
Total Expenditure:	$1,854.20
Total In-Country Expenditure:	$959.51 (51.7% of total expenditure)
Public Sector Charges:	$289.60 (36.7% of in-country expenditures)

(continued)



Source: Global Development Solutions, LLC

FINDINGS

High Proportion of Airline Charges: As with most mid-class tour packages, airline charges generally dominate the tourist's value chain. This package is no exception. It is important to note that because of the low price of the tour package, the airline's percentage share of value added at 31.5 percent is somewhat higher when compared with other tour packages.

High Cost of Maintenance and Upkeep: The second highest value addition for this product was hotel/food and beverage (21.0 percent). As the diagram indicates, room and overhead charges dominate (66.2 percent) this category of value addition, which reflects the high cost of maintenance and upkeep of aging facilities. The big challenge for hoteliers is that for this type of package, all costs associated with servicing a guest, including overhead and profits, must be covered for US$55.71 per person per bed night.

High Commission Payments to Foreign Tour Operators: Mid-class, mass-market, mass-tourism packages rely heavily on foreign tour operators to attract an adequate volume of tourists to cover costs. For a three-star hotel on Mombasa's coast to break even, it is estimated that a 65 percent occupancy rate for seven months out of the year is necessary.

Commission payments to the local tour operator are less than 1 percent of the total value of the tour package. Interviews with local tour operators indicated that to attract a higher visitor volume, local tour operators do not take commission on groups larger than 200 guests. In return, however, arrangements are made with hotel managers to encourage guests to take a Mombasa City tour through the local tour operator at a cost of US$35/person. Of this amount, the tour operator takes a 10 percent commission to help cover the original cost of booking guests at a local hotel.

2. VALUE CHAIN SUMMARY FINDINGS AND IMPLICATIONS

- ***Wildlife tourism is a valuable core product line.*** Analyses in the wildlife safari tourism segment suggest (i) there is still some strong economic sense in safaris; (ii) offering various options results in a broad product range; and (iii) there is a wide range of market niches—not just a single market sold by tour operator brochures. The Internet is helping to promote distinct products, and Kenya—and its source markets—are "wired." The cost of travel to Kenya is still a considerable portion of the overall package. Thus, if travelers have time, extensions or additions of new components can be done, reducing the traveler's fixed costs per day.
- ***Substantial benefits are to be captured from weekend safari excursions.*** Although the total cost of the weekend excursion tour package is the smallest among all of the value chain analyses, weekend excursions often purchased by business and conference tourists have the largest net local

expenditure as a percentage of total package cost. This suggests that premium weekend excursions as a tourism product, particularly when booked in country, have the potential of yielding the highest benefit to the local economy.

- Three value chain analyses in the beach tourism segment illustrate the difference between a full-board plan versus a more independent, activity-rich package. This is the only value chain analysis where a niche experience is included (sport fishing). Local expenditure jumps rapidly and illustrates the need for greater integration of niche products and services in creative ways to enable more value for the tourist—and the country. In-country expenditure is highest in this category—more than 70 percent, due in part to the cost of activities and related specialized equipment.
- ***Traditional full-board beach tourism packages yield the least economic benefit to the sector.*** The net local expenditure as a percentage of total tourist expenditure was only 22.8 percent for the traditional full-board beach tourism package. As noted earlier, Kenya's beach tourism is challenged by aging accommodations and inconsistent tour operators. In addition, the value chain analysis suggests that stakeholders in the coastal tourism segment need to reconsider the way mass-market, mass-tourism products are packaged and sold so as to improve the potential for local wealth retention.
- ***A combination product of both safari and beach tourism provides a useful mixed product for tourists motivated to "do it all."*** The mid-price safari-beach tour package is possibly the most popular tourism product available in the Kenyan market. This type of package exposes the tourist to a number of different parks and game reserves, and at the same time, offers relief from the long, dusty game drives with a relaxing stay along the coastal area in Mombasa. Restructuring incentives to maximize local economic impact may also allow operators to invest in and grow this offering.

The findings support the following implications across products and product lines:

Safari and coastal product lines are entirely dependent on the health of Kenya's natural assets, and their performance is inherently linked to deeper levels of social politics and capital, land issues, and sustainable resource utilization. In contrast, the assets of business and conference tourism are essentially built assets dependent on the investment climate and business operating environments. As the analysis indicates, the tourism sector performs well in many ways in Kenya but also faces a number of sector wide and product-specific barriers to competitiveness.

Safari tourism products are a valuable "signature" product for Kenya's overall tourism product offering. In wildlife tourism, the market is moving rapidly to customized, small-scale, ecotourism packages that offer exclusive wildlife viewing for as much as three times the price of tour packages offered by competing markets in Africa. While the private sector in Kenya is responding effectively to this market trend, the product is beginning to strain the ecosystem. Even at this premium price level, tourist arrivals continue to grow, suggesting that Kenya is making progress. At the same time, however, given the current state of the policy and regulatory environment governing conservation and wildlife tourism, the sustainability and capacity of the ecosystem to absorb and possibly increase the tourism load may continue to be strained.

The value chain analyses highlight the impact of infrastructure limitations. The poor condition of roads, tracks, and airstrips contributes to overall costs, such as high vehicle operating costs. The highest cost within the safari package examples is inland transport for a weekend excursion. Electricity is needed for all tourism products and accounts for as much as 12 percent of the weekend excursion price.

Public sector charges and fees erode private sector gains. Payment of these public sector charges decreases precious cash flow for investments in maintenance and replacements and undermines opportunities for private sector reinvestment in tourism. Although these fees include direct and indirect taxes, entry fees, and user charges for public entities (for example, airports and parks), such amounts detrimentally affect Kenya's attractiveness in the eyes of the potential traveler. The value chain analysis also revealed that tourism operations, particularly those that emphasize community development activities and reinvestment in the tourism infrastructure, are also coping with high public sector charges. In the wildlife safari private conservancy model, public sector charges as a percentage of total local expenditure were 51 percent. Similarly, a coastal membership club resort, which has consistently maintained, upgraded, and reinvested in its facility in order to develop a quality tourism package, also copes with high public sector charges.

In-country expenditure levels vary surprisingly across the products analyzed. These findings can be instrumental in promoting linkages and finding new opportunities to spread the economic impact of tourism through increasing in-country expenditure. Increasing the relative spending in Kenya in order to retain more of the tourist dollar will facilitate greater economic benefits.

Destination activities are a very low part of the overall package for the analyzed products, except in the beach resort/sport fishing example. Destination and out-of-pocket expenditures for souvenirs and spontaneous activities rarely reach 10 percent of the overall package price. This suggests an opportunity for further local revenue generation contributing to community and enterprise development.

For Kenya's tourism sector to lead private sector advancement and contribute to poverty alleviation, improving the competitiveness of products that combine to form the sector requires—for the sector and across the economy—strategic decisions translated into implementable policy. Policy development and implementation demands a strong and tightly knit institutional framework.

G. Institutional Framework and Resources

OVERVIEW

The Ministry of Transport, as the leading public sector entity supporting tourism in Kenya, serves as a focal point for the sector, but must operate collaboratively with other ministries managing tourism resources. Because of the number of activities and services contributing to tourists' experiences, other ministries are involved in forming and implementing policies that affect the sector. For example, the KWS is part of the Ministry of Environment and Natural Resources (MENR); the Kenya Airport Authority is part of the Ministry of Transport; and sections in numerous other ministries focus directly and indirectly on tourism related activities and infrastructure. MOT includes sections and activities shown in table 1.8.

Table 1.8. Ministry of Tourism Sections

SECTION	ACTIVITY
Kenya Tourism Development Corporation	Investment promotion and sector development
Kenya Tourism Board	Destination promotion and marketing
Bomas of Kenya	Cultural tourism promotion
Kenya Utalii College	Education and training
Hotels and Restaurants Authority	Licensing and regulation

Note: The Kenya Wildlife Service, responsible for national park and reserve management, including lodges, is now housed in the Ministry of Environment and Natural Resources.

Source: Government of Kenya

During 2008, the Ministry of Tourism launched a number of new programs, organized a variety of taskforces to review key areas (such as Utalii College and Sustainable Tourism Development), and has made organizational changes in alignment with priorities and activities. At a broader level, the tourism authorities must work with line ministries, such as finance and public works, toward greater understanding of tourism's potential.

Local and national associations and civil society organizations are key partners in tourism development. These private sector groups, vital to representing the sector's various needs, are challenged with issues faced by many associations across sectors, such as effective governance and maintaining membership levels.

Some think of tourism is an industry while others consider it a cross-cutting sectoral activity tapping the assets and activities of multiple sectors. It is no surprise, then, that activities related to tourism garner attention from multiple government ministries. In the public sector three ministries have critical roles for tourism: the MOT, MENR, and Local Government. In terms of the National Environment Management Authority (NEMA) and its relations with the MOT, conceptual approaches to land-use planning, or physical planning, are often divergent. Additional agencies supervise land management under the Government Land Act, and the Trust Lands Act, both of which have an impact on tourism.

Table 1.9 presents a list of agencies with responsibilities for tourism. Coordination is a major concern.

Table 1.9. Institutions, Organizations, and Associations Relevant to the Tourism Sector in Kenya

PUBLIC SECTOR INSTITUTION	MANDATE	ADMINISTRATIVE OVERSIGHT
National Environment Management Authority (NEMA)	Exercise general supervision and coordination over all matters relating to the environment and be the principal instrument of the government in the implementation of all environmental policies	Ministry of Environment and Natural Resources
National Environmental Council (NEC)	Determine policies and priorities to protect the environment and promote cooperation among public departments, local authorities, private sector, nongovernmental organizations, and such other organizations engaged in environmental protection programs	Ministry of Environment and Natural Resources
Ewaso Nyiro South Development Authority (ENWDA)[a]	Facilitate and support socioeconomic development programs to alleviate poverty and enhance wealth creation through sustainable resources mobilization and utilization	Ministry of Regional Development Authorities
Coast Development Authority (CDA)	Coordinate, promote development, and conserve coastal areas of Kenya	Ministry of Regional Development Authorities
Kenya Tourism Development Corporation (KTDC)	Secure the investigation, formulation, and implementation of projects for developing the tourist industry of Kenya	Ministry of Tourism
Kenya Wildlife Service (KWS)	Wildlife conservation and management	Ministry of Environment and Natural Resources
Bomas of Kenya (BOK)	Promote cultural tourism	Ministry of Tourism
Kenya Tourism Board (KTB)	Tourism marketing and promotion	Ministry of Tourism
Kenya Utalii College	Human resources development for the hospitality	Ministry of Tourism

(continued)

Public Sector Institution	Mandate	Administrative Oversight
(KUC)	industry	
Kenya Hotels and Restaurants Authority (KRA)	Make provisions for the licensing of hotels, hotel managers, and restaurants; for the regulation of hotels and restaurants; and for the imposition of a levy for training persons to be employed in hotels and restaurants	Ministry of Tourism
Kenya Investment Authority (KIA)	Promote and facilitate investment by assisting investors in obtaining the licenses necessary to invest and by providing other assistance and incentives and for related purposes	Ministry of Trade and Industry
Kenya Maritime Authority (KMA)	Regulate, coordinate, and oversee maritime affairs	Ministry of Transport
Kenya Port Authority (KPA)	Maintain, operate, improve, and regulate all scheduled sea ports situated along Kenya's coast	Ministry of Transport
Kenya Airport Authority (KAA)	Maintain, operate, improve, and regulate all scheduled flights situated within Kenya	Ministry of Transport
Kenya Civil Aviation Authority (KCAA)	Licensing and regulation of civil aviation	Ministry of Transport

a. The Authority covers an area of 47,000 km^2 consisting of entire Narok, Kajiado, and Transmara districts and parts of Nakuru and Nyandarua districts.
Source: Compiled by Global Development Solutions, LLC from Government of Kenya documents

The role of public and private sector entities is vital to the tourism sector's capacity. Expanding upon this overview of ministries involved with tourism, the following sections present public and private sector players active in Kenya.

1. Public Sector

Ministry of Tourism

Kenya's Ministry of Tourism leads development of the sector and is supported by a number of agencies charged with operational matters. The ministry supports the private sector through promotion and marketing, initiatives to attract investment, and administration of sector-specific training. Tourism activities related to the country's national parks and reserves are the primary responsibility of the Kenya Wildlife Service housed in the Ministry of Environment and Natural Resources since 2008.

With assistance from the European Union's Tourism Trust Fund Project, the Ministry of Tourism finalized its National Tourism Policy in August 2008. Review of the policy document suggests that it is comprehensive and progressive. Key issues and challenges identified by the policy document include:

- Product quality and diversity,
- Hotel and bed capacity,
- Infrastructure,
- Marketing,
- Safety and security, and
- Negative travel advisories.

Particular attention is paid to the development of cultural/heritage tourism in Kenya as a discrete market segment.

Kenya Tourist Board

The Kenya Tourist Board (KTB) is responsible for destination marketing—creating and marketing Kenya's image in tourism markets. With guidance from the Ministry of Tourism, particularly by the minister, the Kenya Tourism Board acts as the focal point for marketing and promotion of Kenya as a destination. In this context, the KTB operates nine field offices in the United States and Canada, China, Spain, Germany, the United Kingdom, Netherlands, Sweden, Italy, and France. Following the post-election turmoil, the KTB and the Ministry of Tourism have been aggressively promoting Kenya as tourism destination through policy initiatives, advertising in source countries, and creating innovative partnerships with the private sector to develop new markets. With the 2008/9 budget of Ksh 600 million, which was less than half of the KES 1.5 billion that the KTB sought, the KTB is feeling the strain of maintaining Kenya's high profile in the marketplace and producing new products and markets. This shortfall has been augmented by European Union support of tourism promotion and marketing, including promotion on CNN and the BBC through 2010.

Kenya Tourism Development Corporation

The Kenya Tourism Development Corporation (KTDC) owns a number of tourism facilities on behalf of the government and leases them to private parties under long-term leases. It is also responsible for conception and implementation of tourism projects, which, as the sector progresses may be entrusted to private sector operators.

Utalii College

Kenya Utalii College (KUC) was established on 57 acres on the edge of Nairobi with the assistance of the Swiss government in 1975. It is a teaching facility with an operational hotel, classrooms, kitchens, library, and dormitories. Its early graduates have prospered in the industry at hotel properties and tourism operations throughout East Africa providing a positive reputation for the institution. However, the college's reputation has been diminished in recent years. According to a recent task force on the college's condition, there have been no significant improvements since its opening. Physical facilities are in disarray, curriculum is not current, financial management systems are cumbersome, and technology for staff and students is archaic. Furthermore, most staff—many of whom have served at the institution since its opening—are lacking up-to-date operations experience. Facing challenges similar to hotel operators, the college needs upgrading and updating. While the industry has expanded to include new destinations and offerings, formal training has not. Yet despite its academic, physical plant, and financial issues, Utalii continues to be the leading institution responsible for the training of frontline, supervisory, and managerial personnel for the country's hotel and tourism industry. Demand for training continues to be high regardless of the quality.

While the college continues to benefit from the perception that it is the best training college for the tourism sector in Africa, there is no doubt of the great need to upgrade the quality, content and delivery of programs offered by the school through

- Development of national curricula for professionals in the sector;
- Academic upgrading of instructors and administrators;
- Swiftly and thoroughly upgrading technology and equipment to international standards vital to curriculum delivery and efficient academic program administration;
- Improving standards for acceptance to KUC diploma programs and requirements for diplomas;
- Strengthening partnership with the private sector to expand and enhance the quality of in-service training programs;
- Upgrading the quality of line and upper management certificate programs; and

- Strengthening partnerships with training institutions in Europe and the United States to establish channels for the introduction of new technology and training.

The college is commercially oriented and, consequently, able to generate funds to cover more of its operating costs, with courses offered for all English-speaking countries in Africa. However, a comprehensive strategic review with sufficient funding to follow through on recommendations is requisite to Kenya truly benefiting from having this potentially exceptional asset.

Kenya Wildlife Service

The KWS, now part of Ministry of Environment and Natural Resources is responsible for management of national parks, including commercial operations (for example, concessions for tourist enterprises in the parks) and executing the parks' management plans to protect biodiversity. Hand in hand with the MOT, the MENR supervises the National Environmental Management Authority. Both ministries provide critical support to the country's tourism sector.

While the KWS intervenes in national parks, national reserves are generally under the Ministry of Local Government and supervised via county councils. In particular, the Narok County Council and the Trans-Mara Council play a critical role in the development of the greater Maasai Mara area. Since the KWS and the country councils have different mandates and objectives, national parks and reserves sometimes have different, even conflicting, types of supervision. For example, county councils can raise taxes locally—a tool naturally not available to the KWS. Kenya's variety of tax and user-fee approaches is far from optimum and offers opportunities for streamlining. Further study to determine the most beneficial tax policies and user-fee relationships could define energizing models for the private sector broadly, as well as tourism specifically.

2. Private Sector

Accommodation

Kenya has approximately 174 hotels and 235 intermediaries directly involved in tourism. In addition to diverse types of operations, there is a significant range in size and quality. According to the Kenya Tourism Board, 235 enterprises are registered as tour operators. This includes retail and wholesale operations and full-service establishments as well as limited service operators (selling tickets only, offering ground transport, and serving as transfer agents). This is a sector running with two distinct modes—international operators with geographic and operational flexibility versus small local operators, many of whom have limited business and a limited customer base.

Table 1.10. Tourism Facilities Overview

Hotels (registered – 2005)	*Nairobi: 39 (30.2%)*	*Coastal: 53 (41.1%)*	Other: 37 (28.7%)
Hotels (registered – 2006)	*Town: 66 (37.9%)*	*Vacation: 66 (37.9%)*	Lodge: 42 (24.1%)
Hotel Capacity	**Beds**	**Rooms**	**Bed nights**
Town Hotels	9,634	4,817	3,516,410
Vacation Hotels	16,914	8,457	6,173,610
Lodges	4,092	2,046	1,493,580
Total	30,640	15,320	11,183,600

Source: Kenya Ministry of Tourism and Global Development Solutions, LLC

In 2006, Kenya's 174 hotels and lodges offered a total of 15,320 rooms (30,640 beds) (table 1.10). Some lodging establishments are reported to have closed temporarily in the past 24 months. However, volume is not believed to have changed substantially given the length of time required to develop international standard accommodations. Town hotels (66) represent 38 percent of all properties and 31 percent of all rooms. Lodges, in contrast, account for 24 percent of all properties yet offer only 13 percent of all available rooms (table 1.11).

Table 1.11. Kenya Accommodations Categories and Capacity (2006)

Accommodation	Number	Beds	Rooms
Town hotels			
Five star	8	3,116	1,558
Four star	1	168	84
Three star	13	2,636	1,318
Two star	15	1,390	695
One star	29	2,324	1,162
Subtotal	*66*	*9,634*	*4,817*
Vacation hotels			
Five star	3	1,470	735
Four star	9	3,370	1,685
Three star	17	5,118	2,559
Two star	35	6,508	3,254
One star	2	448	224
Subtotal	*66*	*16,914*	*8,457*
Lodges			
Five star	6	898	449
Four star	8	856	428
Three star	11	1,096	548
Two star	17	1,242	621
One star	0	0	0
Subtotal	*42*	*4,092*	*2,046*
TOTAL	**174**	**30,640**	**15,320**

Source: Kenya Tourism Board.

Air Transport

In 2007, airlines carried 828 million international passengers (*www.icao.org*)—with only 3 percent in Africa. While this share is minute, it is important for Africa and it is growing. Within Africa, Kenya is more favored than most destinations with East Africa's hub in Nairobi served by multiple airlines, including its national carrier Kenya Airways, affiliated with Delta (Northwest and KLM) and not to be confused with Kenya Airlines operating out of Wilson Airport in Nairobi, mostly to domestic locations.[8] Kenya's commercial traffic volume decreased by 9.4 percent from 2007 to 2008. This is a reflection of the sector's overall downturn.

Kenya has excellent airline access from Europe, with lower prices than other East African destinations. For example, an Italian tourist traveling to Kenya can fly for US$850 to Jomo Kenyatta Airport in Nairobi (NBO) on a scheduled flight, but an equivalent class, one-stop flight to Dar es Salaam would cost US$1,134 (33.4 percent higher). Although a number of two-stop options to Tanzania exist, given the limited time that a tourist has and the length of the layover at each stop, such flights are less attractive. As shown in table 1.12, fares from Europe to Kilimanjaro are substantially higher than to Nairobi (126.6 percent).[9]

[8] Airlines include many international airlines, such as Air France, Alitalia, British Airways, Brussels, Delta, Emirates, Ethiopian, Lufthansa, KLM, South African Airways, Swiss, and most of the regional carriers from surrounding countries.

[9] There are many reasons for high airline ticket prices, including fuel cost (other factors are outlined in table 1.13).

Table 1.12. Sample Flight Costs from Rome to Kenya and Tanzania

ROUTING	NO. OF STOPS	COST (US$)	% DIFFERENCE
Rome – Nairobi	1 stop	850	—
Rome – Dar es Salaam	1 stop	1,134	33.4%
Rome – Dar es Salaam	2 stop	918	8.0%
Rome – Kilimanjaro	2 stop	1,926	126.6%

Source: Compiled by Global Development Solutions, LLC based on prices from www.cheaptickets.com.

Airlines are associated with high operating costs, with fuel being one of the highest and most volatile. Planes landing at Kilimanjaro Airport (JRO) pay nearly 27 percent more price than those arriving in Nairobi (table 1.12), which, according to operators, has mostly to do with poor access through Tanzanian airports. Landing and operating costs in and out of Kenya, particularly from Nairobi when compared to Kilimanjaro Airport—in Tanzania, provides a competitive advantage for Kenya as a tourism destination. Specifically, landing and operating costs at JRO are substantially higher than at NBO with the exception of landing rights where costs are slightly lower.

In addition to fuel costs, turnaround charges are an important aspect of airline operation. Turnaround charges at NBO are 152 percent—167 percent lower than at JRO (table 1.13). If fuel prices continue to rise in Kenya, they are likely to affect Kenya's air competitiveness for tourism. Improved access to and efficiency of fuel distribution is expected to have a larger impact on the competitiveness not only of the tourism sector, but also other sectors, such as horticulture, that require cargo space to compete in the European market.

Table 1.13. Comparative Landing Charges for Kilimanjaro (JRO) and Jomo Kenyatta Nairobi (NBO) Airports

OPERATING COSTS[a]	KILIMANJARO US$	NAIROBI US$	DIFFERENCE (%)
Handling charges ($/kg)	0.05	0.03	66.7
A-1 jet fuel[b] ($/liter)	1.00	0.80	25.0
Turnaround charges			
Low	4,800	1,800	166.7
High	5,040	2,000	152.0
Landing fee ($/landing)	1,890	1,750	8.0
Night operating surcharge	30%	20%	50.0
Air navigation fee	700	527	32.8
Landing rights[c]			
Short-term	800	820	−2.4
Annual fee	1,500	1,750	−14.3

a. Based on B747-200F.
b. Fuel prices vary for different carriers depending on total volume purchased.
c. Landing rights can be paid on a short-term basis or yearly.

Source: Based on "Airfreight Feasibility Study," USAID/Tanzania, Tanzania Airfreight Project (TAP).

Given the vast distances between tourist destinations, and poor road conditions, many tourists prefer to fly rather than drive. A number of small regional airlines operate flights all around Kenya (mostly from Wilson Airport in Nairobi). A popular and reliable aircraft used for short flights in conditions common to both Tanzania and Kenya is the Cessna Caravan.

Although airplane maintenance costs are high in both Kenya and Tanzania, regional airlines operating in Kenya have at least two competitive advantages. Planes in Kenya are mostly flown to Nairobi for service and in northern Tanzania to Dar es Salaam— however, given cost efficiencies and shorter flight times (3.6 hours vs. 2 hours), there is a considerable advantage for aircraft to use Nairobi for maintenance. Moreover, service is slower in Dar than in Nairobi. The opportunity costs for regional aircraft operators in Tanzania can be as much as US$132,900–US$217,900 per aircraft annually. As a result, many regional carriers service their aircraft in Nairobi and Kenya benefits from millions of dollars in revenue from aircraft associated with increases in tourist traffic in Tanzania.

Associations

Kenya's tourism sector benefits from having a variety of associations providing a collective voice for many sector operators (table 1.14). The key associations taking the lead in representing the interests of the sector are the Kenya Association of Tour Operators (KATO); the Kenya Association of Hoteliers and Caterers (KAHC); and the Eco-tourism Society of Kenya (ESOK). However, there are a myriad of other organizations representing *niche* markets (Annex 4). In response to the diversity of tourism related enterprises and increasing diversity of tourism offerings, Kenya created an umbrella organization, the Kenya Tourism Federation (KTF) to ensure a powerful and harmonized industry voice.

Table 1.14. Associations and Civil Society Organizations

Kenya Association of Tour Operators (KATO)	Leading tourism trade association representing tour operators	Independent private, membership association
Kenya Association of Travel Agents (KATA)	National organization comprised of mainly IATA agents operating in Kenya	Universal Federation of Travel Agents' Association (UFTAA)
Eco-Tourism Society of Kenya (ESOK)	Promote ecotourism and sustainable tourism practices in Kenya	Civil society organization representing individuals, community-based organizations and corporate organizations
Kenya Association of Housekeepers and Caterers (KAHC)	Umbrella organization bringing together hotels, lodges, restaurants, membership clubs, and prominent airline caterers to render services in the hospitality industry	Membership association representing registered hotel, lodge, restaurant, caterer, or establishment carrying out the business of hotel keeping or catering
Pub, Entertainment and Restaurant Association of Kenya (PERAK)	Promote pubs, entertainment, and restaurants in Kenya while abiding by a strict code of conduct to help regulate the industry	Membership association
Mombasa Coastal Tourism Association (MCTA)	Promoting, fostering, and maintaining tourist traffic within the coastal region and Kenya in general	Membership association consisting of all business involved in the tourism sector, primarily in the Kenya coast
Kenya Tourism Federation (KTF)	Umbrella organization for all tourism organizations	Membership organization
Maasai Mara Management Association (MMMA)	Promote local conservation efforts	Membership association of hoteliers in Maasai Mara
Dupoto Wildlife and Forestry Association	Promotion and conservation of forested lands	Community-based association
Siana Conservation Association	Promote tourism and conservation in Siana	Community-based association consisting of members of Siana Group Ranch
Trans-Mara Guides Association	Provide training and promote the delivery of quality guide service	Community-based tour guides association

Source: Compiled by Global Development Solutions, LLC.

In order for the KTF and the other associations to be effective in defending the interests of their members, they must learn skills of sector and policy analysis and conduct advocacy and membership drives to ensure that the industry is totally involved. The KTF, along with the chamber of commerce and other industry groups, advocates for improvements in the business environment and offers a focal point and voice for the sector. Creating a destination management organization to further organize all of the sector's players is a model utilized by other countries and one that Kenya may wish to follow in the near future.

There are also a number of regional associations comprised of facility owners, tour operators, parks, reserves, conservancies, and flight companies (table 1.15). The momentum of these regional associations can help develop and promote new specialized destinations and experiences attractive to inclusion in tourists' itineraries as well as promote investment opportunities across Kenya. Direct engagement of regional associations is useful for decentralizing the responsibilities of the KTB to market and develop new products, while at the same time engaging the private sector and stakeholders in the tourism sector to work more closely with the KTB. As a part of its strategic plan, the KTB expects to work closely with regional associations to help build their marketing capacity.

Table 1.15. Kenya Regional Private Tourism Organizations

ORGANIZATIONS	ROLE
Mt. Kenya Tourism Circuit Association Mid Rift Tourism Forum Laikipia Wildlife Forum Samburu Wildlife Forum for Northern Kenya Lake Victoria Wildlife Forum for Nyanza	Regional associations are made up of facility owners, tour operators, parks, reserves, conservancies, and flight companies. With vested interests in the regions, they will help promote new "circuits." Direct engagement through regional associations is also useful for decentralizing the KTB's responsibilities, while engaging local stakeholders.

Source: Compiled by Global Development Solutions, LLC.

Following the institutionalization of conservation efforts within the KWS, and, in effect, an enhanced measure of confidence in the sector, numerous private conservation efforts have been introduced (table 1.16), thus demonstrating Kenya's inherent entrepreneurship. For example, as early as 1999, there were 25 privately owned, community-based parks and ranches in Kenya. These private sanctuaries and conservancies have helped raise awareness and sensitize both tourists and locals to the importance of protecting Kenya's natural assets.

Table 1.16. Kenya: Private Conservation Groups[a]

GROUP	FOCUS/ACTIVITY
Il'Ngwesi Group Ranch	Community conservation and ecotourism
Kiamanina Farm	Traditional organic farming
Kuku Field Studies Centre	Cultural and environmental education
Lekurruki	Community conservation and ecotourism
Lewa Downs Wildlife Conservancy	Rhino sanctuary
Lumo Community Wildlife Sanctuary	Wildlife sanctuary
Mwalugnaje Elephant Sanctuary	Elephant sanctuary
Namunyak Wildlife Conservation Trust	Ecotourism
Ngomongo Villages	Cultural heritage
Rukinga Ranch	Wildlife sanctuary and livestock rearing

a. In addition, there are numerous NGOs active in the sector.

Source: Compiled by Global Development Solutions, LLC.

Box 1.2. The Maasai Mara: A Microcosm of Kenya's Tourism

The Maasai Mara National Reserve (1,510 km²) in southwest Kenya, bordering the fabled Serengeti Plain in Tanzania, is under the management of the Kenya Wildlife Service, and the surrounding 4,566 km² belongs to the Maasai and is managed by the Narok and Trans-Mara County Council.

The Maasai Mara was home to 14.7 inhabitants/km² in 2002, up from 0.8 inhabitants/km² in 1950; a 1,738 percent increase. It is estimated that some 250,000 non-migratory wildlife also graze in the reserve and surrounding area. Prior to the crisis, nearly 290,000 tourists visited the Maasai Mara each year—during the peak season, more than 8,000 tourists are likely to be in the reserve at one time. In the past several years the market trend in Kenya has been to move away from large lodges in favor of small, exclusive tent camps with individualized game drives. The number of permanent camps and lodges are on the rise, particularly along the outer perimeter of the reserve, as are settlements. According to The Mara Count, the reserve and its surrounding area now have more than 373 *bomas* (settlements) and 2,000 huts.[a] For many years the frontier with Tanzania was closed, which made accessing the Serengeti from either country difficult.[b] For a period, the only way was to retrace steps to Nairobi and start again to enter Tanzania by Namanga—a truly circuitous route.

a. The Mara Count is a joint venture by the Maasai Mara, conservationists, private sector, land managers, and researchers to create information to form the foundation of future decisions to conserve wildlife and develop pastoral peoples. See www.Maasaimaracount.org.
b. The same was true between East and West Tsavo national parks.
Source: Compiled by Global Development Solutions, LLC

H. Enabling Environment

1. Licensing and Regulatory Issues

Further illustrating tourism's cross-sectoral reach, Kenya has a considerable body of law related to tourism (table 1.17) and recently adopted a new tourism policy framework. There is an important opportunity to tailor the current body of law to be consistent with the new policy framework.

Countries, such as Kenya, are often overburdened with institutions and regulations as key sectors gain momentum and clearer definition. For example, 44 different legislative instruments regulate the tourism sector. This complex web of regulations is further complicated by the overlapping functions of more than 15 public organizations regulating the sector and 11 associations and civil societies representing different markets.

Table 1.17. Kenyan Legislation Affecting Tourism

Laws and Regulations	Mandate	Administrative Oversight
Continental Shelf Act (CAP 312)	Vest rights in the government in respect of the natural resources of the continental shelf	Attorney General
Government Land Act (CAP 280)	Regulate the leasing and other disposal of government lands, and for other purposes	Commissioner of lands
Hotel Accommodation Tax Act (CAP 478)	Impose a tax in respect to the hire and occupation of accommodation in hotels and similar establishments	Controller
Air Passenger Tax Act (CAP 475)	Impose passenger tax on airline flights	Customs and Excise
Forests Act (CAP 7)	Provide for the establishment, development, and sustainable management, including conservation and rational utilization of forest resources, for the socioeconomic development of the country	Kenya Forestry Service (Ministry of Environment and Natural Resources)
Investment Promotion Act (CAP 6)	Promote and facilitate investment by assisting investors in obtaining the licenses necessary to invest and by providing other assistance and incentives for related purposes	Kenya Investment Authority
Marine Insurance Act (CAP 390)	Make provision in relation to marine insurance	Kenya Port Authority

(continued)

Laws and Regulations	Mandate	Administrative Oversight
Value Added Tax Act (CAP 476)	Impose a tax to be known as value added tax on goods delivered in, or imported into, Kenya and on certain services supplied in Kenya	Kenya Revenue Authority
Environmental Management and Coordination Act (CAP 8)	Establish an appropriate legal and institutional framework for the management of the environment and for matters connected to the protection of the environment (creates NEMA and the National Environmental Council)	Ministry of Environment and Natural Resources
Insurance (Motor vehicle third party risks) Act (CAP 405)	Make provision against third-party risks arising out of the use of motor vehicles	Ministry of Finance
Privatization Act (CAP 2)	Provide for the privatization of public assets and operations, including state corporations, by requiring the formulation and implementation of a privatization program by a commission to be established by this act	Ministry of Finance
Public Fees Act (CAP 424)	Provide for the levying of fees for licenses, permits, and other matters arising in public offices	Ministry of Finance
Regulation of Wages and Conditions of Employment Act (CAP 229)	Provide for the establishment of wages advisory boards and wages councils for the regulation of remuneration and conditions of employment	Ministry of Labor and Human Resources Development
Land (Group Representatives) Act (CAP 287)	The incorporation of representatives of groups who have been recorded as owners of land under the Land Adjudication Act	Ministry of Lands
Land Adjudication Act (CAP 284)	Ascertainment and recording of rights and interests in trust land	Ministry of Lands
Land Consolidation Act (CAP 283)	Ascertain rights and interests in, and for the consolidation of, land in the special areas; for the registration of title to, and of transactions and devolutions affecting, such land and other land in the special areas	Ministry of Lands
Land Titles Act (CAP 282)	Make provision for the removal of doubts that have arisen in regard to titles to land and to establish a Land Registration Court	Ministry of Lands
Protected Areas Act (CAP 204)	Prevent the entry of unauthorized persons into areas that have been declared to be protected areas	Ministry of Lands
Registered Land Act (CAP 300)	Make further and better provision for the registration of title to land, and for the regulation of dealings in land so registered	Ministry of Lands
Registration of Titles Act (CAP 281)	Provide for the transfer of land by registration of titles	Ministry of Lands
Trusts of Land Act (CAP 290)	Support land trust activities	Ministry of Lands
Local Government Act (CAP 265)	Provide for the establishment of authorities for local government to define their functions	Ministry of Local Government
Physical Planning Act (CAP 6)	Provide for the preparation and implementation of physical development plans	Ministry of Planning and National Development
Coastal Development Authority Act (CAP 449)	Plan and coordinate the implementation of development projects in whole of the Coast Province and the exclusive economic zone and for connected purposes	Ministry of Regional Development Authorities
Kenya Road Boards (CAP 7)	Oversee the road network in Kenya and thereby coordinate its development, rehabilitation, and maintenance and to be the principal adviser to the government on all matters related to road networks	Ministry of Roads and Public Works
Public Roads and Roads Access Act (CAP 399)	Provide roads of public travel and access to public roads	Ministry of Roads and Public Works
Road Maintenance Levy Fund (CAP 9)	Provide for the imposition of a road maintenance levy on petroleum fuels and for the establishment and administration of a Road Maintenance Levy Fund	Ministry of Roads and Public Works
Tourism Industry Licensing Act (Ch 381)	Issue licenses and regulate licensed tourist enterprises	Ministry of Tourism and Wildlife

(continued)

LAWS AND REGULATIONS	MANDATE	ADMINISTRATIVE OVERSIGHT
The Wildlife Conservation and Management Act (CAP 376)	Consolidate and amend the law relating to the protection, conservation, and management of wildlife in Kenya	Ministry of Tourism and Wildlife
Fisheries Act (CAP 378)	Provide for the development, management, exploitation, utilization, and conservation of fisheries	Ministry of Tourism and Wildlife
Hotels and Restaurants Act (CAP 494)	Make provision for the licensing of hotels, hotel managers, and restaurants; for the regulation of hotels and restaurants; for the imposition of a levy for training persons to be employed in hotels and restaurants	Ministry of Tourism and Wildlife
Kenya Tourist Development Authority Act (CAP 382)	Establish the Kenya Tourist Development Corporation	Ministry of Tourism and Wildlife
Tourist Industry Licensing Act (CAP 381)	Make provision for regulating the tourist industry with a view to promoting its well-being and development	Ministry of Tourism and Wildlife
Foreign Investments Protection Act (CAP 518)	Give protection to certain approved foreign investments	Ministry of Trade and Industry
Landlord and Tenant (shops, hotels, and catering establishments (CAP 301)	Make provision with respect to certain premises for the protection of tenants of such premises from eviction or from exploitation	Ministry of Trade and Industry
Civil Aviation Act (CAP 394)	License and regulate civil aviation	Ministry of Transport
Kenya Airport Authorities Act (CAP 395)	Construct, operate, and maintain aerodromes and other related facilities	Ministry of Transport
Kenya Maritime Authorities Act (CAP 5)	Establish the Kenya Maritime Authority as a body with responsibility to monitor, regulate, and coordinate activities in the maritime industry and for all other matters connected	Ministry of Transport
Kenya Port Authorities Act (CAP 391)	Establish an authority to be known as the Kenya Ports Authority for the transfer to the authority of the undertakings, within Kenya	Ministry of Transport
Maritime Zone Act (CAP 371)	Consolidate the law relating to the territorial waters and the continental shelf of Kenya, to provide for the establishment and delimitation of the exclusive economic zone of Kenya, and to provide for the exploration and exploitation and conservation and management of the resources of the maritime zones	Ministry of Transport
Transport Licensing Act (CAP 404)	Provide for the coordination and control of means of and facilities for transport	Ministry of Transport
Entertainment Tax Act (CAP 479)	Impose and recover of a tax in respect to entertainment	Treasury
Water Act (CAP 8)	Provide for the management, conservation, use and control of water resources and for the acquisition and regulation of rights to use water; to provide for the regulation and management of water supply and sewerage services; to repeal the Water Act (Cap. 372) and certain provisions of the Local Government Act	Water Management Resource Authority (Ministry of Water and Irrigation)

Source: Compiled by Global Development Solutions, LLC. Refer to http://www.kenyalaw.org/kenyalaw/klr_home/ for the complete laws of Kenya.

A recent World Bank Group report on tourism licensing in Kenya found that a city hotel in Nairobi holds more than 48 different annual licenses (of which only four were issued by the Ministry of Tourism) obtained from 31 different government administrative bodies.[10] Although the actual cost associated with these licenses is minimal, administering and maintaining all of them requires a full-time "licensing

[10] Licensing Case Studies: Tourism Sector, March/April 2009; World Bank, IFC, and MIGA.

officer," which introduces an added burden to a tourism operation. This, and the bureaucratic procedures that policing the licenses implies, can undermine the competitiveness of operators in Kenya.

2. Taxation

Licensing, tariffs, and other regulatory mechanisms are used extensively in the tourism sector worldwide. Most tax the tourist, rather than the national enterprise, through sales taxes, bed night taxes, and value added taxes. A recent study on tax regimes in developing countries (World Bank, 2008, Draft Note on Taxation in Tourism) found tourism enterprises are heavily taxed on essential inputs necessary for improving their quality of service and thus compromise growth and profitability.

3. Utilities and Infrastructure

Key infrastructure affecting the delivery of tourism—and the ability of firms to be competitive individually and collectively—include telecommunications, roads, electricity, water, and sanitation.

4. Telecommunications

The country is served by four Intelsat satellite earth stations. In 2007 there were approximately 265,000 fixed lines in use and more than 11 million cell phones. Multiple providers in the mobile-cellular segment of the market are fostering a boon in mobile-cellular telephone usage, which is an encouraging development. However, tourists are still most affected by high charges for global roaming capabilities.

Internet usage continues to grow. The Communications Commission of Kenya (CCK) has issued 127 licenses to Internet service providers (ISPs). Fifty-six of these ISPs are now operational. For 2007, the government of Kenya reported 2.9 million Internet users. This grew by an impressive 17.2 percent in 2008 to a reported 3.4 million Internet users. Telecommunications has been an issue in Kenya, in spite of years of reform and expansion. This is about to change with the 2009 introduction of the 4,900 kilometer submarine cable connecting Mombasa with Fujairah (United Arab Emirates). The "TEAMS" cable will make Kenya East Africa's low-cost telecommunications link with the rest of the world. It will also enable less dependency on expensive satellite connections. Steady growth in the sector is expected to improve services for Kenyans and visitors.

5. Roads

Kenya has a network of almost 200,000 km of roads (table 1.18). Nearly one-third of the classified roads fall under the categories of "poor" to "very poor condition". Furthermore, roads classified as D, E, and below are in equally poor condition. This directly affects tourists' desire to see and do as much as possible. The disappointing condition of the roads is reflected in numerous comments made by tourists regarding rough and bumpy rides and, more important, the amount of time spent going from one destination to the next.

The government's strategy is to give priority to the backlog of roads requiring rehabilitation. But attention is also needed for the routine and periodic maintenance of roads in good or fair condition. According to the World Bank and the Roads Department in Kenya, for every shilling deferred in maintenance, society stands to lose 3–6 shillings in higher vehicle operating and future rehabilitation costs.[11]

[11] Background paper, "Kenya: Rehabilitating and Maintaining Road Network for Growth," World Bank.

Table 1.18. Road Inventory and Condition of Classified Roads

ROAD CLASSIFICATION	KM	KM	% OF TOTAL
Classified roads	**63,000**		32.4%
National roads (Class A, B, C)		14,000	
District roads		49,000	
Unclassified roads	**114,500**		58.9%
Class D, E and below		100,000	
Urban roads		14,500	
Other roads	**17,000**		8.7%
Special roads (under KWS)		9,000	
Park roads		8,000	
Total	**194,500**		

Condition of Classified Roads

Good/excellent:	18%
Fair:	49%
Poor:	27%
Very poor:	6%

Source: Compiled by Global Development Solutions, LLC

Based on the use of manufacturer spare parts and a travel distance of 70,000 km/year, the operating and maintenance cost for an identical vehicle used for safaris in Kenya is nearly one-half that in Tanzania (US$1,593/month in Tanzania versus US$720/month in Kenya) (table 1.19).

Table 1.19. Operating Cost Comparison for Safaris Land Cruisers in Tanzania and Kenya

	TANZANIA		KENYA	
LAND CRUISER COSTS	LOW	HIGH	LOW	HIGH
Average operating cost ($ per month)	$1,302	$1,593	$575	$720
Percentage difference (compared to Kenya)	226%	221%	—	—

Source: Global Development Solutions, LLC.

These additional costs must be passed on to tourists, which are reflected in the higher overall cost of safari products available in Tanzania. Continued improvement of roads in Kenya will serve to keep these operating coasts lower than in Tanzania, giving Kenyan operators an advantage.

It is interesting to compare the overall provision of infrastructure in Kenya with that of Tanzania (table 1.20), as a way to grasp Kenya's challenges. Kenya, which relies heavily on safari tourism as a source of revenue, has 46 percent less landmass, but has 50 percent more paved runways, 84 percent more unpaved runways, and 31 percent more paved roads than Tanzania. Sheer volume, however, is not necessarily a good measure of access to infrastructure, particularly given that in Kenya conditions of roads and runways continue to be poor.

Table 1.20. Comparison of Transport Infrastructure in Tanzania and Kenya

	Tanzania		Kenya
Airports (2007)	124		225
With paved runways	10		15
>3,047 meters	2		4
2,438–3,047 meters	2		1
1,524–2,437 meters	5		4
914–1,523 meters	1		5
Without paved runways	114		210
1,524–2,437 meters	17		12
914–1,523 meters	63		113
<914 meters	34		85
Roads (km)	78,891		63,265
Paved (km)	6,808	(8.6%)	8,933
Unpaved (km)	72,083	(91.4%)	54,332
Railways (Narrow gauge)	3,690		2,778
1.067-m gauge (km)	969		–
1.000-m gauge (km)	2,721		2,778
Total land mass (km)	886,037		569,250

Source: Global Development Solutions, LLC.

In addition to financing and prioritizing activities, the roads sector faces a broader institutional challenge. Specifically, through the Roads Bill of 2007, the government created three statutory road authorities, namely, the Kenya National Highways Authority (responsible for the development and management of major roads—Class A, B, and C); the Kenya Rural Roads Authority (responsible of the development and management of rural and small town roads—Class D, E, and others); and the Kenya Urban Roads Authority (responsible for development and management of roads in the cities and municipalities). This institutional framework under the Ministry of Roads seems cumbersome for efficient and effective delivery of road works. Furthermore, the Ministry of Roads and Public Works faces several other challenges:

- A history of low budget execution, which means that increased budget allocations are unlikely to translate into increased spending
- Factors other than traffic assessments, rigorous economic appraisal, or cost-benefit analysis determining road projects
- Poor management and lack of accountability and transparency

The poor condition of roads directly hampers tourism and means high vehicle operating costs and long trip-completion times. The very nature of the national and local roads can add to the tourist experience paradoxically and the poor quality of roads is a means of rationing access to environmentally fragile areas. The challenge is to balance competing objectives: improving the quality of roads versus managing access.

It is promising to note the Government of Kenya's awareness of these deficiencies. Recurrent and development expenditure by the Ministry of Roads for fiscal 2004/5 to 2008/9 shows a substantial increase (25.9 percent) of expenditure on secondary roads. Concurrently, an increase of 42.9 percent on trunk roads is encouraging. However, a decrease in funding for maintenance of miscellaneous roads—typically roads used by tourists for access to key remote sites—remains a concern.

6. Electricity

Recently electricity consumption was growing in Kenya at an estimated 5 percent per year. Therefore, it is not surprising that a failure to expand capacity in the past few years has led to problems in the sector. In 2003, only 48 percent of manufacturing firms complained about the poor quality of electricity, but by 2007, more than 53 percent of manufacturing firms ranked the poor quality of electricity service as the third most significant bottleneck for operating a business in Kenya. Adequate and reliable electricity is especially important to tourism operators because visitors are accustomed to ample electricity in their home countries.

Table 1.21. Comparative Costs of Electricity in Selected Countries

Country	$/kWh
Thailand	0.02
South Africa	0.04
Vietnam	0.06
China	0.07
Taiwan	0.07
Pakistan	0.09
Tanzania*	0.09
Kenya	0.12
Cambodia	0.16
Madagascar (Ft. Dauphin)	0.20

* Light industry, non-peak rate; 30 percent higher during peak load. Light voltage: $0.06/kWh; high voltage: $0.056/kWh
Source: Global Development Solutions, LLC.

In addition to cost, limited availability of electricity is a constraint for many Kenyans. Total electricity generation decreased by 2.1 percent in 2008 compared to an increase of 7.3 percent in 2007. The country has been challenged primarily by an 8.9 percent drop in electricity production from hydrogenation power sources attributable to lower water levels at power generation dams. Simultaneously, demand has increased. For the period 2007–08 demand for electricity increased from 5,156,000 GWh in 2007 to 5,352,200 GWh in 2008.

7. Water and Sanitation

Water

In Kenya, about 62 percent of the total population has access to safe drinking water.[12] Although for tourists the percentage is probably higher, access to safe water, particularly in remote locations, can mean transporting fresh water when groundwater is unavailable or polluted. Hotels and lodges in Kenya have historically suffered from poor drinking water service. For example in 2002/3 (table 1.22), the number of service interruptions per day was slightly less than one-half than those experienced in Tanzania. However, the reason for this was simply because most hoteliers and lodge operators developed backup sources, knowing the generally poor quality of public service (table 1.22). Water access continues to be a challenge.

Table 1.22. Water Service Delivery to Hotels and Lodging Industry (2002–3)

	Kenya	Uganda	Tanzania

[12] According to the ICA survey, 21 percent of respondents indicated that municipal water was not available in their areas of Kenya.

Interrupted service (days/year)	46	13.2	96.33
Duration of interruptions	31	16.08	13.46
Percentage with own borehole	67%	4%	33%
Percentage with own water infrastructure	58%	29%	33%
Percentage with shared community water source	8%	4%	17%
Percentage self sufficient	78%	4%	N/A

Source: RPED/ICA Surveys for Kenya, Tanzania, Uganda, 2003.

Sanitation

In Kenya, 56 percent of the urban population has access to improved sanitation, including in hotels. Remote lodges and camps certainly do not have access to sewerage but there is no reason for not providing adequate service through septic tanks (such as Imhoff tanks). Some of the tented camps provide chemical solutions, but the key is to treating gray waters adequately before releasing them into the ground or bodies of water. Thorough and proper sewage treatment is a challenge along the coast with immediate to long-term negative consequences if not addressed.

Solid Waste Disposal

Solid waste disposal can be a problem in remote sites—it is not unheard of to fly solid waste out on the same plane as the tourists. Plastics are particularly pernicious and if not contained can pollute the environment rapidly.[13] Adequate solid waste disposal continues to be an unmet goal as seen even along the main roads traveled by tourists.

Providing an efficient and clean water supply and sewerage services in all tourist areas is specifically identified by the Ministry of Tourism in the National Tourism Policy as a policy objective.

[13] In neighboring Tanzania, a key problem in Mount Kilimanjaro is the waste products left by campers who neither dispose of them in the ground efficiently not take them out with them.

II. Issues

Kenya has derived many economic, social, and environmental benefits from an active tourism sector. On the other hand, it has been exposed to fierce global competition, as well as internal and external shocks that have impeded the growth of the sector. It faces both economy-wide and sector-specific issues and challenges. A strength of Kenyans is their willingness to acknowledge these challenges, as specifically identified in the National Tourism Policy.

Box 2.1. Tourism Sector Issues and Challenges—Excerpt from the Perspective of Kenya's National Tourism Policy

Product quality and diversity: Wildlife tourism in Kenya is currently concentrated in only 7 parks, which receive 80 per cent of the total number of visitors. There is, therefore, great potential in targeting the under-visited parks and reserves. In addition, only 18 per cent of Kenyan hotels are 4-5 star categories, which is significantly lower than the average 40 per cent in competing long-haul destinations. To increase competitiveness, there is need to expand product choice and improve on quality of facilities and services. There is also need to address the unexploited and underdeveloped products.

Hotel/bed capacity: With the increase in visitor arrivals, the bed occupancy levels during the peak season are close to full capacity and the reverse occurs during the low season. As a result, the country has to grapple with the rapid growth in demand, principally due to limited investment in tourist accommodation. It would be imperative to substantially increase investment in accommodation in order to meet the ever increasing demand for the Kenyan products.

Infrastructure: Despite some improvement in the state of infrastructure, there is need for further investment particularly in roads, railways, waterways, airports, airfields and telecommunications as well as aesthetic development of our cities.

Marketing: Marketing Kenya's tourism products is critical in enhancing sustainable tourism. This calls for integrated and coordinated campaigns to inform potential tourists about Kenya's attractions and facilities.

Safety and security: In the past, Kenya's tourism sector suffered from incidents of insecurity. One of the major sources of this insecurity has been political instability in the region, which has led to increasing cross-border traffic in small arms. Other sources of insecurity include cattle rustling, income inequalities, and unemployment. The Tourist Police Unit (TPU) needs to be strengthened.

Negative travel advisories: It is important that the country upholds its positive image internationally.

Source: Republic of Kenya, Ministry of Tourism, National Tourism Policy (August 2008), Section 2.

A. Economy-Wide Issues

Tourism is a cross-sectoral activity and issues in other sectors can affect tourism. Kenya faces a number of real and illusory systemic challenges at the policy and regulatory levels. The following section highlights major constraints to tourism, building upon the World Bank's *2007 Investment Climate Assessment*, integrated value chain analyses, sector studies, and other external sources.

1. Land

Physical Planning

Spatial planning is authorized under the Local Government Act in Kenya but clearly involves many ministries and agencies, as previously indicated. Overall, planning and its implementation have not been very successful at controlling and managing growth for a variety of reasons, related more to what is practical in the Kenyan context than anything else. Land-use planning was traditionally a top-down process, but it now engages local partners as early as possible in the development process. Whereas global spatial planning at the national level has little to offer (other than identifying key development sites, a somewhat useful process in itself), planning locally for tourism development can be strengthened via a participatory process that best recognizes everyone's role and builds trust.

Although there has been no comprehensive policy on land in Kenya, land is covered under the constitution, and the relevant legislation for land includes the following:

- The Government Land Act, which upholds the government's right to own land and is in effect the "framework" law for the conservation of biodiversity;[14]
- The Registered Land Act (the law that covers individual ownership of land—the vast majority of land in Kenya), an important document for establishing absolute ownership through registering ownership and that also converts customary rights of occupation into tenancies from year to year; and
- The Trust Lands Act (100,000 hectares), whose lands are managed on behalf of residents by county councils.

In addition, there are many other laws which apply—notably the Land Titles Act and for forestry (Forestry Department); fisheries (Department of Fisheries); wildlife (Kenya Wildlife Service [KWS]); and the environment (National Environmental Management Authority [NEMA]), all of which can have application for tourism. The Kenya Land Alliance advocates effective land policies in Kenya. Physical planning (town and country planning) is carried out under the Local Government Act.

Sale of Community Trust Lands

Trust land, supervised by county councils on behalf of local communities, make up a large portion of land in Kenya. In recent years Kenya has experienced an increase in conversion of trust land to individual ownership, where individuals who obtain rights to the land are not necessarily members of the community. At the same time, conversion to individual ownership removes the land from the county councils' jurisdiction. As land ownership structures change from trust land to individual ownership, Kenya is seeing a rise in cultivation of agricultural crops, such as wheat and maize, in wildlife habitat. Local communities need to engage in productive human activities, but in the absence of a comprehensive land-use plan, conservation imperatives are likely to be undermined by human land use. This process is contributing to the separation of communities from their land, which further adds to the complexity of employing a comprehensive community-based conservation effort. Efforts to incorporate local communities in projects in appropriate ways, rather than buying them out are likely to favorably contribute to sustainability.

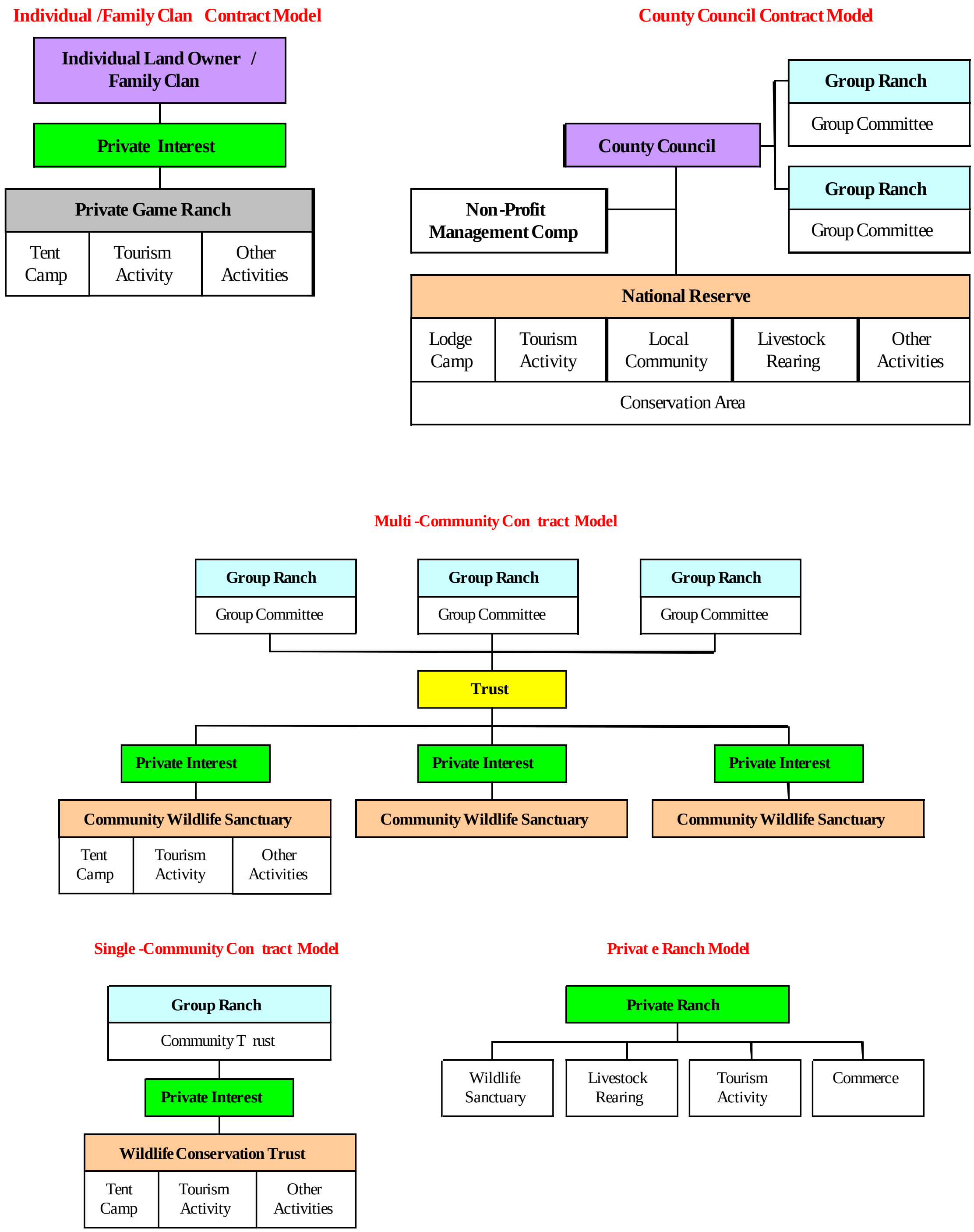
Access to Land

Conservation of biodiversity and access to land are intricately related. Without guidelines and regulations to define contractual relationships between the state, private individuals (including corporate entities), local communities, and landowners, conservation and wildlife management is left to a contract negotiated by the leaser and lessee. Furthermore, as a result of the absence of valuation tools to define the economic value of land, benefits to landowners are ad hoc and susceptible to manipulation by both the leaser and the lessee.

In many instances the ability to lease land is based on the lessee's contacts and negotiating capacity with the local community and individual landowners. The process of leasing land can be opaque and exclusionary. Similarly, conservation and wildlife management, particularly on land involving leases to private parties, often lacks coherence and continuity with the overall national conservation mandate. Currently, there are at least five types of contracting models used to lease land: multi-community contract model, single-community contract model, private ranch model, individual/family clan contract model, and county council contract model (figure 2.1).

[14] Land, the Environment and the Courts in Kenya, DFID (2006).

Figure 2.1. Contract Land Models in Use in Kenya



Source: Global Development Solutions, LLC.

In the absence of recognized guidelines, clauses in leases vary from contract to contract. As an increasing number of landowners convert their land to private ownership, there is a pressing need for the government to partner with local communities and the private sector to define a transparent process for leasing land. Such a process is best guided by a model contract that embodies the conservation and wildlife management objectives of the country, as well as to ensure equitable economic benefits for landowners. A critical objective would be to try and retain the local landowner or occupier's rights in the land, as it is often the only asset they hold.

2. Environmental Regulation

Kenya has diverse ecosystems, and many laws and organizations protect the environment, wildlife, fisheries, and forests. The country has taken considerable steps to address environmental issues. The first area to be conserved in Kenya was the Kagamega Rain Forest, which has been protected since 1933 and became a national reserve in 1985. The Kenyan government outlawed the hunting of wildlife in 1977. The Kenya Wildlife Service was established in 1989 as a central entity to organize conservation efforts. During the early days of conservation, the focus of attention was on human-wildlife conflicts, but in 1996 a new wildlife policy strategy was adopted where the theory of biodiversity was introduced to help widen the scope of conservation efforts. Kenya is signatory and has ratified most international conservation treaties.[15] From the mid-1990s onward, organizations were founded, such as Eco-Tourism Kenya, to help promote conservation and sustainable tourism efforts.

Most laws on natural resource management have been focused on utilization of resources rather than community rights in the management and use of natural resources, although this appears less true today than even a few years ago—the Samburu agreements with the Africa Wildlife Foundation is an example (www.awf.org). Environmental law is often based on principles of sustainability: intergenerational equity, prevention, precaution, public participation, and the polluter pays.[16] In Kenya, the most crucial law is the 1999 Environmental Management and Coordination Act (ECMA), which seeks to coordinate the many actors involved in the environment. An owner's rights to have no interference are based on the *tort* principles of nuisance, trespass, negligence, and strict liability. In spite of this commendable progress, a number of issues should still be addressed.

Incentives for Conservation

For native Kenyans who rely on the environment and wildlife for their livelihood, the notion of conservation and setting aside large tracts of land is often synonymous with expropriation. This has been exacerbated since the ban on hunting and trading in wildlife. Current laws restrict consumption of game, even where culling is required, and local communities in general benefit little from wildlife tourism. The ban on hunting applies to the entire country and wildlife is considered a state asset, with no territorial boundaries. The KWS, which is tasked with the protection of wildlife, has jurisdiction over only 20 percent of the national landmass, thus making enforcement of wildlife conservation difficult. Local communities and other property owners have little, if any, incentive to protect wildlife, as they are not compensated for destruction of property by wildlife.[17] Furthermore, compensation payments are currently under the jurisdiction of the treasury rather than under the KWS, whose mandate it is to ensure compliance with regulations that protect wildlife in Kenya.

[15] Kenya is a signatory to and has ratified international treaties on biodiversity, climate change, climate change-Kyoto Protocol, desertification, endangered species, hazardous wastes, law of the sea, marine dumping, marine life conservation, ozone layer protection, ship pollution, wetlands, and whaling.

[16] Land, the Environment and the Courts in Kenya, DFID (2006).

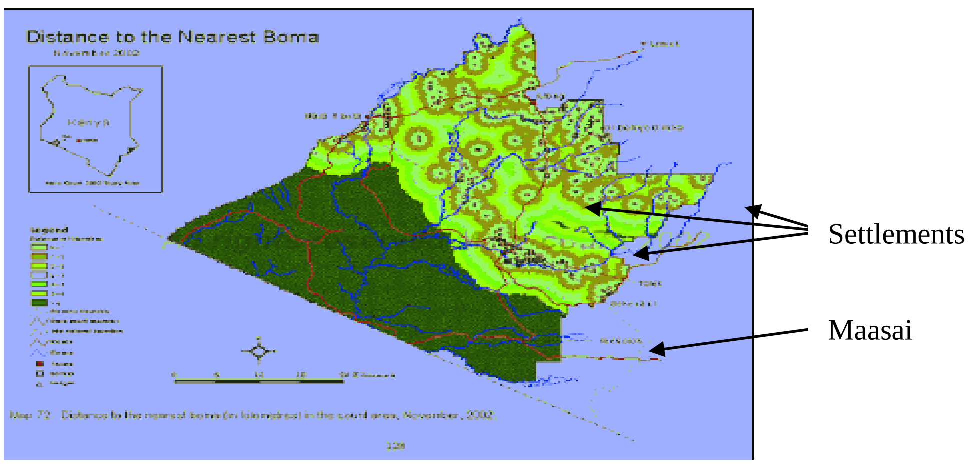
[17] Current regulations only provide compensations for injury to persons or loss of life.

The Dynamics of the Maasai Mara

The Maasai Mara is fundamental to Kenya's tourism product and the sustainability of this sector. Specific issues emerging in the Maasai Mara National Reserve and challenging the role of tourism to protect the very assets it celebrates, include the following:

- ***Overdevelopment***: As the number of permanent camps and lodges increase under the auspices of "promoting ecotourism" (now numbering 72)— particularly along the outer perimeter of the Maasai Mara National Reserve— an increasing number of settlements are beginning to develop, bringing with them non-migratory wildlife, and increased cultivation of maize and wheat. According to The Mara Count, the reserve and its surrounding area now have more than 373 bomas (settlements), 2,000 huts, 10 schools, 4 football pitches, 13 airstrips, and 69 shops.
- ***Increasing human population***: The Maasai Mara was home to 14.7 inhabitants/km² in 2002, up from 0.8 inhabitants/km² in 1950. The increase in human population is also contributing to an increase in nonmigratory wildlife in the Mara, particularly cattle, sheep, goats, and donkeys. Approximately 250,000 heads of nonmigratory wildlife graze in the reserve and surrounding areas. The map below sheds some light on the increasing number of settlements along the perimeter of the reserve as indicated by the contrasting shaded areas.

Map 2.1. Maasai Mara National Reserve *(Source: Global Development Solutions, LLC)*

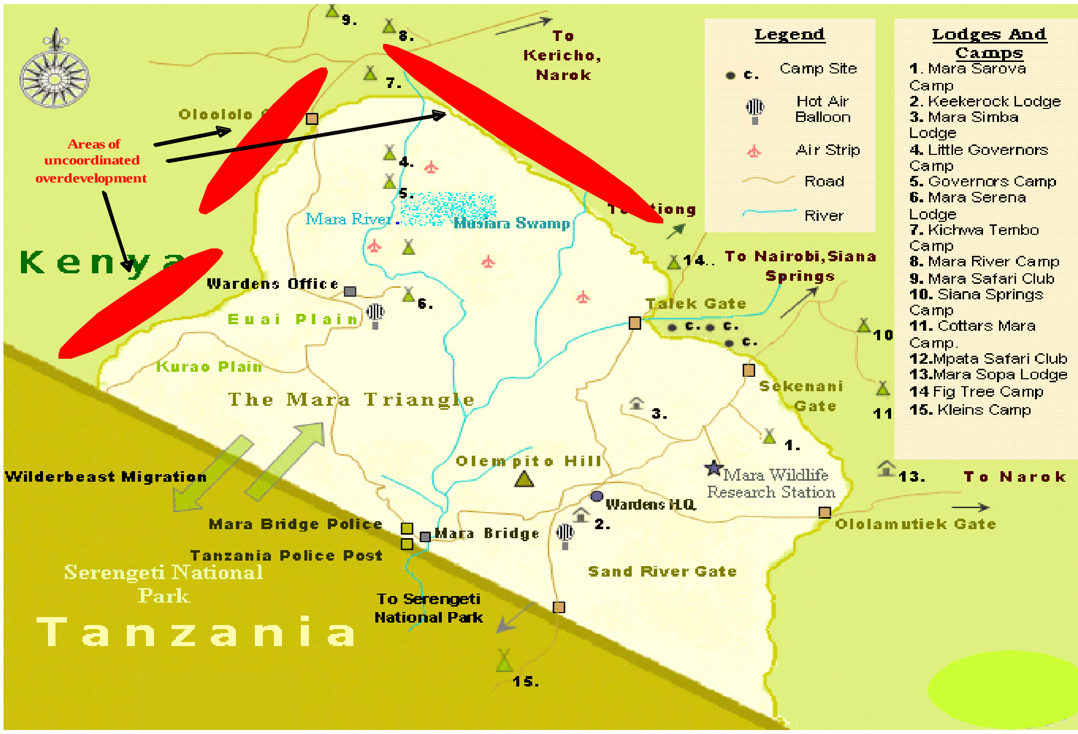


- ***Increasing area under cultivation:*** In the Narok District (Rift Valley Province), maize and wheat cultivation now accounts for more than 15,000 hectares of land use, and it is estimated that cultivated areas in the district are increasing at a rate of 18 percent per year. With an annual per capita income of less than \$300, in the absence of direct benefits from tourism (which currently brings in an estimated \$5.50/hectare), the Maasai must rely on other forms of income, such as cattle raising, which yields the equivalent to \$0.75/hectare, and agriculture, which can bring as much as \$218.75/hectare.[18] Given the economic opportunities that agriculture promises, it is no wonder that an increasing number of Maasai are converting their land to agriculture. At the same time, however, fences are being erected to prevent wildlife from damaging their crops.

As map 2.2 indicates, the outer perimeter of the Maasai Mara National Reserve is experiencing increases in settlements, fencing, competing grazing animals, and maize and wheat cultivation. These activities threaten the migration pattern of several million animals that come across the Serengeti into and outside of the reserve.

[18] P. V. Byrne, C. Stanbo and J. G. Grootenhuis, "The Economics of Living with Wildlife in Kenya," in *Wildlife Economics: Case Studies from Ghana, Kenya, Namibia and Zimbabwe,* Aftes Working Paper no 19, Jan Bojö (ed.), World Bank, Washington, DC, February 1996.

Map 2.2. Wildebeest Migration – Kenya *(Source: Global Development Solutions, LLC)*



In the period from 1977 to 1994, Kenya lost more than 44 percent of its wildlife overall. Protected areas have lost 30 percent of their wildlife while 53 percent has been lost outside of the protected areas and 73 percent within the Narok District specifically. Similarly, more recent research by Ojwang, et al. (2006), also points to a continued decline in wildlife population in Kenya.[19] As such, fencing, an increasing number of settlements, and competing grazing animals in the Mara paint a troubling picture for the future of wildlife tourism in Kenya, as indicated in table 2.1.

Table 2.1. Wildlife Population Estimates in Kenya's Rangelands (2004–8)

SPECIES (000)	2004	2005	2006	2007	2008*
Elephant	18.8	16.8	17.5	19.7	19.6
Buffalo	25.1	22.3	22.1	20.1	17.1
Giraffe	34.2	34.4	31.7	29.3	27.5
Burchell's Zebra	112.0	123.1	115.4	109.0	105.0
Grevy's Zebra	5.1	4.4	4.1	4.0	3.8
Wildebeest	300.2	300.3	291.3	291.5	291.0
Grant's Gazelle	117.3	116.0	117.5	115.0	112.6

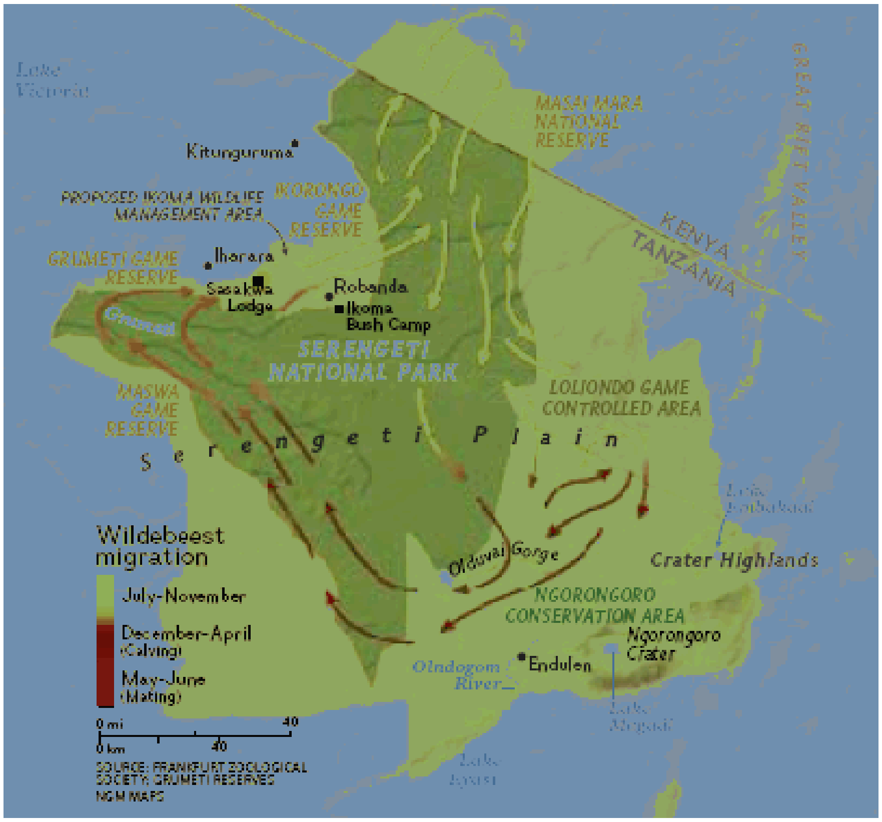
Source: Department of Resources Surveys and Remote Sensing (DRDRS) as reported in the Republic of Kenya Economic Survey, 2009.

Rangelands in Kenya are used primarily for wildlife and livestock grazing with populations documented through aerial sample surveys. The reasons for decline are many, including predation, poaching, migration, and loss of habitat due to land fragmentation and unfavorable conditions. Although some

[19] Ojwant', G. O., Waragute, P., Njiro, L. (2006). Trends and Spatial Distribution of Large Herbivores in Kajiado District (1978–2000) DRSRS, Technical Report No. 161.

forces of nature are not controllable, as animal populations decline, the need is pressing to address other factors through focused policies.

Map 2.3. Wildebeest Migration – Tanzania *(Source: Global Development Solutions, LLC)*



Taking into account that the Maasai Mara National Reserve accounts for 75 percent of wildlife in all nationally protected areas, measured consideration must be given to the development of areas in and around the reserve. Perhaps even more crucial to the sustainability of wildlife and wildlife-based tourism in Kenya is the need for public-private partnerships aimed to introduce coordinated conservation efforts around the greater-Mara area. Specifically, although 35 percent of Kenya's wildlife is found in nationally protected areas (KWS's jurisdiction covers only 4.9 percent of the total land mass in Kenya), 40 percent of the wildlife is found in privately protected areas.[20] Thus, in the absence of an integrated conservation effort that includes private and community conservation initiatives within a larger public sector conservation effort, the future of the wildlife population and one of the core drivers of Kenya's tourism sector will be under severe threat.

3. Infrastructure

Investors in tourism require not only land to develop but also land that can be connected to existing infrastructure, such as utilities and roads. It is not clear that public works agencies and utilities suppliers regularly prioritize tourism in their work programs in Kenya. Critical infrastructure, requisite for a competitive tourism sector, is unlikely to improve until services for tourism operations become a priority for agencies and utility suppliers. This requires a campaign by the Ministry of Tourism to demonstrate the benefits of tourism and the need to expedite adequate infrastructure that benefits locals and tourists. Such a campaign can highlight the value of using cross-subsidies resulting in an infrastructure that serves local

[20] The remaining 25 percent of the wildlife is scattered across the rest of the country, primarily in north and northeastern Kenya.

communities as well as tourism. In addition, several development models can be applied to ensure infrastructure growth. It is expected that private investors will provide on-site utilities and overall infrastructure on their land. However, provision of utilities, roads, and sewerage connections to the property line remains an issue. In some countries investors absorb even the cost of utilities and infrastructure access from existing locations to their property. This is the case, for example, in the Dominican Republic.

The technologies utilized in infrastructure development have improved dramatically in recent years, including processes for desalting of water; micro-sanitation; conversion of solid wastes (compost, fuel, and extraction of methane gas); and, in particular, provision of electricity (photovoltaic, solar, wind power, and so on). Use of these technologies is resulting in a boon for tourism, particularly in remote or island communities, making it feasible to offer service and operate properties where network solutions are not available. The Maldives has led the way in demonstrating that the relatively higher-cost infrastructure that these innovations require can still result in profitable tourism operations over time. Opportunities to further develop Kenya's niche offering dispersed throughout remote areas will benefit from these innovative technologies if incorporated into new tourism destination area developments.

Further consideration of the issue of infrastructure development and new options is desirable for Kenya's tourism offerings—existing and new—to become more competitive.

4. DISENABLING BUSINESS CLIMATE

Costly Access to Finance: Perception or Reality

According the *Investment Climate Assessment* (ICA), firms in Kenya identified financing as a critical barrier to growth. In 2003 approximately 75 percent of firms reported constraints to growth and competitiveness of their firms caused by their inability to find financing on suitable terms. A marked improvement has been noted. By 2007 only 36 percent of firms reported access to finance as a major or severe impediment. While this decline suggests a significant improvement in available financing, access to finance—particularly for SMEs—may still be an obstacle to growth, as tourism may not be not well understood by financing institutions and unfairly considered disproportionately risky.

Access to finance is one challenge, but the *terms* of such access can also be a barrier. Findings from the 2007 ICA indicate that 90 percent of firms participating in the survey were required to post collateral equivalent to 110 percent of loan value. Nearly 60 percent of borrowers used machinery and equipment as collateral, but generally these assets did not apply to companies in the tourism sector. Nearly 50 percent of borrowers used land and buildings as collateral, and 45 percent used accounts receivable and inventories. Unlike its East African neighbors, moveable assets are recognized as collateral in Kenya, which generally reflects the sophistication of the financial sector in Kenya. When asked why an organization did not apply for bank loans, more than 27 percent of respondents indicated that interest rates were too high. At the time of the ICA survey, the average interest rate on overdraft was 22.4 percent.

One of the biggest challenges for the tourism sector, particularly with regard to coastal tourism, is that many of the facilities are old and in desperate need of repair and renovation. At the same time, however, for many operators, the funds required to pay for renovations far exceed the value of existing facilities that operators could provide as collateral to qualify for a loan. In summary, if a hotel has to put up collateral of more than 100 percent of the asset's value and is subject to interest rates in excess of 20 percent, available financing is unlikely to be attractive to them—or even feasible.

Kenya faces a number of systemic problems that contribute to a weak business climate. For example, corruption is high on the list of factors undermining the competitiveness of firms operating in Kenya. According to the ICA, three-fourths of firms in Kenya reported having to make informal payments to "get things done." The hospitality and tourism industry is not immune to these practices. This costs Kenyan firms approximately 4 percent of annual sales. In addition, Kenyan firms are required to pay approximately 12 percent of the value of a public contract as informal payments. This is the highest of the countries compared (table 2.2). To determine the real benefits of tourism a study on licensing as well as tax study can identify the specific concerns of tourism.

Table 2.2. Direct Costs of Informal Payments to Firms

	Kenya (2007)	South Africa (2003)	Tanzania (2006)	Uganda (2006)
Crime	3.9	0.6	1.1	1.0
Cost of security	2.9	0.9	2.3	1.4
Bribes	3.6	0.3	3.4	3.7

Source: ICA Surveys.

B. Industry Specific

1. Access to Natural Assets and Ensuring Sustainability

Degradation of Natural Assets

As the third highest contributor to GDP, the government is now promoting tourism as a source of economic growth for Kenya. In the absence of comprehensive land-use planning, an integrated wildlife conservation policy, and an institutional and regulatory infrastructure with authority to effectively implement conservation policies across the country, the gains are already accelerating the degradation of national assets, including wildlife, coastal assets, and cultural heritage. A strategic—and sustainable—balance is needed.

Kenya has laws for land use and regional planning under the Ministry of Local Government, but there is no overall framework for regional development as there would be under a civil code regime covering the entire landmass. National parks and reserves have management plans, but there is great pressure for development that should be resisted. Part of the formula has to be better land-use planning at the local level to manage growth—including urban, rural, and conservation planning. The process should include all stakeholders and plans should prioritize communities' aspirations. An integral part of the planning process is effective regulation, which appears to be difficult for Kenya in spite of excellent KWS efforts. There is great opportunity to further capitalize on the benefits of tourism—to make natural resources *economic* goods, as well as *public goods* for conservation. Managing growth is critical for the health of the sector.

Growth can be characterized by several factors, including location, quantity, and quality. Growth to new areas may be naturally limited by physical conditions, such as lack of water, but typically these other aspects are involved—location, quantity, and quality. These are not mutually exclusive but provide sensible frameworks for addressing planning under different scenarios.[21] For location, countries often prepare master plans defining tourism areas; such plans are based on comparative advantage in natural and built assets and focus on creating clusters, to both protect assets and provide better destinations. To manage quantity, a range of tools and techniques can be used to limit or regulate growth and are used where tourism threatens to exceed local capacity to absorb growth. In these locations, the most common tools are mapping, land-use planning, and districting (usually with attached regulations). The quality of

[21] Bosselman, F., C. Peterson, and C. McCarthy. 1999. *Managing Tourism Growth: Issues and Applications.* Island Press: Washington, DC.

growth depends on choice of areas to create or expand growth, along with performance standards to maintain quality and sustainability. But growth tends to take on a life of its own and can be difficult to moderate, especially if regulatory institutions are weak. Growth can be limited by physical conditions or lack of a suitable site for solid waste disposal.

2. Product Competitiveness

According to market research, Kenya's most immediate competitors for safari or wildlife viewing and beach tourism are considered to be South Africa and Tanzania. One wonders where Zimbabwe would rank under different circumstances—and, indeed, Zambia and Botswana are strong competitors for wildlife experiences, which are considered less predictable in these countries than in Kenya. As table 2.3 indicates, while holiday and leisure travel is an important feature of tourism in South Africa, the country has also been able to develop and attract tourists for other reasons, including shopping as a primary driver. With this noted, however, Kenya has been relatively effective in developing its business tourism segments in comparison to South Africa and Tanzania.

Table 2.3. Comparison of Purpose of Travel (Kenya, South Africa, and Tanzania, 2006)

Country	Vacation/ Leisure	Shopping	Business	Business/ Conference	Other
Kenya	77%	<1%	21%	2%	<1%
South Africa*	50%	25%	9%	6%	10%
Tanzania	81%	<1%	11%		8%

* Holiday/Leisure = Holiday: 28%; visiting friends and relatives: 22%

Source: Global Development Solutions, LLC.

In the area of safari and wildlife viewing, Botswana, South Africa, Tanzania, Zambia, and Namibia, among others, have increased competitive pressure on Kenya in recent years. They have broken away from packaging products as fixed "circuits" in favor of a more intimate experience through walking safaris and exclusive camps where tourists have the opportunity to appreciate and enjoy freely roaming animals.[22]

Competitors in beach tourism are also many. Kenya, particularly Mombasa, has established itself as a mass-market product. As such, Zanzibar, Mozambique, Maldives, Mauritius, and Seychelles have focused on developing mid- to high-end products that combine access to exclusive beaches and recreational experiences, such as diving and sport fishing, which increase the tourist's perception of "value for money." Kenya competes with these destinations in the minds of many potential and actual tourists.

Taking advantage of its coastal and marine assets, Kenya has increasingly offered low-cost beach packages, particularly to European tourists. To move away from the low-cost–high volume model into more exclusive *niche* product segments, such as those offered by the Maldives, Mauritius, and Mozambique, poses a number of challenges.

First and foremost, competing destinations have focused on developing and delivering *niche* products, such as sport fishing, diving, or other marine activity. To effectively penetrate and compete in a *niche* market requires specialized tour operators and while Kenya has these, it has failed to move up-market in the beach segment. This is a sign of product weakness and the wrong mix of tourism offerings. The key issue for Kenya is not so much to focus exclusively on high-end markets, but to seek a better balance

[22] In this model, tourists are packed into a four-wheel drive vehicle and shuttled from location to location scouting for animals, while 5 or even 10 other vehicles in the vicinity are doing the same thing.

between mass-market and high- and medium-end products, with appropriate marketing and targeting of each.

Strengthening Kenya's Tourism Value Chains

Improving the strength of Kenya's tourism value chains is a step toward greater economic potency. The key lessons to be drawn from the value chain analysis of Kenyan tourism products are as follows:

- ***There are substantial benefits from premium weekend excursions.*** Although the total cost of the tour package is the smallest among the tourism products profiled, weekend excursions, often purchased by business and conference tourists, have the largest net local expenditure as a percentage of total package cost. This suggests that premium weekend excursions as a tourism product have the potential of yielding the highest benefit to the local economy.
- High public sector charges are eroding investments in maintenance and upkeep and undermining opportunities for private sector reinvestment in tourism. The value chain analysis revealed that tourism operations, particularly those that emphasize community development activities and reinvestment in the tourism infrastructure, face high public sector charges. This limits the inclination of operators to reinvest in their product—and makes the sector less attractive for investment.
- ***Traditional full-board beach tourism packages yield the least economic benefit to the sector.*** The net local expenditure as a percentage of total tourist expenditure was only 22.8 percent for the traditional full-board beach tourism package. As noted earlier, Kenya's beach tourism is challenged by aging accommodations and inconsistent tour operators. In addition, the value chain analysis suggests that stakeholders in the coastal tourism segment need to reconsider the way mass-market, mass-tourism products are packaged and sold so as to improve the potential for local wealth retention.
- ***The impact of all-inclusive tourism products is mixed.*** As the value chain analysis showed, some all-inclusive tourism products yield substantial benefits to the local economy—for example, net local expenditure, as a percent of the total tourist expenditure, was approximately 44 percent in this category. Using the same measurement, the all-inclusive beach tourism package performed much better than the safari-beach combination, the traditional full-board tourism package, and the premium multi-destination safari. Furthermore, out-of-pocket expense, which has an immediate and direct benefit to the local economy, was highest among tourists who purchased an all-inclusive tour package.
- ***Poor infrastructure reduces economic benefits to the local community.*** Inadequate road and aircraft landing strips, combined with high operational costs as a result of long distances, erode the local economic benefits of tourism. Specifically, rather than tourism dollars being expended to benefit the local economy, a sizable portion is being absorbed for maintenance, repair, and upkeep of vehicles. Improvement of roads and airstrips would benefit operators and tourists as well as also local communities by providing not only better access but also important increases in visitor expenditures to be better spread locally.
- ***Attract more local tourists to parks, game reserves, and the coast.*** As the statistics on bed nights suggest, there is a substantial local tourism market. Yet tour packages tend to be priced *higher* for local tourists. Operators should rethink pricing schemes to encourage an increasing number of local tourists as a means to enhance and stabilize revenue flows, especially in shoulder seasons.
- ***The success of niche destination activity is clear.*** High costs notwithstanding, the value chain analysis demonstrated the success (as measured in the number of repeat guests) of *niche* destination activities, such as sport fishing. Similar marine assets are available all along Kenya's coast, which could be effectively utilized in a sustainable manner to attract high-end tourism. Just as Kenya was a pioneer in developing safari tourism, future success will come with concerted

development of innovative, specialized products responding to growing demand for adventure and culture-based tourism experiences.

- ***Can the ecosystem continue to support the growing market for premium wildlife safaris?*** In wildlife tourism, the market is moving rather rapidly to customized, small-scale, ecotourism packages that offer exclusive wildlife viewing. While the private sector in Kenya is responding effectively to this market trend, the product is beginning to strain the ecosystem. Given the current state of the policy and regulatory environment governing conservation and wildlife tourism, the sustainability and capacity of the ecosystem to absorb and also increase the tourism load may be strained.

3. Safety and Security

Kenya's has a history of internal and external shocks, and its tourism has been highly susceptible to negative impacts from such events (box 2.2). Tourist awareness of actual events or even perceived safety and security concerns can cause decreased visitor volumes and revenues. Ensuring safety and security, as well consistently communicating a safe image to domestic, intraregional, and long-haul international travelers, is key to building a sustainable tourism sector. The Ministry of Tourism views this as a priority and an integral component of their marketing messages.

Box 2.2. Kenya's Tourism Sector Following Post-election Violence

With a relatively stable political environment from 2005 to 2007, international tourist arrivals were growing at 7 percent to 11 percent per annum and tourism receipts by as much as 32 percent. Following elections in late December 2007, however, unexpected violence broke out, resulting in more than 1,500 deaths. In addition, more than 600,000 people were forced to flee their homes, and an estimated 160,000–300,000 Kenyans were displaced and living in temporary camps.

Well into the first quarter of 2008, embassies, particularly the U.S. embassy, continued to issue travel advisories. A typical travel advisory issued by the U.S. embassy in February 2008 stated:

> *This Travel Warning is being issued to update U.S. citizens on safety and security conditions in Kenya…Kenya has a high incidence of crime and is potentially susceptible to terrorist attacks. Terrorist acts may include suicide operations, bombings, attacks on civil aviation, and attacks on maritime vessels in or near Kenyan ports. Violent criminal attacks, including armed carjacking, kidnappings, and home invasions/burglary, can occur at any time and in any location, and are becoming increasingly frequent, brazen, vicious, and often fatal*.

News clips of street violence in Nairobi on CNN and BBC, together with the travel advisories, led to the immediate collapse of tourist arrivals and a large wave of cancellations followed. As one tour operator put it, "…if my insurance company ever found out that I was promoting travel to a hot spot, they would drop me right away."

It should be noted that no tourist was ever injured and no tourist facilities damaged, but the fear of indiscriminate violence drove tourist arrivals down by 50 percent during the first quarter of 2008 as compared with the same period in 2007, and international tourism receipts for the same period were down by 34.2 percent. In 2008, hotel occupancies overall dropped to between 20 percent and 30 percent (compared to the usual 70 to 85 percent).

Source: U.S. State Department, Government of Kenya and Ministry of Tourism documents.

4. Public Sector Capacity to Support Tourism

A benefit from Kenya's pioneering activity in tourism since the 1970s was development of the country's active Ministry of Tourism. The current institutional framework mandates the ministry to serve in a number of roles—as the leading advocate for tourism policy development, regulator of the sector's activities, and tourism promoter. The possibilities of such a ministry are clear, yet it lacks the necessary capacity. However, opportunities exist to strengthen the ministry's staff and policy framework in each of its important roles.

As a goal, Kenya's National Tourism Policy presents several areas and responsibilities to be thoroughly developed (table 2.4).

Table 2.4. Ministry of Tourism Capacity Goals

INSTITUTION	ROLE AND RESPONSIBILITIES
Ministry of Tourism • Establish the position of tourism secretary • Restructure directorate of tourism and establish at least three directorates: – Directorate of Tourism Policy and Research; – Directorate of Tourism Product Development and Marketing; and – Directorate of Domestic Tourism	Overall oversight of the tourism sector: • Policy development and monitoring • Development of national tourism strategy • Coordination across ministries • Coordination of tourism product Development and marketing • MSF and in-country regional tourism Boards
Kenya Tourism Regulatory Authority (or Kenya Tourism Commission)	Overall regulation of the tourism sector in the following areas: • Licensing, • Inspection, • Development and enforcement of standards and regulation of training, and • Training (Kenya Utalii College)
Kenya Tourism Board (Instead of Kenya Tourist Board)	Overall tourism promotion and marketing
Restructured Kenya Tourism Development Corporation	Specialized financial institution and business advisory services in tourism sector with the following portfolio: • Investment and financial services and equity • Kenyatta International Convention Center • Bomas of Kenya, and others
Kenya Tourism Fund	Diversified funding sources: • Levy • Overseas development assistance and • Other sources Disbursements: • Tourism promotion and marketing, • Research and development, and • Training
Kenya Tourism Research Institute	Research and Development: • Comprehensive Tourism Database, • Tourism Product Development, and • National Tourism Information Management System (NTIMS)
Tourism Tribunal	Dispute resolution

Source: Republic of Kenya, National Tourism Policy.

5. LACK OF TRAINED WORKFORCE

The growth of a trained workforce in the hospitality and tourism sector has not kept pace with the growth of operations and enterprises. Across all the associations involved with tourism services and operations, a recurring complaint of by members is the shortage of well-trained staff for enterprise operations. It is reported by the Ministry of Tourism's task force on Utalii College that more than 50 percent of employees in the hospitality and tourism sector have no formal training. This is principally explained by insufficient capacity of Kenya's Utalii College and other training institutes (public and private) to train all those interested in employment in the sector. Further, the quality and relevance of training is an issue. This is unfortunate for the sector: an inadequately trained workforce contributes to a less competitive experience for tourists. It also hampers the sector's ability to innovate or develop a professional profile.

Opportunities exist to reposition and upgrade Utalii as the central hospitality and tourism training institution of excellence to meet the demands of the Kenyans as well as to attract students from other East Africa countries. The Ministry of Tourism has more than 60 acres of land along the coast to develop a new hospitality and tourism educational center to meet the growing needs of the coastal tourism industry. Until a new institution is developed, the ministry has responded by creating mobile training units to deliver training at tourism locations around the country.

III. Opportunities and Recommendations

A. Natural and Wildlife Assets

In this marketplace, relying on regulatory instruments is not likely to be the most prudent approach for encouraging and expanding sustainable tourism activity in Kenya. However, a tourism sector driven primarily by private initiative alone is inadequate for the development of a broader range of product offerings, country image, and strategic placement of tourism destinations in the minds of potential travelers from key source countries. Second, private initiatives to improve and preserve natural tourism assets—and to strengthen backward linkage within the tourism sector through nonprofit organizations, foundations, and conservancies—are on the rise. Although these mostly self-regulated private initiatives have had positive impact on local communities and the preservation of natural assets, such initiatives are not always guided by a broader national vision and strategy to develop the tourism sector.[23] As a result, even well meaning conservation efforts compete against each other for space and resources—which can contribute to uneven growth and access to national tourism assets—while private initiatives are generally built on a foundation of public-private partnership. There are opportunities, particularly in Kenya, to strengthen dialogue and coordination between the public and private sector based on a coherent, long-term vision and strategy and to create viable projects, as regulation improves over time. Tanzania has benefited from such an approach (box 3.1)

Box 3.1. Wildlife Conservation and Community Development: Tanzania Land Conservation Trust Case

Established as a nonprofit institution in 2001, the primary goal of the Tanzania Land Conservation Trust (TLCT) was to acquire critical wildlife areas threatened by human-wildlife conflict resulting from private development and natural overflow of the pastoral lifestyle of indigenous people (www.fauna-flora.org/africa/kwakuchinja www.awf.org/heartlands/massaisteppe). Formerly owned by the Government of Tanzania, the Manyara Ranch was turned into a trust with a 99-year lease to benefit Massai, Mbugwe, and Barbaig and to preserve a critical Kwakuchinja Wildlife Migration Corridor (Kwakuchinja links Tarangire and Lake Manyara National Parks in northern Tanzania). The TLCT acquired the Manyara Trustlands, an area covering 17,000 hectares, not only for the conservation of wildlife, but also to bring benefits to communities through wildlife conservation.

Historically, pastoralists like the Masai, Mbugwe, and Barbaig practiced a nomadic lifestyle in areas of marginal lands and water resources, sharing resources with wildlife. In the past 20 years, an influx of non-pastoralists into the region has resulted in significant growth and increased competition for resources. So much so that pastoral production alone can no longer meet the subsistence needs of local populations. As a result, agriculture, establishment of permanent dwellings, fencing for animals and farmland, and other activities that have adverse effects on the migration patterns of wildlife have increased greatly in the region. The TLCT acquisition of the Manyara Trust lands has mitigated some of this impact.

Key success factors:

- Partnerships between NGOs, government, private sector, and local community
- Awareness raising and training in diverse conservation financing mechanisms
- Establishment of a “laboratory” to study factors driving habitat degradation
- Collection, flow, and access to information on habitat degradation, and the translation of such information into innovative and adaptive management approach
- Establishment of schools and other community assets that correspond to broader conservation initiatives

[23] Currently, there are no policy and regulatory guidelines for setting up and operating a private conservancy.

B. Product Offering and Market Development

More and more, tourists are inclined to take a number of shorter trips rather than the long, two-plus week trips that were common among earlier long-haul travelers to Kenya. The average length of stay across all product lines has declined steadily. Once tourists arrive in the country, rather than the traditional sun-surf-safari combination, discerning tourists are now looking for expedient life-enriching experiences that revolve around in-depth exposure to culture and local heritage. At the same time, others are looking for special interest holidays, as well as spa and well-being holidays. Across these product lines is an expectation of high value.

The Ministry of Tourism in Kenya understands that intensive and sustained marketing and promotion will be critical to attract tourists from existing and new markets. In late 2008, the KTB announced that it would boost its spending on marketing by US$13 million, half of which is expected to be targeted toward the United States, Russia, the Middle East, and China. More recently, in an aggressive move to jump-start the tourism sector, the minister of tourism announced a 50 percent reduction in visa fees from April 1 to the end of 2010, including a waiver for children younger than 16 years of age.

Following this lead, many airlines and hoteliers began offering significant discounts to help attract tourists back to Kenya. With savings of up to 50 percent on the price of a safari and beach holiday, there are some indications that Kenya is beginning to see some recovery. In fact, some smaller operators are reporting a 30 percent increase in bookings from 2007.[24] In addition, the Kenyan government finalized negotiations with Delta Airlines to begin regular direct service starting from late 2009 from Atlanta,Georgia, to Nairobi. Direct service from the United States enhances appeal to American visitors. However, the combination of requisite terminal improvements as well as the general decline in travel volume due to the global financial crisis has delayed launch of this service.

The KTB is working with regional associations to help identify, develop, and market new attractions in Kenya. This is reinforced by the European Union's continuing support to the tourism sector in Kenya through the Tourism Strategic Marketing and Promotion Programme (TSMPP) until December 2010. The TSMPP has three areas of focus and funding:

- ***Global marketing through TV***: CNN has been engaged to prepare and disseminate a global image campaign.
- ***Global marketing and image building***: it is anticipated that an advertisement agency will be engaged to prepare and execute a global media campaign. The EU is currently in the process of negotiating bids by prospective advertisement agencies.
- ***Preparation of a strategy plan***: the TSMPP is expected to finance the preparation of a tourism strategic plan specifically to support the Kenya Tourism Board.

Box 3.2. Public Private Partnering: Attracting Tourists from New Markets Case

For Kenya, tourist arrivals from within Africa account for less than 20 percent of the total tourism traffic into the country. In an effort to reduce dependence on core markets in Europe and the United States, the Ministry of Tourism and the KTB have defined an innovative partnership with Kenya Airways to attract intra-Africa tourism traffic to Kenya.

The KTB and Kenya Airways also recently announced a KShs 50 million (US$625,000) marketing partnership campaign to promote Kenya's tourist attractions in other African countries. With the KTB and Kenya Airways both contributing KShs25 million each, funds are available for organizing familiarization trips for African travel agents as well as awareness campaigns through advertising in print, electronic media, and through the Internet. The campaign is expected to target 30 destinations to which Kenya Airways flies. While it may take some time to increase intra-African tourism traffic into Kenya, this innovative partnership approach is likely to help reduce Kenya's dependence on European and American tourists. However, further clarity with regard to specific market segments and products, is also warranted. This will help to focus the KTB's efforts to promote to this group of tourists.

Currently, the TSMPP is the largest tourism-dedicated, donor-funded project providing support to the tourism sector in Kenya. This is concurrent with World Bank Group efforts (including the International Finance Corporation and the Multilateral Investment Guarantee Agency), such as preparation of this analysis.

Other initiatives are focused on generating renewed tourism interest in Kenya. In January 2009, discussions were held between the minister of tourism and Hollywood-based Legacy Entertainment to explore prospects for engaging Hollywood celebrities to promote Kenya as a destination using photo shoots with celebrities in Kenya. Such photos would be used for billboards, posters, calendars, and television commercials in the United States. In addition to attracting the interest of the U.S. general public, the KTB is also seeking to target the African-American community in particular, with emphasis on engaging tourists in local community, heritage and cultural activities, and issues. Banking on the hopes of President Obama's cultural-heritage ties to Kenya, tour packages, such as "Roots of Obama," are now appearing in the marketplace.

C. Enabling Environment

To date, building linkages among tourism suppliers at all levels has not been given sufficient emphasis—there is no tradition of trade fairs between local producers and the tourism industry, for example. Market linkage mechanisms need to be promoted more strongly. Kenya stands to gain greater economic benefits from growth if leakages are reduced; increased value added can enhance these linkages and new products emerge as a result.[25] For this to happen, mechanisms need to be in place for access to finance to support investments in capital equipment as well as trade finance to purchase inputs; strong backward linkages; partnership between local supplier/buyers; and quality control mechanisms. As demonstrated in the Gambia (box 3.3), development of such mechanisms will foster new linkages and enable greater spillover effects enjoyed throughout the economy.

Box 3.3. Local Market Linkage and Community Involvement: Gambia Is Good (GIG) Case

Established in 2004 with funding from U.K. Department For International Development and the U.K. Travel Foundation, the GIG project (www.concernuniversal.org*)* is responsible for creating direct links to the tourism sector with more than 1,000 small farmers, specifically by providing quality fruits and vegetables to local hotels and restaurants that cater to foreign and regional tourists. With an average income of about Gambian Dalasi 150 per month, farmers have been able to increase their income by as much as 500 percent.

The GIG project provides local producers, of which more than 90 percent are women, with training and capacity building to grow crops required by local hotels and restaurants. Using a demonstration farm, the project works with farmers and experiments with new crops not previously grown in The Gambia, such as broccoli, as well as introduces techniques that allow for year-round farming. Wider impact of this project has reached more than 6,000 people.

Key success factors:

- Partnerships between development organizations, NGOs, and private sector (hotels and restaurants)
- Technical training
- Implementation of a quality standard system
- Transparent and accessible market information network, and a market pricing mechanism that rewards quality
- Access to high-quality essential inputs, such as seeds and fertilizers
- Work with local community groups to establish a product consolidation and distribution system

[25] In addition, there is a rich supply of local handicrafts, dance, festivals, and ceremonies in Kenya that are of interest to tourists.

D. Institutional Framework

Across both public and private sector organizations, where there are weak flows of information and communication within and between government and business, progress can be compromised: rules and laws may be not be well understood; institutions may not be agile and forward thinking; and openings for new initiatives may be lost. Thus tourism's impact on the economy may be muted. As a result, a climate of uncertainty and mutual suspicion can generate a bias toward very short-term private investment and business may migrate into the informal sector. On the other hand, consultation between stakeholders enables participants to take joint responsibility for policy choices and to build trust. Learning to work together and respecting different points of view will lead to better decision-making and a stronger sector. Professional associations need to build the capacity to reach common ground negotiate effectively, analyze policy proposals and pursue advocacy programs as well as public private partnerships.

E. Capacity Building

Capacity building for the sector is needed at the enterprise level as well as within the ministry. Four goals in this area are: 1) re-launch of an international standard hotel management education institution capable of educating Kenyans entering and continuing in the sector as well as fee-paying international students; 2) establishment of a high-quality training institution to provide demand-driven training for hospitality and tourism sector; 3) ongoing, strategic analysis of on-the-job and institutional training; and 4) adequate supply of professionally trained and licensed guides to deliver high-quality tourism experiences at destinations throughout the country. These goals can be achieved through public private partnerships such as with the Conservation Corporation Africa (box 3.4).

Box 3.4. Investing in People and Knowledge: Conservation Corporation Africa Case

Based on an ecotourism model that recognizes that economic development of the area in which it operates is crucial to maintaining biodiversity, wildlife heritage and local communities, Conservation Corporation Africa (CC Africa) develops and operates high-end, low-volume/low-impact tourism experiences in wilderness areas with direct local community involvement (www.ccafrica.com). With a commitment to empowering communities through conservation, in 1992, CC Africa established the Africa Foundation, a not-for-profit organization focused on education, health care, and income-generating activities for communities in and adjacent to CC Africa's camps and conservation areas.

Africa Foundation invests in people and knowledge through sustainable projects that are based on five basic pillars:

- Community participation: Empower communities adjacent to conservation areas by identifying and addressing their social, economic, health, and welfare development needs on an ongoing basis.
- Local champion involvement: Local community ownership is viewed as an essential element for implementing effective and sustainable projects
- Private sector partnership: Leverage private sector funding and networks to develop and implement sustainable conservation projects.
- Guests as development partners: Engage guests as partners to make lasting contributions to the people and communities in the conservation areas.
- Effective management and administration: Provide organizational support to evaluate, fund, and monitor conservation projects.

In addition to owning and operating more than 45 safari lodges and camps in Southern and East Africa, CC Africa through the Africa Foundation, has invested in the people and communities in which they operate through public-private partnerships. Examples of such investments include

- Establishment of 130 classrooms and 20 preschools, including libraries donated by guests;
- Award of more than 200 university level scholarships through the foundation's Community Leaders Education Fund (CLEF) program;

(continued)

- Training in carpentry, welding, and sewing through a training and production center;
- Development and delivery of environmental awareness programs to more than 6,000 school children and 300 teachers through the foundations' Conservation Lessons program;
- Construction and operation, through a partnership with local government departments, three around-the-clock clinics serving a community of more than 11,000 people;
- Implementation of access to water projects for local schools;
- Supply of more than 5,000 "hippo water rollers" to rural families;[26]
- Construction of a women's market; and
- Establishment of "skills and health centers" to provide support and awareness related to HIV/AIDS.

Key success factors:

- Partnerships between NGOs, government, private sector, and local community;
- Investment in local people and communities as the backbone for improving the sustainability and effectiveness of conservation activities;
- Partnership with tourists as a mechanism for raising awareness and engaging both local and international community in a nongovernmental conservation effort; and
- Use of education and training as a pillar for grass roots economic, social, and community development combined with conservation.

F. Findings, Issues, and Desired Outcomes Summary

The global economic slowdown and the post-election turmoil had a clear impact on the flow of tourists into Kenya. While both incidences resulted in a decline in the number of tourists, the reasons are more complex. The immediate decline in tourist arrivals in the post-election period was driven purely by security and safety concerns. As a consequence, tour agents and tour operators simply changed their clients' destinations. This was a "lost opportunity" for Kenya, as travel itineraries—and related revenues—were transferred to other countries. In contrast, the decline in tourist arrivals resulting from the global economic slowdown is driven mostly by exogenous financial and economic factors, which suggests that Kenya once again can make more of an effort to regain competitiveness, as it has done previously in the face of adversity.

MAIN FINDINGS AND ISSUES	DESIRED OUTCOMES	POLICY APPROACHES TO ACHIEVE OUTCOMES
1. NATURAL AND WILDLIFE ASSET DEGRADATION		
Increasing human population, invasive cultivation, and overdevelopment affecting wildlife and natural resources (and vice versa).	Nationally adopted strategic land planning and management framework that enables comprehensive preservation of natural and wildlife assets	• Support a process of enabling cross-jurisdictional entities to effectively protect and manage natural and wildlife assets
Overcrowding and unplanned tourism development	Establishment of sustainable tourism in strategic locations that benefit local communities and the national population	• Develop integrated destination development plans based on defined zones, appropriate uses, and effective regulation
Cross-jurisdictional and cross-sector policy challenges limiting effectiveness of land and wildlife management	Implementation of comprehensive and collaborative effort across ministries dedicated to sustainable tourism	• Develop mechanism for implementation of steps incorporating MOT sustainable tourism development taskforce findings and recommendations

(continued)

[26] A "hippo water roller" is a water transporting mechanism where a plastic drum is filled with water and placed on its side, and a tuning fork like handle is attached to both ends of the drum, allowing users to roll large amounts of water along the ground rather than carrying water on their heads.

Main Findings and Issues	Desired Outcomes	Policy Approaches to Achieve Outcomes
Uneven usage and development of coastal assets	Competitive coastal tourism product with backward and forward linkages to new enterprises and employment	• Facilitate integrated policy and legislation on management of marine resources and coastal areas • Gazette beaches as protected areas for recreational use
Lack of a comprehensive wildlife management system	A collaborative holistic system, including all key entities, such as the KWS, MOT, land councils, and counties, that allows for sustainable management of disparate parks and reserves; establishment not only of environmental park management plans but also of business plans	• Revised framework that establishes comprehensive environmental park and business management plans
2. PRODUCT OFFERING AND DEVELOPMENT		
Fragmented tourism product offering	A strategically developed and competitively positioned tourism product that is economically, environmentally, and culturally sustainable	• Develop cohesive tourism portfolio of the following: • Environmentally and economically viable safari tourism product (parks and ranches) • Coastal tourism product that attracts a profitable mix of tourists from package to high-end • Expanded business and conference tourism with capability to cross-sell safari and coastal tourism offerings • Expand cultural heritage tourism attractive to domestic, intra-Africa, and international tourists
New product development hampered	Development of underutilized assets to introduce geographically dispersed niche products attractive to tourists	• Support community and association groups to determine needs, assess resources, and prepare business plans for economically viable niche tourism products • Drive development of targeted tourism products through documentation of domestic and intraregional demand
3. ENABLING ENVIRONMENT AND INSTITUTIONAL FRAMEWORK		
Private sector development constrained by limited access to finance, complicated taxation, regulation, and licensing schemes, and shortage of up-to-date technical expertise	Review private sector framework for tourism enterprise growth, employment creation, and widespread economic benefits through amelioration of constraints	• Analyze *Doing Business* and Investment Climate and promotion frameworks • Increase access to finance for new and established private sector operators through a revolving fund offering capital at attractive rates • Review sector specific tax, licensing, and regulation schemes to introduce best practices enabling efficient and effective policies • Utilize technical assistance to foster innovation and business development

(continued)

Main Findings and Issues	Desired Outcomes	Policy Approaches to Achieve Outcomes
Insufficient public services and infrastructure to enable delivery of competitive and economically viable tourism experience in destination areas	Upgraded public services beneficial to tourism operators and local communities, such as consistent and cost-efficient electricity, reliable water supply, improved access roads to key tourism attractions, and maintained airstrips to isolated areas	• Utilize public-private partnerships more widely to support environmentally sustainable electricity, water, and sanitation systems in tourism development areas • Support continued upgrading of roads and airstrips enabling improved access and facilitation of wider community involvement in tourism
Limited public sector capacity for tourism sector, including policy functions, investment promotion, and strategic destination marketing	Highly functional and productive Ministry of Tourism responsive to private sector	• Support adoption and implementation of national tourism policy • Introduce effective and comprehensive tourism investment promotion mechanisms • Incorporate international best practices
Responsibility for tourism product natural and cultural resources currently housed in multiple ministries contributing to inefficiency and ineffectiveness	Improved relationships and mechanisms across ministries dedicated to sustainable tourism development and management under Ministry of Tourism leadership; support with resources for analysis and research	• Clarify and consolidate roles of ministries involved with tourism delivery and attractions
Limited tools for analysis and advocacy of tourism	Creation of advanced economic and sector-activity analytical tools	• Support introduction of Tourism Satellite Accounting at national level • Further develop market research and economic analysis tools to monitor impacts and inform policy
4. CAPACITY BUILDING		
Insufficient and outdated hotel and tourism education institution	Re-launch of international standard hotel management education institution capable of educating Kenyans entering and continuing in the sector as well as fee-paying international students	• Upgrade Utalii Hotel School infrastructure, update curriculum reflective of sector needs, and re-skill faculty and staff • Reclassify within the Kenyan higher education framework to enable attraction of high-quality faculty and staff
Lack of adequately trained labor force for developed and developing coastal destinations	High-quality training institution established to provide demand-driven training for hospitality and tourism sector; ongoing strategic analysis of on-the-job and institutional training	• Assess labor force and training needs for existing and planned tourism product • Establish hospitality and tourism education center of excellence in the coastal region • Create career paths rather than simply job options
Insufficient capacity building for natural and cultural resource tour guides	Adequate supply of professionally trained and licensed guides to deliver high-quality tourism experience at destinations throughout the country	• Expand efforts to train and license natural resource and wildlife guides • Establish public-private partnerships to support demand-driven skills training

Today, Kenya's mature tourism industry is facing stiff competition from all directions. This economic jewel needs polishing—in the form of support to: clearly prioritize its strategic priorities; help redefine its product lines (including the traditional products while adding more in terms of culture and adventure offerings); strengthen linkages to other sectors through ongoing efforts to open up the private sector; retool its tourism related- infrastructure; and enhance the quality of service. Over the years—and in response to peaks and valleys—the government has made great progress in supporting tourism sector development. The current effort to aggressively promote and market the sector through EU support is only part of a sustainable recovery strategy. Beyond shifting the country's image, there are a number of strategic questions to be addressed.

1. Protection of Natural and Wildlife Assets

An initial consideration is what strategies can be followed to protect the natural and cultural assets that are the building blocks of Kenya's safari experiences and coastal offerings. Simply, Kenya needs better systems to comprehensively manage growth. In wildlife tourism, the market is moving rapidly to customized, small-scale ecotourism packages that offer exclusive wildlife viewing. Although the private sector in Kenya is responding effectively to this market trend, the product is straining the ecosystem. Given the current state of the policy and regulatory environment governing conservation and wildlife tourism, Kenya needs better tools to promote conservation and manage growth.

Further efforts can be made to engage in better physical planning, including incorporating local communities in projects in appropriate ways, rather than utilizing short-term solutions. There is a pressing need for the government to partner with local communities and the private sector to define a transparent process for leasing land that is guided by a model contract that embodies the conservation and wildlife management objectives of the country, as well as to ensure equitable economic benefits for landowners. A critical objective would be to try and retain the local landowner/occupier's rights in the land, as it is often the only asset they hold.

In the current environment, Kenyans have little incentive to conserve wildlife. For Kenyans who rely on the environment and wildlife for their livelihood, the notion of conservation and the setting aside of large tracts of land is often synonymous with expropriation. This has been exacerbated since the ban on hunting and trading in wildlife was enacted. Government enhancement of the incentives for nationals to support conservation will save crucial assets that are at risk.

2. Upgrading Product Offerings and the Development of New Markets

The next consideration is, with a mature sector, how can Kenya move up the tourism value chain to become more competitive and capture greater value from tourism? An obvious answer to this question is to increase the volume of visitors. However, given the fragile natural and cultural base of Kenya's tourism, striving to simply increase tourist volume will stress and irrevocably damage the assets on which it depends. Instead, the most effective strategy is to increase the value tourism brings to Kenya's economy by attracting visitors who stay longer and spend more. This requires developing a new mix of tourism products that augments existing offerings with new and innovative and options.

Today's long-haul visitor to Kenya for safari or coastal tourism experiences can choose from a diverse set of competitive products. A traveler looking for that once-in-a-lifetime safari experience may also be considering a trek to Machu Picchu, a spiritual journey to the Taj Mahal, or an adventure in the open expanse of Australia's Outback. For Kenya's tourism product to compete with these and other options, to the sector must expand current offerings and attract tourists with exceptional, innovative tourism experiences. For example, long-haul travelers are willing to endure multiple, lengthy flights to travel to Queenstown, New Zealand, to experience a full menu of extreme adventure tourism, from bungee jumping to exhilarating white water rafting. Similarly, Kenya's tourism offerings must offer the truly exceptional experience in order to attract leisure tourists to who stay longer and spend more.

In terms of product development, the key issue for Kenya is not so much to focus exclusively on high-end markets, but to seek a productive mix of current mass-market offerings with and high- and medium-end products supported by appropriate marketing and targeting of each. The establishment of a destination management organization (DMO) as an apex organization that contributes (beyond promotion and marketing) to substantive policy issues will enable better coordination among the country's destinations, resulting in a more accessible tourism product. For example, business and conference travelers to Kenya can be tapped to stay longer if internal access to safari experiences and coastal tourism can be made easier and more attractive. Campaigns to "Stay Another Day" in Southeast Asian destinations have assisted to increase tourist expenditures and disperse these to less developed areas.

Following a crisis, when international, long-haul visitors are less inclined to travel to Kenya, domestic and intra-Africa visitors can fill hotels and safari vehicles. Developing this market through policies and promotion contributes to the sustainability of the sector. Operators supported by government policies to encourage an increasing number of local and regional tourists will benefit the sector overall with enhanced and stabilized revenue flows, even in shoulder seasons.

3. Fostering a Progressive Enabling Environment and Investment

For Kenya's tourism industry to thrive and provide the greatest value possible to the economy, bottlenecks need to be addressed to ensure the most beneficial mix of tourism products, quality services, and linkages.

Kenya stands to gain greater economic benefits from growth if leakages are reduced—a proactive policy to forge such linkages could have a high payoff for Kenya—and for the tourist. Minimizing leakages, which begins with further support of the private sector can take a variety of forms. For example, empowering established tourism associations to be more effective in defending the interests of their members through sharing good governance practices and encouraging membership ensures that the industry is engaged and positioned to achieve stronger linkages and greater benefits. A coherent, long-term vision, achieved through focused and targeted policies is needed to strengthen dialogue and coordination between the public and private sector.

The value chain analyses presented in this report revealed that tourism operations, such as those that emphasize community development activities and reinvestment in the tourism infrastructure, face high public sector charges. The current taxation and regulatory framework inhibits private sector expansion and innovation. High public sector charges are eroding investments in maintenance and upkeep and undermining opportunities for private sector reinvestment in tourism. A broad study of tourism taxation from all sources (and fiscal incentives for investment in tourism) would be beneficial to address equity and efficiency issues in taxation and to determine whether the sector is over- or under- taxed with respect to other sectors in Kenya and tourism taxation in competing countries.

While a people-oriented industry, tourism requires large infusions of capital from private sources, with an emphasis on private capital for building resorts, hotels and attractions[27]. Funding may be sourced from domestic or foreign investors. Smaller (often domestic) investors often have difficulty in completing financing plans: security demanded by banks is too onerous and the long-term credit needed for investment in tourism is not readily available. Many projects falter because of reliance on short-term debt to finance long-term investments. Larger investors (international and domestic) can also experience

[27] In addition, of course, there will be public investment in infrastructure and utilities, some of which may have to be provided by investors, as well as social services such as health and security.

difficulty assembling investment packages, both because of circumstances surrounding the project (lack of secure land tenure, for example) or because equity and/or debt financing is not available. This can be alleviated for some foreign firms through their partner banking and financial service providers that offer off-shore financing. However, experience suggests that where a project is determined to be feasible on the basis of a well thought out business plan, it should be possible to fund the project.

As tourism has grown, competition for access to finance has stepped up considerably and the function of investment promotion has taken on a central role for those states that see tourism as a key player in their economic development. An important success factor in attracting investor interest is a pro-active approach to highlighting opportunities and matching developers with investors. It must be targeted and requires strategic planning. This will involve setting quantifiable objectives (numbers of investors, domestic and foreign, value of investment-related construction activity, job creation, growth in exchange earnings, and similar economically beneficial outcomes). Objectives should be translated in a plan of action, covering sectoral priorities, country priorities, types of investors (trade and passive) and opportunities to be promoted. In response, some countries rely on their tourism agencies (ministry, tourist board or promotional office) to promote investment; others rely on dedicated investment promotion agencies (IPAs[28]). Too often, there is both a tourism promotion agency and an IPA with a risk of their working at cross purposes, resulting in confusion and different messages being sent to investors. Whichever model is chosen, an effective IPA will have good relations with the country's public sector agencies and strong partnerships with the private sector. It will have an investor tracking system; follow and monitor "leads" and enquiries effectively; have clear processes for converting inquiries into investment decisions; and it will have a sound post-investment, aftercare program.

It can no longer be taken for granted that a good investment will automatically attract the right financing - there has to be a strategy and an action plan to assure success. Such an approach must organize available sites and relations with local communities, investment proposals and verify what underpins them; prepare materials to profile the sector - investment brochures, background on the economy, doing business in the country, including sources or finance and consulting and other services. In addition, the number of players in investment promotion is quite broad including entrepreneurs, property management companies, insurance (including pension funds), finance and banking companies, service providers (e.g. engineering, land use, environment, architecture, landscaping), real estate agencies, government and donor agencies and formalities and support for setting up a business (e.g. one-stop shop for business registration). The plan will identify investors, local and foreign, contact them regularly with pertinent information on the sector though a variety of instruments, ranging from e-mail to investment forums. These investment forums can be either specific for a country or project, or from among the many commercial programs (e.g. the Berlin or Arab hotel investment conferences) or donor-supported activities (e.g. the EU's Center for the Development of Enterprise (CPE) programs, or PRO INVEST). In fact, investment promotion is an on-going process that requires significant commitment; it is a demanding, extended process that evolves with time, both in the pre-and post-investment phases. Best practices, found through extended cycles of development, are country specific yet buttressed by global lessons learned.

In recent years, neighboring Tanzania has been effective in mobilizing both domestic and foreign direct investment for tourism and serves as a useful model. It started with strong support from the President (at the time, former President, Benjamin Mkapa) that Tanzania is open for investment and the message permeated the whole administration. It took some time to identify all the key players who now include the Ministry of Tourism (Tourism and Hunting Departments and National Parks, TANAPA), the Tanzania Investment Center, the privatization commission[29], the Tanzania Confederation of Tourism and the

[28] There are some 6,000 investment promotion agencies in the world all reaching to secure limited investment funding.
[29] Formally named the Presidential Parastatal Sector Reform Commission (PSRC).

Tanzania Tourist Board. They recognized the need to address large and small investments with different programs.

For the former, and investment forum was held in Arusha on 2 October, 2002, at which the Presidents of Tanzania and Zanzibar delivered key messages and met with leading potential investors. For the latter, the need for access to finance and mentoring in business services was specifically recognized and later included in a WB program to address private sector development. Several new investments resulted and those investors also made additional subsequent investments. At the same time, Tanzania was able to concession most of the properties it still owned and underline its commitment to private-led investment. There was a strong follow-up program that included visits to investment forums and a continuing flow of sector-specific information (upgrading of airports, new roads and bridges, etc.) for investors. An inventory of financing sources was also drawn up which showed that financing was available for worthy projects.

This provides insights and opportunities for Kenya in better directing its investment promotion efforts in general and for tourism in particular.

4. Strengthening the Institutional Framework

Ultimately, defining and delivering the most effective mix of tourism experiences engaging visitors to stay longer and spend more will drive the success of this sector. This cuts across Kenya's economic landscape sectors and requires cross-sectoral commitment. Such an integrated commitment to the sector can be fostered by building improved relationships and specific mechanisms that work through issues to formulate collaborative, cross-cutting responses leading to effective policies.

5. Capacity Building for Today and Tomorrow

Tourism is heavily dependent upon the quality of staff at every link along the value chain. Well-trained staff that consistently provide appropriate levels of service provide a competitive advantage that not only attracts tourists but also motivates them to return. Expanding tourism training in order to achieve higher service standards and clear the way for better careers in tourism is a strategy that will provide ongoing benefits.

Tourism has played a major role in Kenya's development despite economic jolts from internal and external shocks. In 2006 and 2007, the economy grew rapidly and tourism rebounded thanks to market conditions and some solid marketing. The global recession, of course, has since intervened, and Kenya will have to react strongly if it is to regain its preeminent position as a world leader.

Tourism in Kenya can grow stronger and contribute further economic gains if the government commits to policy reform that enhances the enabling environment, comprehensively protects the sector's asset base and builds capacity. Kenya has been a tourism leader and has pioneered products that are world class. The country has a great asset base, entrepreneurial people and a geography and climate that allow year-round tourism activity. Kenya invented the photo safari and still defends it strongly; it moved into private game ranches and private conservancies, which illustrate its ability to be progressive yet practical in its goal for sustainability. On the other hand, Kenya's beach tourism is a "tired" and less competitive product in today's marketplace but could be rehabilitated. Strategic development of business and conference tourism also holds promise of rounding the country's tourism product mix. Government and the private sector must work more effectively in a public private partnership to start building lasting cooperation, new products, and a stronger institutional framework.

Annex I: Pro-poor Tourism as an Economic Development Force

A. The Global Force of Tourism

Traditionally viewed as just "the industry of good times," global tourism is now firmly established as an industry that generates foreign exchange and tax revenue; creates jobs (often with better working conditions than in other industries and for groups at risk such as women and youth); encourages entrepreneurship; and builds linkages between sectors and enterprises. It is particularly suited to areas that are remote—often the very places with high unemployment.

Tourism is one of the world's fastest-growing industries, and prospects for continued growth are promising, notwithstanding the current economic climate. The long-term growth trend for tourism is about 6 percent over a 30-year horizon, and its prospects for continued growth appear good, although in the short term the current economic downturn is producing negative growth. The industry has also proved, in multiple instances, to be resilient to shocks.

According to the United Nations World Tourism Organization (UNWTO), on a global basis, international tourism arrivals grew 2 percent in 2008 to reach 924 million, an increase of 16 million over 2007. Growth was negative for Europe and Asia (−3 percent) for the last six months of 2008, while the Middle East (11 percent), Africa (5 percent), and the Americas (4 percent) all posted gains. Both North Africa and Sub-Saharan Africa showed a growth rate of more than 4 percent in 2008 (table A1.1):

Table A1.1. International Arrivals for Africa, 2007 and 2008

REGION	2007	2008	% GROWTH
North Africa	16.3	17.1	4.7
Sub-Saharan Africa	28.6	29.8	4.0

Source: UNWTO.

Globally, tourism has proven to be competitive across countries, regions, and continents. As potential travelers can gain more information through the Internet, this competition grows keener. For example, Kenya's tourism competes globally because of its world-class natural resources and, in particular, proximate, regional destinations.

However, forecasts for short-term tourism growth globally have shifted downward repeatedly as the global economic contraction has intensified, with visitor arrivals, air passenger traffic, and tourism earnings slowing markedly in late 2008 and 2009. Global growth in tourism arrivals is now projected to be from 0 percent to -2 percent for 2009 per the UNWTO, which forecasts a return to low growth in the latter part of 2009 and a shift to shorter trips closer to home. The economic crisis and impact of the influenza scare of 2009 are causing travelers to book much closer to their departures in search of deals and so as to avoid costly cancellations due to unexpected events. Industry analysts anticipate that travel bookings with a short lead time—even for long-haul travel—will become the standard in the future.

B. Tourism as an Economic Tool

Developing countries account for about 40 percent of world international arrivals and tourism is now growing faster in developing countries than in Organisation for Economic Co-operation and Development (OECD) countries. Developing countries have seen their share of tourism increase from 3 percent of total world arrivals in 1950 to 34 percent in 2008. Arrivals in developing countries more than doubled to 60 million (2000–8), an overall increase of 54 percent. For the 50 least developed countries, tourist arrivals increased to 13 million over the same period—an overall 110 percent gain. Much of this travel is north and south, thus contributing to economic development and greater understanding between peoples. A great deal of travel is also due to the closeness of markets[30].

Growth has been fueled by increased disposable income, longer life expectancies, and an increase in technology applications and access. Higher disposable income has increased in originating countries and is contributing to growing middle classes (especially in Brazil, Russia, China, and India). People in developed countries are healthier and living longer. And while these populations are aging, they have greater leisure time. While no more than an estimated 7 percent of the world's population travels internationally, the propensity to travel in OECD countries has remained strong (between 40 and 50 percent of Europeans, for example, take at least one trip a year).

Mobility has increased dramatically, particularly through the use of automobiles and airplanes. Since the 1950s, air transport technologies improved rapidly and the real cost of air travel declined steadily for many years. More recently, deregulation and the move to "open" skies have led to improvements in competitiveness and productivity. As traditional air carriers have struggled, they have formed worldwide alliances and mergers; charter and low-cost carriers have grown by leaps and bounds. Large industry intermediaries, such as tour operators and travel agents, are well integrated into a worldwide distribution system using the latest technology that links customers, intermediaries, and suppliers seamlessly. Parallel to the growth of transport, hotel companies expanded greatly, and many are now consolidating into large groups, featuring a range of brands from economy to luxury. While globalization has created more cross-border investment and commerce, tourism—which is very much part of globalization—contributes to it and is influenced by it. Consumers and the travel trade, for example, use the Internet more than any other industry.

In the midst of global financial uncertainties, governments around the world, as part of their economic stimulus packages, are adopting a range of actions to support tourism. This interest stems from tourism's contribution to employment, potential as an entry point into the workforce for young people and women, and a strong economic multiplier effect, as well as tourism's role in building business and consumer confidence. According to a recent UNWTO report, current national stimulus packages for tourism recovery are focused on tourism promotion and marketing, although many countries are also adopting fiscal and monetary policy measures.[31]

While the growth performance of international tourism is encouraging, as occurs in all sectors, there are drawbacks, risks, and potential negative activities. Tourism is not a panacea but a useful sector as one of an economic whole. The potential negative effects and risks have to be managed with care. These risks include volatility (in terms of prices and cycles of boom and bust); response to natural phenomena (for example, drought and monsoons); and social issues, including abuse of women and children (prostitution and pedophilia), which may be handled through shared values and a code of ethics.

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[30] Tourism as an economic development tool is the focus of many publications. This section draws directly from "Tourism in South Asia: Benefits and Opportunities" prepared by Iain Christie and Michael Wong for the World Bank's PREM and the Finance and Private Sector Development Units, South Asia Region. Some parts of this section are direct excerpts from the study.

[31] UNWTO classifies stimulus efforts in the area of tourism into eight categories: (i) marketing measures; (ii) public/private partnerships; (iii) fiscal measures; (iv) monetary measures; (v) human resources measures; (vi) travel facilitation; (vii) transnational and territorial cooperation; (viii) environmental measures. This note presents several options that the government of China may wish to consider, along with indications of what other countries have done. See: World Tourism Organization, "Tourism and Economic Stimulus – Initial Assessment," Madrid, May 2009.

C. The Role of Tourism in Poverty Alleviation and Private Sector Development

Tourism as an economic tool is often utilized for its ability to contribute to growth and, in particular, on a local level extend benefits to the poor and communities. The links to local communities include employing local people and sourcing goods and services from the community, supporting the establishment of micro- or small-scale enterprises to supply hotel needs, and upgrading training and skills for specific activities, such as guides. Interdependence between the local community and tourist accommodation generally improves relations and the benefits are mutual. Other initiatives are designed to empower local people to host tourists in their communities and thus give value to natural or cultural assets owned by the local community. Hosting may include reception facilities for daytime visits or overnight accommodation for tourists.

Governmental organizations have initiated, with mixed success, many community-based projects to try to establish linkages to traditional tourism. Some of the failures can be attributed to locations that are too remote and thus unable to achieve the volume necessary for sustainability. Private sector involvement at the planning stage ensures purchase of local goods and services from the outset and helps avoid unfulfilled expectations of tourists and locals. Hotel managers or owners are now deliberately involving the local community in their activities, sometimes through the guidance of outside technical assistance. Tourism's economic benefits can help reduce poverty if there is appropriate data available and sufficient capacity building at the local level to achieve these goals.

Tourism may seem to be a trade for large firms but, in fact, is dominated by small and medium enterprises (SMEs), which can offer a more personal experience, get closer to daily life in developing countries, and deliver individualized service. Moreover, in this context, tourism provides employment opportunities for the poor. The big airlines, hotel chains, and large tour operators are clearly the core enterprises of any tourism cluster and they dominate promotion, often being the only source, certainly in the less developed countries. However, many emerging countries are not fully integrated into this global supply chain. But for many countries, this represents an opportunity rather than a constraint—emerging countries can create the unique experiences that the established chains have difficulty delivering. Local color from the myriad small enterprises and activities creates unique environments and experiences.

Demographics evidently play a role in tourism marketing, but psychographic research is also showing that it is hard to pigeonhole travelers—with the choices available and changing trends, new segments are emerging, based on creative product design and consumer pressure. Moreover, travel and lodging are simply the tip of the iceberg—the industry has many suppliers (direct and indirect) and players. It is through cascading businesses linked to tourism that emerging countries can forge an industry and create competitive advantage (based on unique resources) by appealing to new, often niche, markets and providing customized services often not possible in large-scale tourism; this includes pro-poor tourism and community-based tourism. Developing countries can draw upon their urban centers, natural and cultural attractions, and abundant labor, together with sound management and marketing, to create unique consumer experiences. While tourism is often presented as either a low-cost/high-volume (mass) market or a high-cost/low-volume (luxury) market, in fact, it offers a continuum of opportunities (that often coexist in the same country) with substantial mid-range, mid-volume options, depending on the country's assets and its potential markets. Many of these opportunities can be seen as highly specialized, such as medical, religious, and scientific, or even volunteer or charitable activities.

The benefits of tourism can reach the poor, especially when a pro-poor focus is a policy objective. Tourism is "economically significant" in the vast majority of low-income countries and, for example, credited with absorbing more women and unskilled workers than other sectors. In spite of the big international brands, the industry is likely to be made up of many SMEs, microenterprises, and self-employed individuals (for example, tour guides) serving the industry directly or indirectly. This one of the real opportunities for tourism—to create employment and wealth where there is large-scale unemployment or underemployment. And tourism can often create seasonal or part-time jobs that suit certain segments of the working population. It also provides the poor with access to services that might otherwise be poorly provided—transport, urban services, and utilities, for example. Housing for the large population of tourism workers, typically in large resorts where rising real estate prices can squeeze local residents out of the market, frequently requires attention. Yet housing for resort workers might also be the core of a visitor attraction if addressed creatively. A number of studies are now looking at pro-poor tourism, although a great deal remains to be done. In "Pathways to Prosperity," Mitchell and Ashley conclude that "the share of the benefits of tourism to the poor at the destination rarely fall below the 10% level" and are often higher, ranging up to 35 percent of total expenditure as shown in table A1.2. Distribution of income to the poor is also shown.32

Table A1.2. Shares of Income Accruing to the Poor

What share of total income flows to the poor come from employment?	**Africa:**	**Percentage**
	Namibia	76
	Madikwe SA	68
	Luang Prabang	9
	The Gambia	18
	Brazil:	
	Unskilled	31
	Unskilled and semiskilled	49
What percentage of tourism jobs go to the poor?	**Unskilled:**	**Percentage**
	Maldives	45
	Malawi	56
	South African safari lodges	
	"Local" residents:	75–91
What percentage of wage bill is captured by poor?	**Unskilled:**	**Percentage**
	Brazil	17
	Kazahstan	46
	Namibia	54
	Unskilled and semiskilled:	
	Brazil	27
	Kazahstan	70
	Local residents:	
	Madikwe	55
	Kazahstan	73

Source: Adapted from Mitchell and Ashley, Paths to Prosperity, ODI (2007 draft), as presented in "Tourism in South Asia: Benefits and Opportunities," prepared by Iain Christie and Michael Wong for the World Bank's PREM and the Finance and Private Sector Development Units, South Asia Region.

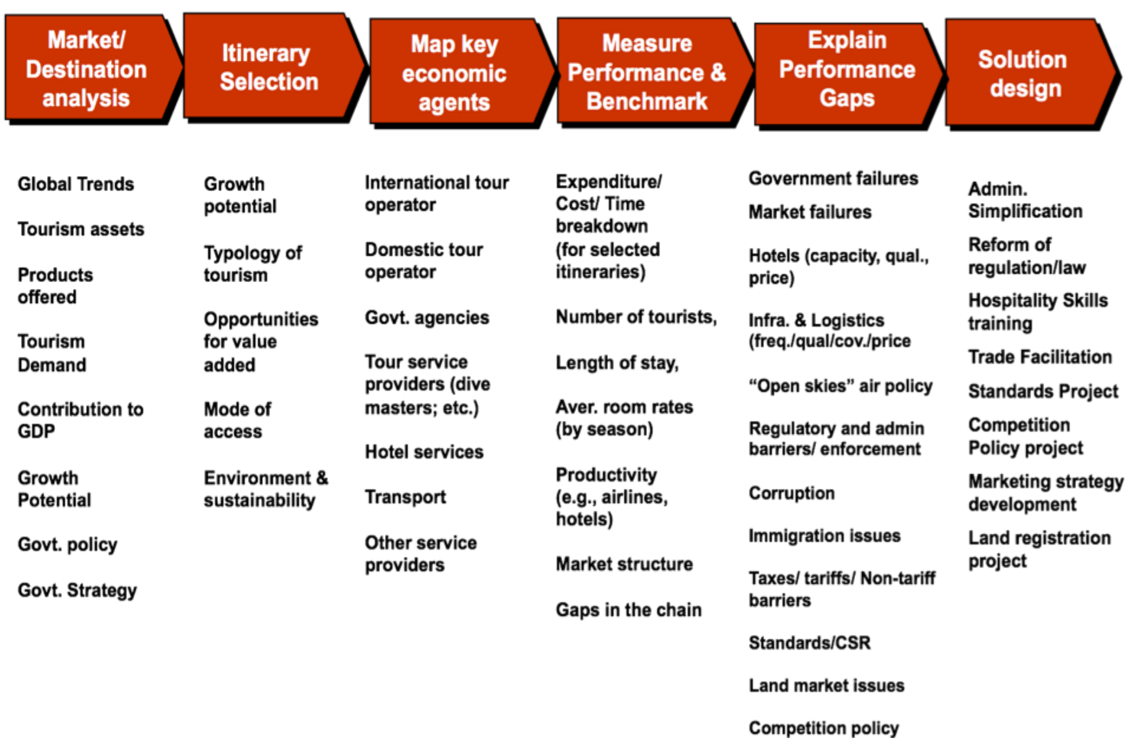
Successful tourism development is noted for acting as a catalyst for other private sector activities. For example, development of tourism in the Dominican Republic reportedly helped to attract key investors in mining and agribusiness. The scale of tourism in a sector can vary. In some instances, it is the primary focus and drive of the overall private sector with relatively few tourists. This is the case in the Seychelles, which benefits from fewer than 200,000 tourists annually. In other countries, tourism provides an important tool for economic diversification and the sector can generate valuable spillover activity. Expansion of the air cargo industry in Kenya fostered increases in flower and fresh produce exports. In the end, achieving a "critical mass" is crucial in order to enhance the likelihood that airlines and tour operators will be loyal to the destination in promoting and marketing initiatives.

[32] Adapted from "Assessing how tourism revenues reach the poor" Overseas Development Institute Briefing Paper 21 (June 2007).

D. Tracking Tourism through Value Chain Analysis

Today's tourist experience is becoming increasingly complex from the point of initial interest in travel to the time a tourist returns to his or her place of residence. A trip includes pre departure activity, such as research and the decision to book; transport to a destination; and a wealth of experiences (and expenditures) at the destination; followed by the return home. In each of these steps a tourist may spend on services as well as physical goods. Consequently, economists and policy makers are challenged when tasked with measuring such expenditures and monitoring their distribution in an economy. An aid in this task is the value chain analysis, first applied in efforts to measure agricultural and industrial products. Value chain analysis is most easily defined as "the full range of activities which are required to bring a product or service from conception, through different phases of production…delivery to final consumers and final disposal after use."[33] Applying value chain analysis to tourism provides a range of insight for policy makers from the enterprise level to that of a national sector. As illustrated, tourism value chain analysis can consider distinct aspects in each step of the tourists' experience, forming a comprehensive profile of the sector.

Elements of the Tourism Value Chain Analysis



Source: Value Chain Analysis: Application to the Tourism Sector, Uma Subramanian, FIAS, South Asia/ East Asia Regional PSD (May 2006).

Tourism value chain analysis with a pro-poor tourism focus has been conducted in countries with diverse tourism activity. Whereas findings are destination specific, some general findings indicate that between 25 and 50 percent of tourist spending reaches the poor when tourists eat in restaurants where food and related items are purchased locally and souvenirs are locally made, such as handicrafts. Tourism value chain studies have also noted varying levels of benefits to the poor for high-end versus budget or mass-

[33] A noted guide to value chain analysis is *A Handbook for Value Chain Research, IDRC* by R. Kaplinsky and M. Morris (2002) as sources in "Assessing how tourism revenues reach the poor" Overseas Development Institute Briefing Paper 21 (June 2007).

packaged tourism products. Strong linkages in package tourism to The Gambia were found to have impact similar to the expenditures of independent tourists on the poor, contrary to popular beliefs. In contrast, cultural tourism to Lalibela, Ethiopia, was found to have less of a local economic contribution because of fewer linkages. Noteworthy tourism value chain studies are summarized in table A1.3. Research to date highlights key factors contributing to differentiation in economic benefits reaching the poor, including the amount of tourists' out-of-pocket expenditures; the degree to which fruit, vegetables, and other foods are sourced domestically; and the wage levels for positions accessible to the poor.

Table A1.3. Recent Tourism Value Chain Studies

COUNTRY DESTINATION	FOCUS OF RESEARCH	KEY FINDINGS
Laos: Local economic mapping of tourism in Luang Prabang (Ashley 2006)	To identify opportunities for further pro-poor intervention by the Provincial Government and SNV.	Total direct and indirect earnings of the poor equate to 27 percent of tourist expenditure.
The Gambia: Holiday Package Tourism and the Poor (Mitchell and Faal, 2006 and 2007)	To assess tourism poverty linkages in The Gambia and advise on how to enhance pro-poor impacts.	Over More than half of total tourist expenditure is spent in The Gambia—of which about 14 percent is earned by the poor (mainly via craft sales, food supply and hotel jobs).
Vietnam: Participatory Tourism Value Chain Analysis in Da Nang, Central Vietnam (Mitchell and Le Chi Phuc 2007)	To conduct participatory analysis of the tourism value chain to create jobs and reduce poverty.	At least 26 percent of destination tourism expenditure flows to poor people in the local economy.
Ethiopia: Value Chain Analysis of Cultural Heritage Tourism (GDS 2006)	To propose a viable strategy for growing tourism while supporting government goals for poverty reduction.	Weak and shallow supply chains are the result of multiple constraints, low discretionary spending due to the low quality of goods for sale, and difficulties in accessing foreign exchange facilities.
Mozambique: Assessment of tourism value chains (FIAS and OECD 2006)	To examine constraints and challenges and increase share of value added in tourism.	Competitiveness barriers exist across a range of products, such as fly-in and self-drive.
Sri Lanka: VCA (Carl Bro 2007)	To identify options for improving productivity in SME tourism sector and design enterprise support.	Weaknesses in value chain that constrain SMEs include limited communication with government, weakness in market development, lack of training and absence of modern business systems.

Source: "Assessing how tourism revenues reach the poor," Overseas Development Institute Briefing Paper 21 (June 2007).

E. Finding the Path to a Balanced Approach to Tourism

While developing sustainable tourism is the goal of many local and national entities, a "formula" for doing so is yet to be found. Tourism destinations change over time—for better or worse. As a dynamic and far-reaching sector, tourism forces are tamed reluctantly. Yet lessons learned from the performance of emerging and mature destinations provide clues to a formula for sustainable development and effective management.

1. Seven Lessons Learned: A Synthesis of World Bank Experiences with Tourism[34]

1. ***Small but well-targeted and sequenced support of the sector demonstrates results.*** It may be prudent and effective to invest in tourism in a phased way by emphasizing concrete, visible initiatives rather than attempting to develop tourism all at once. This approach is not a substitute for continuing policy and institutional reform but allows identification of "entry points" (or anchor projects) from which systemic constraints can be addressed; reforms can then be introduced in other sectors, based on the demonstration effect in tourism. Such an integrated approach links investment, projects, policy, and institutional reform in a practical framework. As an example, community involvement in tourism in East and Southern Africa led to a vital dialogue on the relative rights of landowners, land users, and animals in and around national parks. The focus on environment and ecotourism led to a redefinition of acceptable levels of land use, which may not have occurred if left to the private sector alone and may not have been identified by macro or policy analysis. Land policies were reformed to the benefit of all sectors.

2. Institutions fail to carry out their functions because of poor planning, lack of training, and incapacity to regulate effectively, even where systems are well designed. Many countries have a ministry of tourism and an autonomous agency, often for promotion; their functions and priorities may be unclear and they often lack the resources to perform better. A competitive tourism industry needs lean, effective public agencies that catalyze rather than control development and that provide efficient and equitable regulation. For example, many master plans wind up languishing on shelves—not because such planning is nonproductive but because there is no capacity to implement and maintain regulations. The response to jettison physical planning in favor of other methods seems counterintuitive at best.

3. ***Tourism is a people industry, and tight networking among stakeholders is critical.*** If people that interact with tourists are dissatisfied, the likelihood is that tourism will suffer. Involvement of concerned populations as early as possible in the sector's development has proven to have valuable immediate and longer-term benefits. For example, the problem of staff housing—frequently a contentious issue even in the most developed communities—is best resolved with input from the future residents themselves. On the other hand, the ownership of a country's tourism services is often concentrated in a few hands and such interests can make it difficult for broader based development to take place—or create multiple cliques that constantly frustrate any newcomer's goals. It is important to identify partners who can *implement.*

4. Building an effective private coalition in-country, to encourage effective public organizations that catalyze investment and build the trust needed for common action is vital. Tourism's private sector profile in many destinations includes a number of major (international) investors. However, tourism is fundamentally characterized by SMEs, both formal and informal. Although this creates an opportunity for shared growth and development, the reality is that it fragments the voice of the industry. This dualism results in larger companies having access to political influence while smaller companies struggle with inefficient government machinery. Professional associations (tour operators, community-based associations, and so on) play a key role, but too often they are not linked into the broader commercial associations, such as chambers of commerce or national business councils. Enhanced public-private dialogue with large and small enterprises contributes to sector sustainability.

[34] These lessons were originally presented in "Tourism in South Asia: Benefits and Opportunities" prepared by Iain Christie and Michael Wong for the World Bank's PREM and the Finance and Private Sector Development Units, South Asia Region, 2009.

5. ***Contrary to common belief tourism enterprise owners are often local.*** A frequently heard criticism of tourism is that it is foreign-owned, so profits flow out of the country and the investor does not employ locals at supervisory or management levels. This turns out to be a myth. International companies bring technology and management skills. Whereas investment is often local, international managers work to train and promote local staff where possible. Some local staff even gravitate to international careers. In the Caribbean, a region where tourism is important, ownership and management are predominantly local or regional for all ranges of accommodation and services. Local investors often diversify out of other sectors into tourism, as in Maldives, where most hotel companies grew out of the trading companies.

6. ***In parallel, countries that replace imported goods with domestic goods and services will retain higher value added.*** It is not what leaks out that matters but whether what remains represents a worthwhile net benefit. Few countries provide all the inputs required for tourism. To the extent that part of the tourist dollar leaves the country to pay for imports consumed by the tourism sector, there will be "leakages"—payment for imported food and drink, furniture and fixtures, vehicles and fuel, cleaning materials, and so on. To the extent that a country "produces" its own tourism services, there will be higher retention of value added—and tourism offers much scope for enhancing these linkages, although it is often not promoted aggressively. For example, in many countries, most tourist handicrafts are imported, whereas local talent might be encouraged to produce memorable handicrafts.[35] More closed economies may be unable to provide the goods required by international tourists at all or at a competitive price. While leakages reduce the net value of tourism, the key question in the end is whether that part of the tourist dollar that remains in the country is economic—whether the benefits of tourism outweigh its cost. Thus, a country is not powerless to modify the impact of some leakage, and an active tourism policy will seek to remove constraints.[36]

7. ***Lack of access to long-term finance is a constraint to tourism development and is a core part of sector analysis***. Many tourism services, such as hotels and transport, require long-term financing for substantial investments written off over long periods. This is often not available locally. While some international investors prefer to utilize the services of their own bankers particularly to finance their investments offshore (as revenues may also be in foreign currency), many seek credit and working capital financing in local markets. The conditions under which such credit is available can facilitate or block progress in deepening the sector.

2. LESSONS LEARNED: A MODEL FOR LOW-IMPACT, HIGH-VALUE TOURISM

In addition to strategic lessons, sustainable tourism involves balancing the interests and activities of diverse stakeholders. For example, many tourism suppliers find their potential market is often in another country, where it is difficult to follow trends as they develop. This is further complicated by the fact that image and perception of a destination in the eyes of a tourist, tour agent, and/or operator play a crucial role in attracting both first-time and repeat travelers. To be effective, tourism suppliers have to stay ahead of the competition to reach sustainability and profitability goals. The current challenges facing the sector globally, and particularly in Kenya, reflect this dynamic. This time of uncertainty provides an opportunity for both the public and private sectors to redefine and reinvent the tourism experience into a new product and destination.

[35] For example in the Caribbean, only 35 percent of handicrafts sold are made in the Caribbean. In the Indian Ocean, most handicrafts are produced in China, Indonesia, and Thailand and exported around the region.

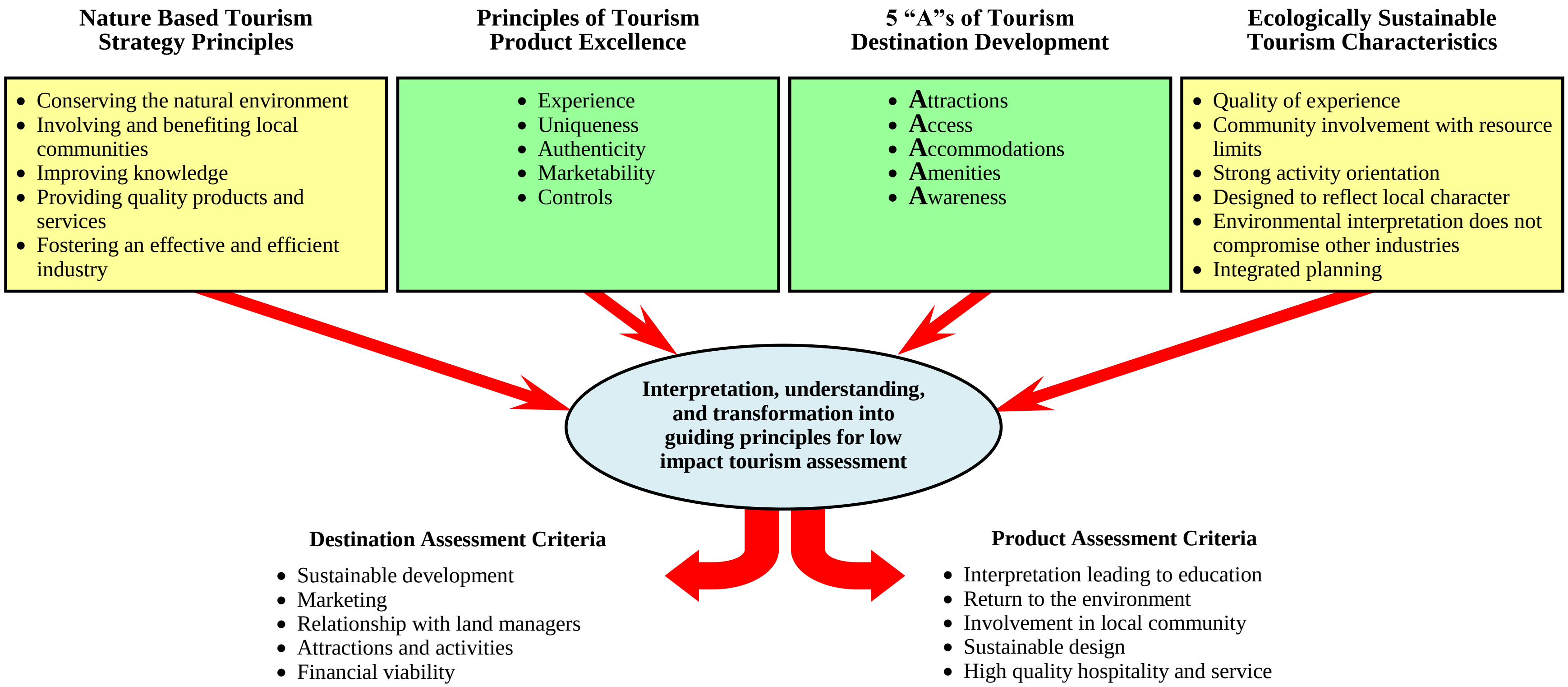
[36] Factors that determine leakage are the types of tourism facility and the costs of marketing and promoting them (transport and hotels); patterns of demand; the extent of local ownership, management, and employment; restrictive fiscal, trade, and monetary policies, including taxes and product standards; infrastructure, particularly capital intensive investments like airports and telecoms.

According to the Western Australian Tourism Commission, global best practice in tourism, particularly in tourism with low impact on the social and physical assets of the host, revolves around four success factors, namely:

- Nature-based tourism strategy principles
- Principles of tourism product excellence
- The five A's of tourism destination development
- Ecologically sustainable tourism characteristics

These four basic principles (illustrated in figure A1.1.) are further supported by a number of sub-activities and principles that help define benchmarks for the tourism sector. Combined, they offer a holistic approach to destination and sector development. Such a model provides a useful checklist for the public and private sectors to help ensure safe and sustainable development of the tourism sector, while at the same time meet conservation and preservation objectives that ensure the safety and longevity of a country's key tourism assets. One concern, however, is how these principles and guidelines should be employed in the tourism sector. The most obvious answer is through regulations, particularly by mandating compliance through licenses. Countries are compelled to achieve this goal without overburdening operators. This is one of the challenges facing Kenya, where the tourism sector is regulated through more than 44 different legislative instruments. This complex web of regulatory policies is further complicated by the overlapping functions of more than 15 government organizations that regulate the tourism sector and 11 associations and civil societies that represent different markets in the broader tourism sector.

Figure A1.1. Low-Impact Tourism Success Factors



Source: Western Australian Tourism Commission

Annex II. Tourism in Kenya

A. Kenya's Tourism Legacy

Kenya has made many significant contributions to the history of tourism across the continent and globally. In fact, the term safari, meaning "journey" in Swahili, entered the English language in the late 19th century.[37] As early as the 1930s, Kenya welcomed overseas visitors and explorers. But it was big-game hunting that first put Kenya on the map as a tourist destination. At the time of independence, there was already a limited but well-developed tourism infrastructure, and the Kenyan government saw the enormous potential that the country had for attracting overseas visitors and, more important, in generating foreign currency. As a result, the government issued "Sessional Paper No. 8 of 1969 on the Development of Tourism in Kenya," its first tourism-related sessional paper, which defined the path of Kenya's tourism sector. In that paper, the government indicated that it planned to participate jointly with private investors to promote tourism.

In the 1960s, the objectives of the government were to attract specialized groups from the upper segment of the market for big-game hunting expeditions and also develop beach tourism. A ban on hunting was introduced in 1977, as Kenya became a market leader in African tourism. Once Kenya was well established in the upper end of the tourism market, it shifted focus in the 1970s to target middle-income tourists, especially through promoting coastal resorts. Beach tourism has since developed into a mass-market product.

In the late 1970s and into the early 1980s, Kenya further branched into the middle-income segment of the tourism market, particularly for safari tourism. This made Kenya even more attractive for long-haul tourists, particularly from Europe and the United States.

By the 1980s, tourism receipts reached US$220 million, and thus became a major foreign exchange source for the country. Between 1980 and 1994, tourism receipts nearly tripled to US$630 million, and by 1994 tourism represented 24 percent of Kenya's export earnings. This spectacular growth came to a halt after incidents that deterred tourists from visiting the country. These incidents included

- Civil unrest following the 1992 and 1997 elections
- A bomb attack on the U.S. embassy in Nairobi in 1998; and
- Increased violence brought about by the flow of refugees from Sudan, Ethiopia, and Somalia.

Civil conflict in neighboring countries and the influx of refugees had an impact on Kenya's exports, border security, tribal conflict, and expenditures on refugee relief. It is estimated that during the late 1990s crime rose by as much as 20 percent per year.

From 1994 to 1998, tourist arrivals declined 63 percent. As a response, and to help revitalize the industry, the Kenyan Tourist Board (KTB) launched an aggressive campaign to repair Kenya's image by establishing marketing offices in four strategic source markets, namely, Germany, Japan, the United Kingdom, and the United States. Many credit this decisive action by the KTB for stopping the decline in tourist visitors and receipts. This campaign greatly facilitated a 32 percent rise in tourism receipts between 1998 and 2001.

[37] Originally from the Arabic *safra* meaning "a journey."

While the campaign waged by the KTB was critical for the recovery of the tourism sector, other broader macroeconomic factors were also coming into play:

- Lowering of tariffs that reduced the cost of imported machinery and inputs[38]
- Introduction of the East African Community Customs Union in 2005, which helped accelerate regional trade
- Positive but lagging effects of price, trade, exchange rate, and interest rate liberalization
- Sustained tax policy and administrative reforms that resulted in macroeconomic stability as reflected in reduced indebtedness and efficient and significant domestic revenue mobilization[39]
- Kenya's ability to issue nominal debt at single-digit interest rates, which indicated high degree of macro policy creditability
- A perception of improved political stability following successful 2002 elections

Renewed confidence in and credibility of macroeconomic policies helped create the perception in the private sector that business decisions could be made without the fear of political disruption. This had two important impacts at the microeconomic level. First, improved political certainty helped lengthen entrepreneurs' investment horizon and, second, this, in turn, resulted in the lowering of the hurdle rates of return on investments.[40]

Service industries were most responsive to these macro- and micro-economic changes during the 2002–2006 period, particularly the tourism sector. Restaurant and hotel services, telecommunications, transport, and storage together grew approximately 9 percent per year, which was, in part, a response to a 60 percent increase in visitor arrivals between 2002 and 2006. During this same period the Investment Climate Assessment showed that firm-level productivity improved by 15 percent in manufacturing and capacity utilization by 23 percent.[41] In short, businesses were improving their capacity utilization even with limited fresh capital injection. This was particularly the case in the hotel industry. This absence of capital injection during the early to mid-2000s is now widely apparent, as evidenced by the declining condition of hotels, particularly along the coastal areas of Kenya.

During the early to mid-2000s, political stability and creditable fiscal and monetary policies, combined with administrative reform measures, helped create a positive enabling environment for private sector investment and growth (as profiled in table A2.1). This was particularly the case in the tourism sector where earnings increased consistently and provides testimony of the powerful role political stability plays in Kenya's tourism performance.

In 2007, tourism in Kenya was ramping upward and reaching new heights in arrivals and revenues. Kenya's tourism sector generated 1,048,732 million foreign visitors in 2007, according to the KTB. Reaching new heights was dashed in late 2007 and early 2008. Violence, following national elections, negatively affected tourism arrivals and revenues, with final 2008 arrivals and receipts falling considerably short of 2007 levels. The KTB reports that during first quarter of 2008, arrivals dropped by 49.20 percent. Over the critical period from January to October 2008, tourist arrivals dropped from 873,000 to 565,000, a drop of 34.70 percent from the previous year. Overall, annual tourism visitation fell by 40.25 percent and receipts fell by 20 percent.

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[38] Simple average tariff rate fell from 16.8 percent in 2004 to about 12.9 percent after the introduction of the East African Community's Common External Tariff (CET).

[39] Over the period 1995–6 to 2006–7, the government debt-to-GDP ratio had fallen by 27 percent, while at the same time foreign currency denominated debt had decreased from approximately 80 percent in 1996 to about 60 percent by 2006. *Kenya: Accelerating and Sustaining Inclusive Growth* (Report No. 42844-KE). The World Bank, July 2008.

[40] Ibid.

[41] *Kenya Investment Climate Assessment*. The World Bank, June 2008.

Table A2.1. Arrivals Summary (2003–2006)

ARRIVALS STATISTICS	2003	2004	2005	2006
Air and sea	547,314	668,134	832,229	954,335
Cross-border	598,786	690,000	838,200	885,980
Total arrivals	1,146,129	1,358,171	1,670,475	1,840,335
Arrivals by purpose				
Holiday	337,448 (79.7%)	429,867 (79.4%)	592,542 (83.5%)	607,953 (77.0%)
Business	73,786 (17.4%)	100,089 (18.5%)	104,332 (14.7%)	165,148 (20.9%)
Conference	12,362 (2.9%)	11,490 (2.1%)	12,634 (1.8%)	16,663 (2.1%)
Average occupancy rate (percentage)	33.6	52.3	62.3	85.0

Source: Ministry of Tourism and Kenya Tourism Board

The crisis had another unfortunate impact on the tourism sector besides decreased revenues and visitation. As noted by the government of Kenya in its *Economic Survey 2009:*

> *Reduced security and absence of enforcement personnel during the post- election crisis precipitated clearing and scrounging of forest for agriculture and firewood, opportunistic felling of trees for timber/wood and encroachment of forest in conflict areas. In urban areas, environmental services and management such as solid waste collection, provision of drinking water and sanitation fell apart as waste and pollution problems increased due to the unrest*.[42]

Despite the sector's best efforts to rally as 2008 progressed, it also had to contend with fallout from global financial market volatility. Arrivals to date in 2009 reflect the sector's ongoing challenge to achieve—and exceed—2007 levels. Although particularly vivid in the instance of Kenya, the country's challenges mirror larger global patterns and the experiences of tourism sectors in other countries.

Kenya's tourism portfolio is comprised of three distinctive product lines: safari, coastal, and business and conference tourism. Within these product lines, the sector supplies numerous products ranging from packaged beach visits to specialized tours for wildlife enthusiasts. The sector is best understood through review of supply (that is, product lines); demand (that is, tourists); and the enabling environment (as presented in this section) against a background of the country's geographic profile.

B. Geography and Physical Considerations

With vast lands above and below the equator, Kenya is located in East Africa and is bordered by the Indian Ocean, Somalia, and Ethiopia. It covers an area of 582,650 square kilometers (of which 3 percent is water). Kenya has access to Lake Victoria; its biggest body of fresh water is Lake Turkana (north of the Rift Valley); and it also has a number of notable smaller lakes. Its climate ranges from tropical on the coast to temperate and arid in the interior, depending on height above sea level (Mount Kenya, Africa's second highest mountain, is 5,000 meters above sea level). Kenya's Highlands represent one of the most successful agricultural production regions in Africa. Yet, with this geography, the country faces both drought and flooding during rainy seasons.[43]

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[42] Noted in Kenya's *Economic Survey 2009* published by the Kenya National Bureau of Statistics, p. 175.

[43] Kenya's diverse geography means that temperature, rainfall and humidity vary widely, but there are effectively four distinct zones. *Western Kenya* has rainfall throughout the year (40–200 millimeters per month) and temperatures range from 14°C to 36°C, depending on the season. *The Rift Valley and Central Highlands* are temperate with rainfall ranging from 200-200mm/month (highest during March/June and less between October/ November and temperatures from 10°C to 28°C. The semi-arid *northern and eastern bush lands* experience violent storms that deliver from 250 to 500mm/month and temperatures range

1. NATURAL RESOURCE ASSETS

For tourism, Kenya offers mountains and deserts, rainforest, rolling grassland, colorful tribal cultures, beaches and coral reefs, islands, the Great Rift Valley and, of course, outstanding wildlife. Wildlife safaris have been at the core of Kenya's tourism for decades. Kenya's national parks are models for the world and abundant with wildlife—lions, elephants, leopards, rhinoceros, hippopotamuses, and buffaloes. Kenya is home to more than 359 different species of animals and 500 species of birds. For conservation, the country has set aside some 47,674 square kilometers in 29 national parks, 27 game reserves, 4 wildlife sanctuaries, and 13 wildlife conservancies. Kenya is one of the world's best destinations for bird watchers, and it has the famous annual wildebeest migration. It entices adventure tourists with trekking in Mount Kenya, ballooning in the Maasai Mara and scuba diving in the Indian Ocean. Other sports enthusiasts, content with less adventure, are drawn to Kenya's golf offerings.

2. COASTLINE

Kenya's national border of 3,500 kilometers includes 536 kilometers of pristine coral-fringed coastline with the country offering four marine parks and five marine reserves (map A2.1). Its coastal assets include 83,000 hectares of coastal forests, floodplain wetlands, and estuaries (River Tana/Athi and River Sabaki/Galana); 51,000 hectares of mangrove forest ecosystems (with 8 species), especially in Lamu; 12 species of sea grass; and 50,000 hectares of coral reef now protected under two marine parks and two marine reserves. In addition, there are approximately 5,000 fishermen along Kenya's coast—4,000 artisanal and 1,000 industrial marine fishermen. The north coast is also considered by many to offer some of the best game fishing in the world.

3. CULTURAL HERITAGE

Kenya also has a unique mix of cultural history. The country has significant archeological assets and colorful tribal cultures fascinating to researchers and tourists alike—and easily promoted in the tourism marketplace. Archaeological excavations around Lake Turkana in the 1970s revealed skulls thought to be around 2 million years old and are among the earliest human beings ever discovered—indeed a unique patrimony for mankind and for tourism. Kenya has a mosaic of more than 40 ethnic groups,[44] each with its own culture and language, which today exist side by side, as the result of waves of in-migration (going back 4000 years) of Turkanas from Ethiopia; Kikuyu, Akamba, and Meru from West Africa; and the Maasai, Luo, and Samburu from southern Sudan. By the eighth century, Arabic, Indian, Persian, and even Chinese traders reached the Kenyan coast. They helped set up a string of coastal cities (for example, Mombasa and Lamu) and eventually the part-African, part-Arabic civilization known as the Swahili. Kenya was invaded first by the Portuguese, who were ousted after 200 years of struggle with the Swahili, and finally by the British who left at Independence in 1963. This backdrop forms an essential core of Kenya's tourism sector.[45] Its rich heritage provides a significant foundation for tourism assets beyond nature and wildlife.

C. Supply: The Product Lines

Current product offerings in Kenya focus on well-known locations, such as the Maasai Mara, the Coast, Amboseli, and Samburu. But with growing interest in ecotourism, demand for new and customized activities, such as bird watching, hiking, camping, mountain climbing, and white-water rafting are on the rise. An overview of today's three main product lines—safari, coastal, and business and conference

from 20°C at night to more than 40°C by day. The *coastal, monsoon area* is humid and rainfall ranges from 1000 - 1250mm/month and temperatures range between 22°C and 30°C.

[44] The Kikuyu are the largest ethnic group (22 percent), followed by Luhya (14 percent), Luo (13 percent), Kalenjin (12 percent), and Kamba (11 percent). There is about 1 percent non-African and the balance is other African groups.

[45] This information is from various sources, such as trade publications, tourist materials and Lonely Planet.com

tourism—provides a context for responding to future demand with new products. Cultural heritage tourism is an important tourism resource and product which cuts across each of these product lines.

1. SAFARI

The wildlife safari is considered the crown jewel of Kenyan tourism and a gem admired by many other countries in the competitive tourism marketplace. The Maasai Mara is of particular significance since it alone accounts for 75 percent of the total wildlife population in Kenya. It is estimated that 35 percent of Kenya's wildlife is found in nationally protected areas,[46] while 40 percent of the wildlife is found in private reservations.[47]These areas are just some of Kenya's natural tourism assets as profiled in table A2.2.

Table A2.2. Natural Tourism Assets

NATIONAL LEVEL	Parks: 25 Reserves: 29 Wildlife Sanctuaries: 4 Total coverage: 47,674 km²
Protected Areas	46 (8% of national land area)
Community sanctuaries	17 (300,000 ha.)
Wildlife conservancies	13
Coastline	536 km
Number of animal species	359 (endemic species: 21; threatened species: 51)

Source: Compiled by Global Development Solutions, LLC.

Map A2.1 shows the major national parks in Kenya managed by the Kenyan Wildlife Service. These parks enjoy a fine reputation and capture the imagination of many would-be tourists. Other major national parks and destinations are well located throughout northern, eastern, southern, and western Kenya, a convenient factor when considering equitable distribution of the benefits of tourism. Visitation from 2005–7 at all national parks is presented below (table A2.3). For 2008, a provisional tally of annual visitors is 1,633,900 indicating a decline from 2007.

Table A2.3. Visitor Numbers to National Parks and Reserves (2005–7)

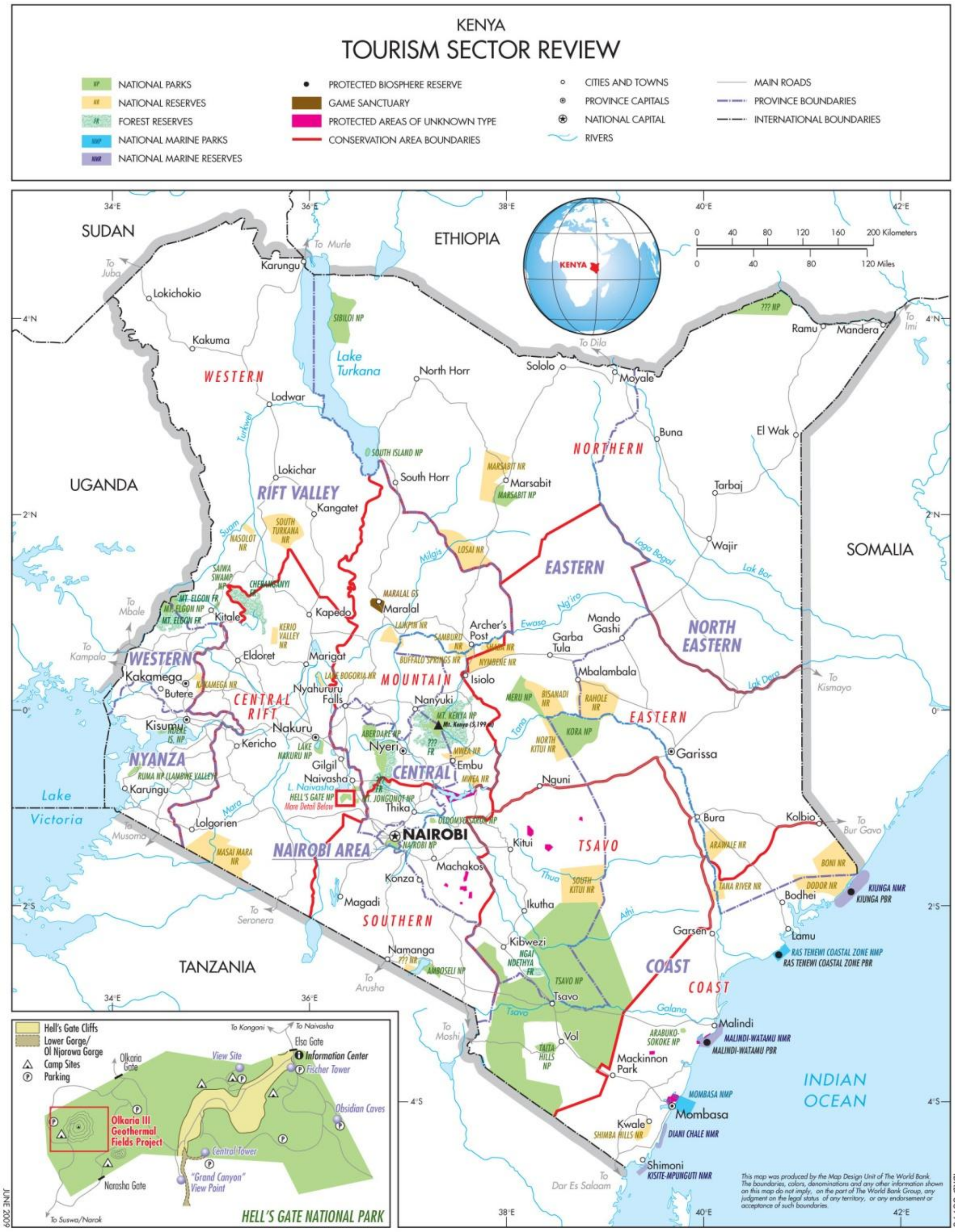
YEAR	CITIZENS	RESIDENTS	NON-RESIDENTS	TOTAL VISITORS
2005	957,765	76,609	640,729	1,675,103
2006	940,019	84,914	756,815	1,781,748
2007	1,059,822	73,957	765,652	1,898,647
Total	2,956,822	235,480	2,163,196	5,355,498

Source: Kenya Wildlife Annual Report, 2007

[46] KWS's jurisdiction covers only *national parks*, about 5 percent of the total landmass in Kenya; County Councils control reserves and other areas.

[47] The remaining 25 percent of the wildlife is scattered across the rest of the country, primarily in north and northeastern Kenya.

Map A2.1. Kenya National Parks and Reserves *(Source: Global Development Solutions, LLC)*



Source: Map Design Unit, World Bank

Table A2.4. Kenya's National Parks and Reserves

	Park	Reserve	Area (km²)	Date of Establishment	Distance from Nairobi (km)	Kenya Wildlife Service
Central Kenya Highlands and Great Rift Valley						
Nairobi National Park	X		117	1946	7	X
Hell's Gate National Park	X		68	1984	90	X
Mount Longonot National Park	X		52	1983	90	X
Lake Nakuru National Park	X		188	1968	157	X
Lake Bogoria National Reserve		X	197	1970	260	
Maasai Mara National Reserve		X	1,510	1974	275	
Aberdare National Park	X		767	1950	180	X
Mount Kenya National Park	X		175	1949	175	X
Ol Donyo Sabuk National Park	X		20			X
Mwea National Reserve		X	68		180	X
Western Kenya						
Mount Elgon National Reserve		X	169	1968	470	X
Kerio Valley National Reserve		X	66	1986		
Saiwa Swamp National Park	X		3	1974		X
Kakamega Forest National Reserve		X	240	1985	418	X
Ruma National Park	X		120	1966		X
Ndere Island National Park	X		4	1986		X
Northern Kenya						
Meru National Park	X		870	1968	870	
Bisanadi National Reserve		X	606	1979		X
Kora National Park	X		1,787	1989		X
Rahole National Reserve		X				
Mwingi National Reserve		X				
Samburu & Buffalo Springs National Reserve		X	104	1985	343	
Shaba National Reserve		X		1948		X
Maralal and Laikipia Game Santuaries				1991		
Buffalo Springs National Reserve		X	131		343	
Marsabit National Reserve		X	1,500			X
Losai National Reserve		X	1,806			X
South Turkana National Reserve		X				
Nasalot National Reserve		X				
Sibiloi National Reserve		X	1,570			X
Central Island National Park	X		5			X
South Island National Park	X					
Malka Mari National Park	X			1989		X
Southern Kenya						
Tsavo East National Park	X		11,747	1948	333	X
South Kitui National Reserve		X	1,833	1979		X
Tsavo West National Park	X		9,065	1948	240	X
Chyulu Hills National Park				1983		X
Amboseli National Park	X		392	1948	135	X

(continued)

	Park	Reserve	Area (km²)	Date of Establishment	Distance from Nairobi (km)	Kenya Wildlife Service
Kenya Coast						
Mombasa National Park and Reserve	X					X
Shimba Hills National Reserve		X		1968		X
Kistie Marine National Park	X					X
Mpunguti Marine National Park and Reserve	X	X				X
Diani/Chale Marine National Park and Reserve	X	X				
Malindi Marine Park and Reserve	X	X				X
Watamu Marine Park and Reserve	X	X				X
Kiunga Marine Park and Reserve	X	X				X
Dodori National Reserve		X				
Boni National Reserve		X				
Tana River Primate Reserve		X		1976		X
Arabuko Sokoke Forest Reserve		X	6	1968		X
Arewale National Reserve		X				

Source: Compiled by Global Development Solutions, LLC.

2. Coastal

Coastal tourism in Kenya constitutes the highest bed-night stays within the tourism sector. Coastal tourism is favored by European tourists, particularly the Germans (30.5 percent of total bed-night stays), British (19.5 percent), and the Italians (15.7 percent).[48] Although scheduled flights into Mombasa are available, tourists from Europe coming to the coast during peak season generally arrive on charter flights, as a part of a mass-market tourism package. It is also notable that Kenyan tourists constitute 20.1 percent of the overall coastal tourism traffic.

Coastal tourism has always been popular among European tourists. However, the Mombasa bombing in 2002 and the launching of a surface-to-air missile on an Israeli airliner the same year changed the entire landscape of this product line, along with the dynamics between Kenya and foreign tour operators. The Ministry of Tourism estimated that coastal tourism was losing in excess of US$1 million to $1.5 million per day during the period following those devastating events.

In an effort to encourage tourists back to the coastal region, and to enable Kenyan hoteliers and operators to simply cover their costs, prices of coastal tour packages were dramatically reduced. It was during this period that the nature of coastal tourism in Kenya shifted toward a mass-market, mass-tourism destination. In an effort to recover tourism traffic in the coastal area, Kenya-based tour operators negotiated cut-rate prices with foreign tour operators, offering full-board and all-inclusive packages that barely covered costs.

With respect to the volume of tourist arrivals, coastal tourism recovered from these earlier crises. Yet with recovery came another crisis. Having virtually no revenue and no investment capital available for months following the 2002 bombing and missile attack, many coastal operators are still struggling to pay off

[48] The percentage distribution of bed night stays is based on the top 10 tourism arrivals in Kenya and does not represent the entire spectrum of tourist arrivals.

debts and, at best, have little to no investment capital to rehabilitate existing facilities. At the same time, during the long downturn in the coastal tourism market, foreign tour operators and European tourists became accustomed to paying rock-bottom prices for a coastal tour package to Kenya. As a result, coastal tour operators now find themselves in an unenviable situation where, in order to increase package prices and to move out of the mass-tourism market, it is most pressing to upgrade existing facilities to rival premium standards offered by their Asian competitors, in particular. At the same time, operators have limited access to investment capital to upgrade facilities.

Coastal tourism in Kenya continues to be highly dependent upon air access (particularly through charter flights). This dependency is exacerbated by a historic reliance on foreign tour operators who leverage their market power, which is strengthened by their volume base and ease to offer other destinations. In this competitive environment, Kenya's coastal operators are challenged by decreasing margins. The power of foreign operators in this segment of the tourism value chain is a dual-edged sword that can fuel and hamper Kenya's ability to attract tourists and derive maximum revenues.

3. Business and Conference

Despite Kenya's prevailing image as an iconic safari destination, the tourism sector has achieved a critical mass and level of activity in another product line. In fact, Meetings Incentives, Conferences and Exhibitions, or *MICE* tourism, combined with business traveler activity is a potentially strong product line within the country's tourism sector.

In 2005, the International Congress and Convention Association (ICCA) estimated that 5,315 large-scale conferences took place around the world. Europe dominated the market share with more than 58 percent of all conferences, followed by Asia (18 percent), and North America (10.5 percent). Although Africa's share of the global conference tourism market is tiny (2.5 percent), it is nonetheless important for certain African countries. Kenya has about 6 percent of the African market (table A2.5) behind South Africa, Egypt, and Morocco. In 2006, Kenya was host to 165,148 business travelers and 16,663 conference attendees. Combined, these visitors accounted for approximately 22 percent of the total number of tourist arrivals in Kenya—not a segment to be dismissed.

Table A2.5. Conference Tourism Market Share, by Region and within Africa (2005)

Market Share for Conference Tourism	Market Share (%)
Europe	58.0
Asia	18.0
North America (United States and Canada)	10.5
South America	7.0
Australia	4.0
Africa	2.5
Conference Tourism Market Share within Africa	
South Africa	43.8
Egypt	11.7
Morocco	8.6
Kenya	6.3
Others	29.6

Source: International Congress and Convention Association.

The Kenyatta International Conference Centre plays a crucial role in this business as the capital city's dedicated conference center and anchor. It has hosted and continues to host many international meetings, buoyed by recent renovations and upgrading. However, in the wake of post-election events and the current global financial crisis, regaining a foothold in the conference tourism segment is achievable only with adequate resources and a concerted effort to attract this business. Beyond conferences, Kenya has the ability to focus on building the lucrative incentive market, for which it is ideally suited, supported by the tourism sector's distribution of several concentrations of lodging capacity and extensive proximate attractions requisite for growth of this product.

Nairobi serves as the main hub for East Africa and is able to attract a broad range of visitors from around the world, as well as from within the region. Key characteristics of the business and conference segment and the visitors coming to Kenya are provided in table A2.6.

Table A2.6. Basic Characteristics of Business/Conference Facilities in Nairobi (2006)

Number of five-star hotels in Nairobi	8
Number of four-star hotels in Nairobi	1
Total number of travelers	
Business	165,148
Conference	16,663
Average stay	
Conference/events	4–5 nights
Businessmen	>10 days
Average bed night price (including breakfast and taxes)	US$165–US$266
Company retreat	45–50%
Individual business	50–65%
Repeat business	50%
Source of reservation	
Local corporate office	65%
Tour operator	25%
Direct	10%

Source: Compiled by Global Development Solutions, LLC.

In Nairobi, there are eight five-star designated hotels of varying quality with a combined capacity of 1.14 million bed nights annually. No matter the destination, ease of access is valued by travelers. This is particularly true for the conference and business traveler segment. Kenya benefits from its location and air transport assets.

4. Combining Kenya's Tourism Product Lines: The Current Product Mix and Analysis

Kenya's portfolio of tourism product lines offers an alluring mix of travel products. Because potential travelers are drawn to Kenya by the promise of a variety of experiences, a survey of tour operators and agents in Europe and the United States was commissioned by the World Bank. The survey was undertaken to better understand how tourists from these two major source regions perceive Kenya and East Africa as a tourist destination and to gain a profile of their attitudes to diversity, history, culture and luxury. The following matrix provides a summary of key drivers attracting long haul travelers (table A2.7).

Table A2.7. Kenya Tourism Drivers for U.S. and European Source Markets

DRIVER/FACTOR	POSITIVE	NEGATIVE
Country Image	• Premier wildlife parks • Beautiful coastline • Competitively priced packages • Easy air transport access • Rich cultural heritage • The original "safari" destination • "*Out of Africa*" image and high celebrity status	• Political instability • Crime • Poor road conditions • Poor air quality • Corruption • Poor land-use planning • Weak destination marketing • High taxes • Absence of a coordinated conservation program
Business and Conference	• English speaking • Potential to regain its position as a hub for East Africa • Readily available sightseeing opportunities	• Lack of premium conference facilities • Limited number of high quality restaurants • Unreliable communications infrastructure • High cost of electricity
Safari	• Host to the largest herds of grazing mammals • Host to one of the most diverse avian populations in the world • One of the most productive natural ecosystems in the world • Wildebeest migration in the Mara-Serengeti ecosystem • Rich Maasai cultural heritage	• Poor infrastructure • Overdevelopment • Lack of community involvement and benefit • Destruction of water catchment areas • Lack of coordination among stakeholders in the sector • Degradation of tourism assets
Coastal	• Top five game-fishing destinations in the world • Easily accessible beaches • Direct flights from Europe	• Harassment from beach operators • Lack of local economic benefit • Weak link to the local economy

Source: Tourism Market Research Study for East Africa—European Market, Emerging Markets Group, 2009.

When tourists, tour operators, and agents were asked which countries' destinations and tourism experiences compete with Kenya for tourists, the results in table A2.8 were found. Respondents emphasized both activities and experiences as compelling drivers for their travel to Kenya.

Table A2.8. Tourist Perception of Competing Locations in Africa

ACTIVITIES	COMPETITIVE COUNTRIES
Diving/Beach	Mozambique, Maldives, Zanzibar, Mauritius
Sport fishing	Mozambique, Botswana
Bird watching	South Africa, Botswana
Primate viewing/Safari	Botswana, Namibia, South Africa, Tanzania
Mountain climbing	South Africa, Tanzania
Hiking	South Africa
Honeymoons	Maldives, Mauritius, Seychelles
Culture	Mozambique

Source: Tourism Market Research Study for East Africa—European Market, Emerging Markets Group, February 2009. The World Bank and East African Travel: Focus Group Report, Beta Research Corporation, February 2008.

D. Demand: The Tourists

1. Visitor Profile

Eighty-four percent of all visitors to Kenya cite leisure, recreation, and vacations as their motivation—a very high number; adventure and individually determined activities appear to be on the rise compared to traditional itineraries. The following sections profile demand for Kenya's tourism product lines through profiling tourists and key source markets.

Length of Stay

Capturing consistent data on average length of stay is a challenge faced by all destinations with best efforts yielding rounded estimations. However, the KTB reports a specific decline in the average length of stay (table A2.9).

Table A2.9. Average Length of Stay

Year	Average Length of Stay (days)
2006	12.1
2007	11.9
2008	10.4

Source: Kenya Tourism Board.

This trend is a key issue for Kenya's tourism sector where strategic goalposts are encouraging visitors to stay longer and spend more. The challenge for the sector is to find creative tourism experiences that will achieve these goals sustainably.

Many tourists traveling to Kenya from European source markets take advantage of package deals typically sold in one- or two-week blocks. Leisure visitors from North American source markets, due in part to the long travel time and limited vacation slots, tend to book at least a week if not longer. Length of stay for business travelers from the region is generally shorter, yet more frequent. Despite these variations, average length of stay indicates Kenya's ability to attract and keep tourists for a declining, yet still significant stay. The challenge going forward is to offer tourism products that not only entice visitors to stay longer, but also ensure high local economic impact.

Comparison of Kenya's specific tourism products with those offered in Tanzania, Zambia, The Gambia, South Africa, Madagascar, and Ethiopia highlights a relatively high average daily expenditure per person. Cross-country comparisons are difficult given nuances in each country's destinations and offerings; however, this comparison emphasizes the range of travelers' options and expenditures. Kenya's segments and product offerings are further detailed below.

Tourist Expenditures

Based on prices per bed night, Kenya is on the higher end of the price spectrum when compared with competing destinations, such as Tanzania, South Africa, The Gambia, Zambia, Madagascar, and Ethiopia (table A2.10). Kenya and Tanzania have similarly high per day expenditures (US$180–$185), compared say to The Gambia (US$70) or South Africa (US$110). The table also reveals telling comparisons on the breakdown of daily expenditures with, for example, accommodations ranging from 18 percent to 49.5 percent. This range is indicative of the diversity of offerings found in a mature market responding to the demands of varied travelers.

Table A2.10. Benchmarking Tourist Expenditure in Selected African Countries (US$/person/bed night)

Expenditure Categories	Tanzania: Wildlife Safari		Tanzania/Zanzibar: Beach (All-Inclusive)		Kenya: Wildlife Safari		Kenya: Premium Wildlife Safari		Kenya: Beach (All Inclusive)	
	$/day	% of Total	$/day	% of Total	$/day	% of Total	$/day	% of Total	$/day	% of Total
Accommodation	46.36	25.1	63.54	36.7	33.35	18.1	168.30	46.6	36.85	20.3
Food/beverage	23.12	12.5	21.46	12.4	36.65	19.9	83.44	23.1	18.81	10.4
Excursions and park fees	38.33	20.8	10.00	5.8	40.71	22.1	22.98	6.4	5.00	2.8
Inland transport	30.73	16.7	30.29	17.5	50.36	27.4	51.62	14.3	13.35	7.4
Out-of-pocket expenditure	15.00	8.1	45.71	26.4	16.00	8.7	35.00	9.7	41.43	22.9
Miscellaneous	30.86	16.7	2.14	1.2	6.84	3.7	–	0.0	65.83	36.3
Total expenditure/bed night	184.40	100.0	173.14	100.0	183.91	100.0	361.35	100.0	181.27	100.0
Average length of stay (nights)	7		7		3		7		7	
Date of data gathering	2008		2008		2007		2007		2007	

Expenditure Categories	Zambia[1]		Gambia[2]		South Africa: Kruger National Park[3]		Madagascar (Nosy Be)		Ethiopia: Northern Heritage Route	
	$/day	% of Total	$/day	% of Total	$/day	% of Total	$/day	% of Total	$/day	% of Total
Accommodation	68.00	40.7	17.67	25.2	55.00	49.5	18.25	13.2	27.22	22.5
Food/beverage	25.00	15.0	27.97	39.9	22.50	20.3	20.45	14.7	9.94	8.2
Excursions and park fees	27.00	16.2	7.43	10.6	13.00	11.7	12.35	8.9	22.26	18.4
Inland transport	24.00	14.4	4.63	6.6	10.00	9.0	57.75	41.6	23.94	19.8
Out-of-pocket expenditure	23.00	13.8	6.52	9.3	10.50	9.5	29.87	21.5	–	0.0
Miscellaneous	–	0.0	5.89	8.4	–	0.0	–	0.0	37.43	31.0
Total expenditure/bed night	167.00	100.0	70.11	100.0	111.00	100.0	138.67	100.0	120.79	100.0
Average length of stay (nights)	8.5		7		7		7		9	
Date of data gathering	2004		2005		2002		2006		2006	

1. Non-package tourism
2. Non-package tourists only. Polled at Lusaka and Livingstone airports, Livingstone hotels and Kafue and South Luanga
3. Excluding one-day trips (those who did not stay overnight)

Sources: Compiled by Global Development Solutions, LLC, based on field interviews, the *Journal of Sustainable Tourism*; the World Bank; EMG (2005); *The Gambia Tourism Development Master Plan Technical Volume No. 3*, Visitor Survey at Banjul Airport

What is important for tourists coming to Kenya can be categorized into four discrete areas: the trip's duration, included activities, expenditure habits and main concerns.[49] Table A2.11 gives some insights into these questions. It is easy to characterize tourists purely by demographics and national origin. However, there is another layer to research, that of customer response to different experiences. According to market research, of the four categories of issues, "main concerns" expressed by tourists going to Kenya have not changed over time. Specifically, tourists are concerned about safety and security, health, political instability, and poor infrastructure. One emerging aspect of the issues concerning travelers is the cost of traveling long distances. Issues associated with cost have become a central concern for travelers, particularly given the current global economic uncertainties.

Table A2.11. Important Factors for Tourists Traveling to Kenya

ACTIVITIES	• Life-enriching experience • Special interest holidays • Spa and well-being holidays • In-depth exposure to culture and local heritage • Special package tours for honeymoons
PURCHASING HABITS	• Growth in direct booking • Decline in package travel • Growth of independent travel • Interest in custom-tailored trips • Declining interest in "the circuit" package • Interest in specialty and boutique lodges • Willingness to change destinations
MAIN CONCERNS	• Safety and security • Health (due to need for vaccinations) • Cost as a consequence of traveling distance • Political instability • Poor infrastructure
DURATION	• Shorter, multiple trips per year

Source: Compiled by Global Development Solutions, LLC based on surveys conducted by Beta Research Corporation (2008) and Emerging Markets Group (2008).

2. SOURCE MARKETS

Tourists traveling in Kenya are classified according to source market or their place of primary residence. Apart from Africans, the largest source market for Kenya is Europe—generating more than all other source markets combined, including Asia and the Americas. Important individual source countries are the United Kingdom, Germany, and France. Long-haul tourists tend to arrive by air, but given the openness of the East African Community, many drive between Kenya, Tanzania, and Uganda. In the following table profiling the preferences of European travelers by country, the popularity of Kenyan and Tanzania for French, German, Dutch, and Spanish is noted. With a reported average expenditure per trip nearly US$1,000 or more, these source markets have proven to be a valuable source of demand for Kenya's tourism sector (see table A2.12).

[49] This is based on surveys conducted by the Beta Research Corporation, *The World Bank and East Africa Travel: Focus Group Report*, February, 2008, and *Tourism Market Research Study for East Africa— European Market*, February, 2009, Emerging Markets Group.

Table A2.12. Profile of European Travelers to Kenya

	FRENCH	GERMAN	ITALIAN
International tourism expenditure (US$billions)	36.7	82.9	27.3
Outbound travel (US$millions)	20.0	77.0	26.0
Average length of stay/trip	8.0	10.1	13.2*
Average expenditure/trip (US$)	1,338.33	na	1,484.00
Preferred destination	Spain, Italy	Italy, Greece	France, Austria
Preferred long-haul destination	Morocco, Tunisia	USA, Thailand	USA, Brazil
Preferred African destination	Kenya, Tanzania	Kenya, Tanzania	Tunisia, Egypt
Travel preference	Comfort of hotels Quality of service	Value for money Low-cost flights Package holidays	Package holidays Culture and people Shopping
Booking behavior	Late planners	Careful planners	Late planners
Booking pattern	Travel agents	Travel agents	Travel age5nts
Comments about Kenya	• Well known among French travelers • Destination for safari, seaside and culture • More affordable then Tanzania • Seen as more mass market product • Less demand for beach products • Need to improve quality of seaside facilities • Need for new niche products • Poor infrastructure • Worried about health, safety, security • High park fees • Poor image • Need more value for money • Tanzania becoming more popular • Lack of knowledge by selling agents	• 95% are tailored safari tours • Beach tourism is not a major attraction • Need to develop wildlife niche products • Poor infrastructure • Need certified guides • Worried about health, safety, security • Not suitable for family/elderly • Unstable politics • Need for self-drive tours; private pilots for more flexibility • Prostitution in Mombasa • Pushy beach vendors • Great wildlife and no jetlag • Mass market image and too many resorts • Need for culture/historic attraction • Potential for wedding/honeymoon tours	• Lack of knowledge by Italian travel agents • Language problems • Focus on repeat travelers • Popular for seaside culture and safari (mid/ high end) • Currency risk seen as negative • Mauritius/Mozambique offer better beach products • Poor service quality • Less exclusive than Tanzania • Dealing with multiple currencies when traveling in the region • Security concern

(continued)

	British	Dutch	Spanish
International tourism expenditure (US$billions)	72.3	19.1	19.1
Outbound travel (US$millions)	69.5	22.3	17.7
Average length of stay/trip	9.9	10.0	9.4
Average expenditure/trip (US$)	995.00	na	1,317.89
Preferred destination	Spain, France	France, Germany	France, Portugal
Preferred long-haul destination	USA, Australia	Europe	Morocco, USA
Preferred African destination	Egypt, South Africa	Kenya, Tanzania	Kenya, Tanzania
Travel preference	Inclusive tours Sun and sand Culture, nature, and heritage	Sun and sand Countryside City breaks	City breaks Beach holidays
Booking behavior	Careful planners	Careful planners	Late planners
Booking pattern	Travel agents	Internet	Travel agents
Comments about Kenya	• Worried about health, safety, security • Good value for money • South Africa more sophisticated than Kenya • Kenya-Tanzania combo not popular • Beach product in Kenya not competitive • Lacks re-investment in facility • High demand for photo safari • Growing family market • Growing special interest and niche products • Poor infrastructure • Poor human resources • Good access from Europe • Trend towards booking last minute to reduce risk • Average selling price has declined		

*Stay in Africa

Source: Compiled by Global Development Solutions, LLC based on "Tourism Market Research Study for East Africa – European Markets" Emerging Markets Group, February 2009.

Box A2.1. Outbound Travelers and the Decision to Book

Travelers from Europe, the United Kingdom (65 million outbound tourists in 2008), and Germany (77 million outbound travelers) are the largest overseas markets; U.S. outbound travelers were about 40 million in 2008. While no country lists Kenya as its top destination, the United Kingdom delivers about 18 percent of Kenya's tourists, the United States and Germany about 9 percent each, and France about 5 percent. British, Dutch, French, and German travelers list Kenya among their top two choices in Africa. In general, Europeans visit a single destination, whereas Americans tend to visit a number of countries.

There is considerable variation between countries as to how a trip is booked and through which media—the Internet has grown to be a major source—but tour operator brochures are still a key information source, whether online or in hard copy. Traditionally, Europeans traveled on charters in groups, whereas Americans preferred some form of individual travel—with the emergence of customized planning, these differences are fast disappearing. In some markets, potential travelers analyze information closely and in detail, while others rely more on sources, such as friends and family. Some travelers book well in advance—several months for example—but last-minute travel has been gaining in importance. Motivation for this approach includes travelers' economic uncertainty and a sense of their increasing power to access information through the Internet. In this rapidly changing marketplace, marketers are faced with challenges in getting their message out to the right people. Kenya has been an aggressive and consistent marketer (unlike many African countries), with some success in delivering memorable messages.

Annex III. Value Chain Analysis and Kenya's Tourism

This background overview of value chain analysis is excerpted from *Moving toward Competitiveness: A Value Chain Approach* published by FIAS in 2007.

A. Value Chain Analysis[50]

Developing countries face tremendous opportunities for economic growth given economic liberalization worldwide and the rapid advancement and application of information and communications technologies. However, along with the many opportunities global network trade has to offer, firms in developing countries face strong competitive pressures for greater efficiency and productivity to maintain market share or even survive. A strong business environment based on sound institutions and policies is a necessary basis for enhanced private sector competitiveness that produces and delivers goods and services. When business environment constraints—inefficiencies and cost disadvantages—can be identified, policy makers have the opportunity to jump-start economic reform processes that target priority areas along the product and service life cycle known as the value chain.

The value chain approach as used by the World Bank Group uncovers sector-specific constraints offering yet another "lens" through which underlying public policy issues affecting economic growth can be examined.

1. Value Chain Analysis Defined

Value chain analysis (VCA) is a method for accounting and presenting the value that is created in a product or service as it is transformed from raw inputs to a final product consumed by end users.

The policy and reform agenda that typically emerges from the value chain approach relates to three core areas:

- **Product market issues** (for example, trade policy, competition policy, price distortions, subsidies, licensing, product standards, customs, logistics, enforcement of property rights regulations)
- **Factor market issues** (for example, wages, capital charges, utility market issues, labor market rigidities, land price, zoning)
- **Market related issues** (for example, market diversification, research and development, product diversification, supplier linkages)

2. Value Chain Analysis Stages

There are three integral stages of VCA:

- Process mapping of industry chains in qualitative (graphical) terms and quantitative terms by disaggregating metrics, such as cost, time productivity, and value addition along various segments of each chain.
- Establishing benchmarks for performance indicators against international competition and best practices. The performance measures, together with benchmarking against comparators, help in
  - Assessing the relative importance of the different issues that affect the performance of the value chain and

[50] The World Bank Group utilizes value chain analysis widely to determine the economic value for products and services in economies around the world. An informative review of this analytical approach is presented in *Moving Toward Competitiveness: A Value Chain Approach*, FIAS (Foreign Investment Advisory Service), August 2007. This section is directly quoted from that publication.

  - Prioritizing the most binding constraints that directly affect the competitiveness of an industry.

- Explicitly understanding the policy and institutional factors underlying these performance measures. This helps in developing a targeted reform agenda that, if carried out, will address the growth and competitiveness of the subject industries and will potentially attract private investments, enabling higher value job creation.

3. Value Chain Analysis Application

VCA is used as an empirical tool to identify binding constraints to industry growth and competitiveness. The findings of previous value chain studies have provided the strategic underpinnings for growth and competitiveness strategies, small and medium-size enterprise projects, and technical assistance projects to help strengthen business environments and job productivity. The VCA framework identifies a priority set of issues, some of which are sector specific while others apply to the entire economy and affect many sectors and firms in a country. In addition, some issues typically need to be addressed primarily by the public sector; others are driven mainly by the private sector.

Box A3.1. Value Chain Analysis and Tourism: The Mozambique Example

Value chain analysis was applied, on a relatively small base, to Mozambique's tourism sector as a result of the awareness that while tourism was growing, tourists were spending lesson average in Mozambique that in other destinations---both on the African continent as well as overseas. In *Moving Toward Competitiveness: A Value Chain Approach* prepared by FIAS, this situation was presented as follows:

> *The tourism value chain in Mozambique required an assessment of each value chain component, such as air carriers, hotels, restaurants and tours, in the overall tourism experience, in addition to the linkages to other agents, and the performance of the service providers, industries and institutions. The study focused on typical trip itineraries chosen to reflect the heterogeneity of tourism products, destinations and market segments that characterizes Mozambique's tourism offer.*
>
> *Although the VCA validated Mozambique's valuable intrinsic assets and strong comparative advantage in tourism, it also found the industry is constrained by poor accessibility and positioning in the international marketplace, absence from the international distribution networks, and a thin product line disperse across locations. More generally, a confluence of investment climate issues is preventing dynamic development of the industry; the weak investment climate increases costs for finance and inputs, drains resources from the private sector, and creates an uneven playing field and entry barriers for innovative entrepreneurship.*
>
> *As a result of the VCA, targeted policy recommendations were developed to address four key areas of industry constraints: (i) the ease and costs of access to destinations in Mozambique which included visas and frontier issues, airline connections and services in addition to infrastructure, and ground transportation; (ii) regulatory and administrative constraints in the business environment associated with land user rights, licensing, business start-ups and investment codes all of which hampered investments in hotels, resorts, and alternative tourism accommodations; (iii) tourism institutions and stakeholder cooperation in effectively developing, maintaining and marketing tourism resources; and (iv) linkages, leakages ad increasing value added, in order to capitalize on the tourism industry's inherent forward and backward linkages that spill over into other sectors.*

Source: FIAS (2007)

B. Understanding Kenya's Tourism Product Lines through Value Chain Analysis

Kenya's tourism is defined by three primary product lines: safari, coastal, and business and conference tourism. Within each of these product lines, individual products provide varied offerings in response to demand from source markets. For example, within the coastal product line, all-inclusive beach packages at hotels along Kenya's coast are in demand by travelers, particularly from Europe and the United Kingdom. Detailed value chain analysis of individual products within these product lines provides key insights to the economic distribution of tourism revenues in the Kenyan economy. It also informs strategic policy formulation to achieve a greater dispersion of tourism benefits contributing to poverty alleviation.

Specific products from Kenya's three primary product lines are examined through detailed analysis of individual example products. For the safari product line, the products are 1) a seven-day/six-night safari to a private conservancy; 2) a high-end multi- destination safari with destinations in Kenya and Tanzania; and 3) a mid-class safari and beach combination package. Individual coastal tourism products analyzed are 1) a beach package with full board; 2) an all-inclusive package; and 3) beach and sport-fishing package offered through a membership club or resort. The final product line is the combined grouping of business and conference tourism. For this product line, a stay by a business traveler at a Nairobi five-star hotel and a weekend safari excursion in conjunction with a business or conference trip is analyzed. Each product is analyzed to consider both packages purchase price as well as out-of-pocket expenditures.

The value chain analysis is based upon detailed review of example travel products, which are believed to reflect overall activity in the product line. The value chain analysis provides key insights within and across product lines enabling identification of issues and opportunities individually and collectively. Product examples were carefully chosen to reflect both popular and diverse tourism offerings in order to gain a comprehensive insight into Kenya's tourism. The key product lines and products analyzed are summarized in table A3.1.

Table A3.1. Kenya Tourism Value Chain Analysis Product Lines

PRODUCT LINE	VALUE CHAIN ANALYSIS PRODUCT	DESCRIPTION
Safari	1. Private conservancy safari	Seven-day/six-night package luxury tent camp safari in the Maasai Mara and Amboseli
	2. Multi-destination safari	16-day/14-night full board package with 50 percent in Kenya and 50 percent in Tanzania
	3. Safari/beach combination	Eight-day/six-night safari (visits to three parks) and beach package (three-day stay in Mombasa)
Coastal	1. Full-board beach	Nine-day/seven-night stay at a three-star hotel in Mombasa
	2. All-inclusive beach	21-day/19-night holiday package with a two-day safari excursion
	3. Beach and sport-fishing package	Seven-day/six-night sport-fishing package through a "membership club" resort on the coast
Business/Conference	1. Business/Conference Nairobi hotel	Visit to a five-star hotel that caters to business and conference travelers
	2. Business/Conference weekend safari excursion	3-day/2 night excursion booked in country for a five-star lodge in the Maasai Mara

1. THE SAFARI PRODUCT LINE

Kenya's safari experience is revered globally. It is a mature product that continues to embrace innovation, such as delivery through the establishment of private conservancies. This product line is undeniably dependent upon natural and wildlife assets on a scale that is unique to Kenya.

The integrated value chain analysis for wildlife safari will focus on three different types of packages, namely, premium safari package in a private conservancy, premium multidestination safari package (Kenya and Tanzania); and mid-class safari-beach package. The objective of this analysis will be to determine whether and how tourism expenditures differ along the value chain depending on the type of package selected. In addition, the analysis identifies key constraints that hinder the competitiveness of the wildlife safari tourism sub-sector in Kenya.

Private Conservancy Premium Safari

a. Overview and summary findings

Kenya offers a wide range of wildlife safari packages ranging from "do-it-yourself" camp safaris to luxury camp and lodge safaris. In the 1970s, Kenya dominated the market share of wildlife safari tourism in Africa, with an average stay of approximately 21 days per visit. However, it is estimated that by 2005 Kenya attracted only 8 percent of the total revenue from wildlife safari across all of Africa with an average stay of 12 days per visit. Even then, according to the Ministry of Tourism and Wildlife, approximately 39.5 percent of all tourists coming to Kenya visited parks and game reserves. In 2007, it was estimated that nearly 2.5 million tourists visited parks and game reserves in Kenya. [51]

Remote camps, valued by tourists, have high operating costs as highlighted by this value chain analysis. Operating costs include components that directly benefit local communities, such as land rent, bed-night fees, and local employment. The value chain also highlights inland transport costs of 14.6 percent, while out-of-pocket expenditures are nearly 10 percent. More than a third (34.3 percent) of out-of-pocket expenditures is spent on gift items and souvenirs, which directly benefits locals. This analysis also details the collection of high public sector taxes, levies and fees, along with raising concerns regarding the subsequent reinvestment of these revenues into the sector.

b. The product

In Kenya, there are at least three distinct safari packages within the premium and mid-range price categories, namely:

- Safari package that concentrates only on visits to parks and reserves within Kenya;
- Multidestination safari package that offers visits to parks and reserves within Kenya, combined with a safari in Tanzania,[52] Uganda, Botswana, or other neighboring countries; and
- Safari-beach package that offers tourists an opportunity to enjoy both a safari at one or more parks and reserves as well as several days of sun and surf at a coastal beach hotel.

Variations of these packages are available, but according to industry sources, these three packages represent the bulk (80 percent) of the wildlife safari package sold in Kenya.

Generally, wildlife safari packages are one to two weeks in duration, where tourists move to different parks and reserves two or three times during their tour. The market trend is moving away from stays at large lodges and toward more exclusive camp safari. The price range for camp safari is wide, starting from more than US$2,000 for a one-week safari to as much US$50,000 for a two-week multi-destination safari package (Kenya and one or two other neighboring countries). Taking into account that camps are located in remote areas, safari packages are full-board, with some including airport pickup and drop-off.

c. The traveler's booking process

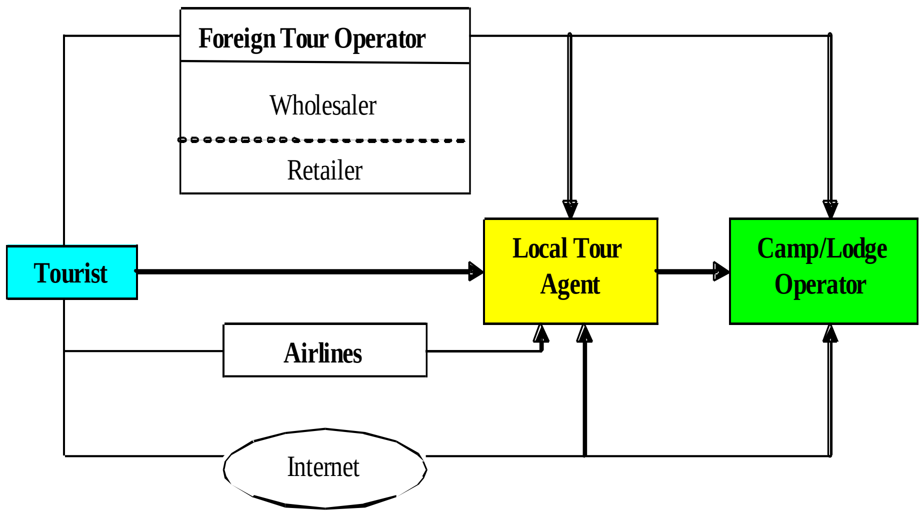
Referring to the figure A3.1 below, foreign tourists going on a wildlife safari access their tour package through at least four "windows":

- Through a foreign (tourist's home country) tour operator

[51] Tourism Satellite Account for Kenya, Phase II Report: Inbound and Outbound Tourism Expenditure Survey, Ministry of Tourism and Wildlife, April 2005.
[52] Local tour operators estimate that over 65 percent of Tanzania tourist bookings go through Nairobi.

- Directly through a local (Kenyan) tour agent
- Through airlines that offer airfare/hotel packages
- Through the Internet—both for first-time and repeat visitors

Figure A3.1. Methods of Tourist Access to Kenyan Safari Packages



Source: Global Development Solutions, LLC.

The Internet is having a profound impact on the way information regarding tour packages is accessed. The Internet has become a critical tool for both broadcasting and acquiring information regarding tourism products and destinations; however, many tourists, particularly from European source markets, continue to rely on tour agents and operators for purchasing tickets and packages. At least for now, utilization of both channels is needed to attract as much business as possible.

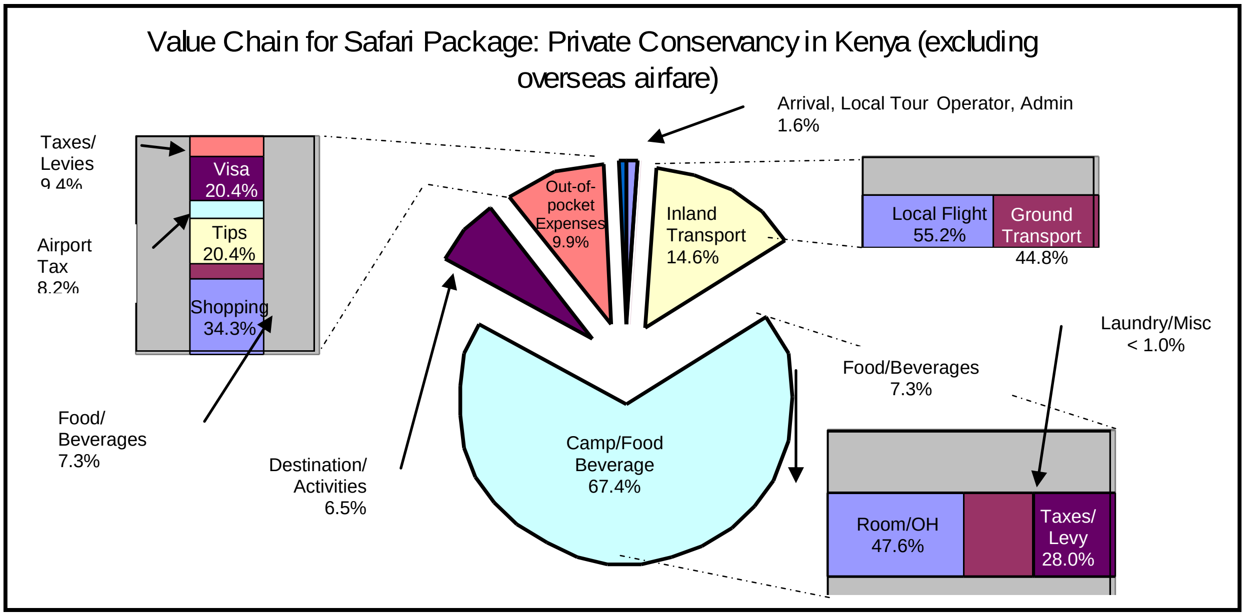
d. The value chain

A growing number of luxury tent camps have begun to appear throughout Kenya, and as part of a conservation effort, private conservancies are being formed. These conservancies represent partnerships between a private individual or a company, and landowners (both with private and group ranches owners). The integrated value chain analysis profiles a seven-day/six-night tent camp safari that combines a four-day stay at a private conservancy in the Maasai Mara, and a three-day trip to Amboseli in a luxury tent camp.

In this particular case, the package does not include airfare from the tourist's home country to Nairobi. But the tourist is met at the airport and the price of the package includes a one-night stay in Nairobi on the day of arrival. The retail price of the safari package is US$2,230, but when other out-of-pocket expenditures are included, the total tourist expenditure was approximately US$2,475 (see figure A3.2).

Figure A3.2. Safari Package (Private Conservancy) Value Chain

Package Features:	7 days/6 nights Safari: Kenya (luxury tent accommodations)
Safari Package Price:	$2,230.00
Total Expenditure:	$2,475.00
Total In-Country Expenditure:	$2,475.00 (100% of total expenditure)
Public Sector Charges:	$1,263.03 (51.2% of in-country expenditures)



Source: Global Development Solutions, LLC

Findings

The value chain analysis suggests that for this type of safari package, the largest expenditure is camp/food and beverage (67.4 percent), followed by inland transport (14.6 percent) and out-of-pocket expenditures (9.9 percent).

High Cost of Operating a Remote Tent Camp: A breakdown of camp, food, and beverage costs for the three locations (Nairobi, Amboseli, and Maasai Mara) suggests that 58.8 percent of the total camp, food, and beverage costs were incurred in Maasai Mara. A breakdown of the Maasai Mara camp also suggests that the cost of running a tent camp is more than 44 percent of the value added followed by taxes and levies (28 percent), food (13.7 percent) and beverage (10.8 percent) (see table A3.2)

An important factor contributing to the high overhead cost for operating a tent camp in Maasai Mara is related to costs associated with community development and contributions made to the local community. In this type of a private conservancy, direct financial benefit to the local community comes in at least three forms:

- ***Land rent:*** the operator pays a monthly rent of KES 500,000 to the village from which the landowners come. This is equal to approximately US$85,714/year.
- ***Bed-night fee:*** the operator pays the village a bed-night fee of KES 500/visitor/night. Currently the camp is host to about 1,000 guests each year. With a standard four-day/three-night camp stay, bed-night fees paid to the local community are approximately US$28,571 per year.

Table A3.2. Maasai Mara Camp Operational Profile

Expenditure	% of Total
Beverage	10.8
Food	13.7
Household Items	1.8
Laundry	0.8
Miscellaneous	0.0
Room/overhead	44.8
Taxes	
VAT	16.0
Service	10.0
Training levy	2.0
Total	100.0

Source: Global Development Solutions, LLC

- ***Local community employment creation:*** the camp employs 40 full-time and 40 part-time employees from the local community. Currently, there are 80 homesteads in the private conservancy, from which one individual per homestead is hired at the camp. Full-time employees receive a monthly wage of US$100.

These three types of payments are made directly to the village from which the land is being rented, or to individual employees working at the tent camp. While financial benefit to the local community is an important aspect of the private conservancy model, equally important are the regular and consistent payments made to the local community that provide a predictable stream of income for the Maasai.

In return for these benefits, landowners have agreed not to cultivate their land and to allow the ecosystem, including graze lands, to return to its natural state. This allows increasing numbers of wildlife to return to the area. From a conservation perspective, a visit to the camp site clearly shows the difference in the quality of the natural habitat inside the private conservancy.

High Cost of Inland Transport: The poor condition of roads and airstrips contributes to the high cost of maintenance and repair. The high cost of land transport, 14.65 percent of the overall expense within this value, diminishes the overall competitiveness of the Kenyan safari experience when compared to other African tourism experiences. Operators incur an unnecessarily high cost as a result.

Out-of-Pocket Expenditures: As indicated by the value chain, shopping—principally for gift items and souvenirs—accounted for 34.3 percent of the out-of-pocket expenditures. The relatively high expenditure for shopping is in part because the camp operator has worked directly with the local villagers to establish a shop to which visitors to the camp are taken. Similarly, visitors to the camp are also taken to cultural *bomas* where a traditional Maasai house and lifestyle, as well as song and dance routines, are presented. Here again, the camp operator has negotiated with local villages to conduct the exhibition for visiting tourists. In addition to the direct payment received from the camp operator, tips account for 20.4 percent of the out-of-pocket expenditure that go directly to the Maasai village or employees of the camp (see value chain).

Table A3.3. Public Sector Taxes, Levies and Fees Summary

	US$	% of Total
Visa	50.00	3.9
Airport tax	20.00	1.6
Tax/surcharge (flight)	38.00	3.0
KAA charges	–	0.0
Park fee (visitor)	101.31	8.0
Park fee (vehicle)	22.86	1.8
Corporate income tax	**429.44**	**33.9**
VAT	**342.02**	**27.0**
Service tax	**203.00**	**16.0**
Training levy	40.60	3.2
Fuel levy	3.84	0.3
Speed governance	0.01	0.0
Driver/guide (PSV)	0.01	0.0
Guide license (Ministry of Tourism)	0.01	0.0
Pay as you go (Ministry of Finance)	2.97	0.2
NSSF/NHIF	0.65	0.1
Ministry of Tourism license	7.05	0.6
Local council license	2.11	0.2
Local council – environmental charges	2.97	0.2
Informal charges	0.20	0.0
Total	**1,267.03**	**100.0**
% of Total Expenditure		**51.2**

Source: Global Development Solutions, LLC

High Public Sector Taxes, Levies and Fees: What is not readily evident from the consolidated value chain diagram above, but is striking in the detailed data breakdown, is the amount of public sector taxes, levies and fees that this type of operation faces. Specifically, the total expenditure for this tent camp safari, including out-of-pocket expense, was approximately US$2,475. Of this total amount, US$1,267.03 (51.2 percent of total expenditures) was paid-out in the form of public sector taxes, levies, and fees (table A3.3).

As table A3.3 indicates, the largest distribution of public sector charges is accounted for as corporate income tax, VAT, and service tax. Together these constitute nearly 77 percent of the total public sector charges. An analysis of the distribution of these public sector charges according to government ministries reveals that the Ministry of Finance collected 77.1 percent of the total public sector charges, followed by the Ministry of Tourism and the Ministry of Transportation, with 10.4 percent and 4.9 percent, respectively.

Two concerns are raised through these data. First, in this environment in which a private investor is exploring ways to improve local community economic benefit through the formation of a private conservancy, public sector charges consume more than half of tourism dollars. As a result, the opportunity for the private operator to invest in the local community and toward conservation efforts is greatly diminished.

Second, as table A3.4 indicates, the distribution of public sector charges overwhelmingly favors the Ministry of Finance. This is not a problem as long as the budgetary process is transparent, functions effectively, and directs adequate funds back to the ministries responsible for tourism and conservation of

Table A3.4. Public Sector Charge Distribution

	US$	% of Total
Ministry of Tourism (including KWS)	131.22	**10.4**
Ministry of Transportation	61.85	**4.9**
County council	5.08	0.4
Ministry of Finance	977.42	**77.1**
Ministry of Education	40.60	3.2
Ministry of Health and Social Welfare	0.65	0.1
Customs and immigration	50.00	3.9
Informal charges	0.20	0.0
Airport charges (KAA)	–	0.0
Total	**1,267.03**	**100.0**

Source: Global Development Solutions, LLC

natural and wildlife assets. However, take into account that the Ministry of Tourism, which is mandated to take leadership in the development and conservation of the ecosystem, continues to be grossly under-funded.

Public sector charges are a vital and necessary element of a functional and competitive economy. However, the poor condition and low quality of the tourism infrastructure, even with the relatively high public sector charges, suggest that the level of public sector investment in the tourism sector is not commensurate with the level of public sector revenue collected and necessary for delivering a competitive tourism product.

Box A3.2. The Private Conservancy Model

The private conservancy business model profiled in this value chain analysis clearly provides financial benefits to the local Maasai community. At the same time, however, given the complete absence of basic guidelines and criteria for how such business transactions should be undertaken, an increasing number of so-called "private conservancies" are beginning to crop up where corruption and exploitation of local communities is undermining the initiatives of others who share a long-term vision of conservation and community development in and around national parks and game reserves. For example, one so-called private conservancy established alongside a major private conservancy that gave nothing back to the community and had no conservation program. The owner had established a tent camp to take advantage of the neighboring conservancy and the wildlife that it was attracting, and the objective of establishing a conservancy was purely to seek financial gains.

Currently in this context, the development of private conservation areas is purely a function of the ability of a private individual or corporation to negotiate a contract with local village leaders and landowners.

Yet another important consideration regarding the private conservancy is the exclusionary nature of the business model. Specifically, the contract between the village and landowners stipulates that the conservation area will only be used by camp guests. Whereas the dramatic reduction in vehicle traffic has substantially reduced the degradation of the wildlife habitat and has made positive contributions toward bringing wildlife back to the conservation area, some argue that the underlying principal that wildlife is a public good is undermined when only those select 1,000 annual guests at the tent camp are allowed to enjoy the wildlife in the conservation area.

The pros and cons of private conservancies have been debated within the tourism sector in Kenya. The need for further implementation support is clear. But in the absence of consensus around a comprehensive guideline and criteria for how such business models should or could be undertaken, corruption and exploitation not only will contribute to further disillusionment and dislocation of the Maasai community but also will accelerate the depletion of wildlife in the parks and game reserves.

Source: Global Development Solutions, LLC

Multidestination Premium Safari Package

a. Overview and summary findings

More than 16.3 percent of the tourists coming to Kenya have income exceeding US$81,000 per year. A number of tour operators in Kenya cater specifically to the high-end traveler, with a package price starting at US$8,000 (including airfare) going up to as high as US$50,000 per trip.[53] It is estimated that 80 percent or more of the high-end travelers are retired professionals, and their primary source of information about wildlife safari in Kenya is word of mouth from friends and colleagues. Approximately 20 percent of the client base for this category of tourists is repeat clients.

High-end travelers who have both time and disposable income are often interested in visiting more than one iconic destination. For example, the tour operator profiled for this premium multidestination safari package generates 30 percent of its income from safari operations in Kenya, and the remaining 70 percent from servicing clients via Nairobi on tours in Tanzania, Ethiopia, and Madagascar. Combining Kenya and Tanzania in tourism packages is ideal given their proximity and breadth of offerings. Analysis of this type of scenario finds, however, that although travelers may split their time between the two countries evenly, revenues are likely to be split unevenly with 35 percent to Kenya and 65 percent to Tanzania. This is a concern for Kenyan operators who may not be receiving their "fair share" of tourism dollars.

b. The product

Premium multidestination safari packages are favored by American tourists, who tend to plan their trips months in advance and have limited time in which to enjoy their safari. In this context, premium travelers generally insist on high-quality service and want all aspects of the tourism experience to be well choreographed.

c. The traveler's booking process

For the repeat tourist, who initially stayed only in Kenya, subsequent visits are generally multidestination tour packages, which include a safari in Kenya as well as in Tanzania and other neighboring countries. It is worth noting that in multi-destination tour packages, all of the travel arrangements are handled from the Nairobi office, where tours outside Kenya are either subcontracted to a partner operator or the Kenyan tour operator also operates its own facility in neighboring countries.

Although Kenya offers an incomparable wildlife habitat and cultural diversity and the largest collection of bird species in the world, first-time travelers to the region are often drawn to Tanzania, which is characterized as

- Exotic (Zanzibar),
- Exceptional for game viewing (Serengeti),
- Having pristine beaches; and
- Not crowded.

By contrast, Kenya is perceived as Tanzania's diametric opposite, experiencing overcrowding in the Maasai Mara, having beaches clogged with beach operators, and being a high security risk destination. In this context, most multi-destination packages spend more than 50 percent of the entire tour outside of Kenya.

d. The value chain

The premium multidestination tour package profiled for this analysis is a 16-day/14-night full-board package where 50 percent of the time is spent in Kenya on a wildlife safari and the remaining time in

[53] Super premium clients travel on their own chartered flight to Nairobi.

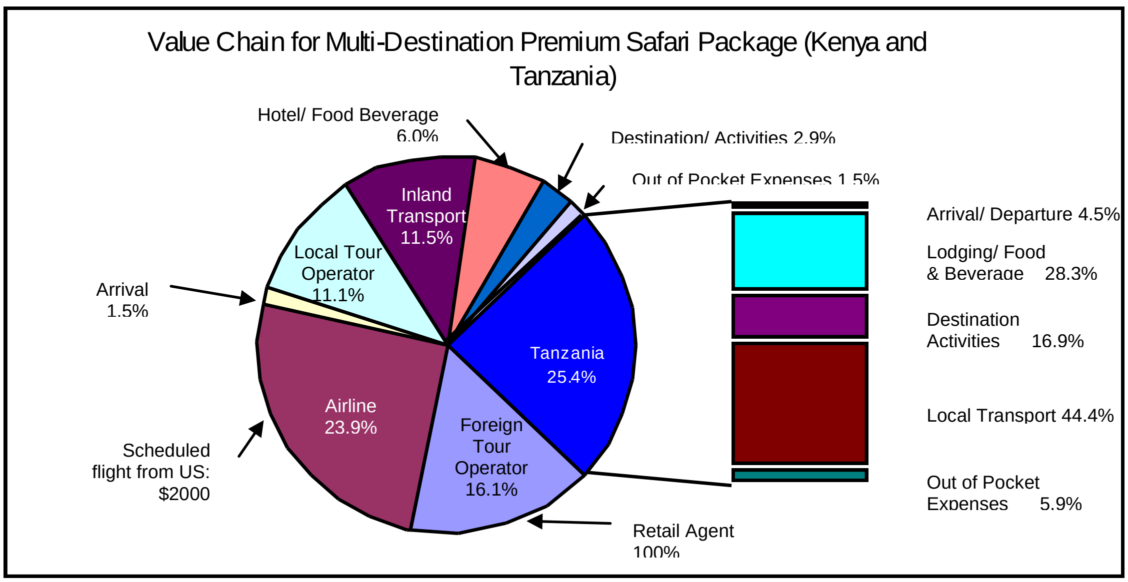
Tanzania. The package is valued at US$8,000 (includes airfare from the United States), and with out-of-pocket expenditures, the total value of the tourist expenditure was US$8,375.69 (refer to the figure below).

Findings

Where Tourism Dollars Go: As the value chain analysis indicates and noted earlier, in a multidestination safari package, the highest expenditure is actually not in Kenya, but on expenditures for a tour package to Tanzania (25.4 percent). As a Kenya-based tour operator pointed out, although generally the time spent on a tour may be split 50-50 between Kenya and Tanzania, the revenue distribution between the two countries is 35 percent and 65 percent, respectively. As the integrated value chain analysis indicates, only US$1,954.71 of the total tourist dollars (US$8,375.69) are expended in Kenya. Due to higher operating costs in Tanzania, profits for the tour operator tend to be about the same in both countries.

Figure A3.3. Multidestination Premium Package Value Chain Analysis

Package Features:	16 days/14 nights Safari: Kenya/Tanzania
Retail Package Price:	$8,000.00
Total Expenditure:	$8,375.69
Total In-Country Expenditure:	$1,954.71 (23.3% of total expenditure)
Public Sector Charges:	$879.91 (44.9% of in-country expenditures)



As mentioned previously, multidestination safari packages like the one profiled here are administered from Nairobi and it follows that revenue from the entire tour package is accounted for in Kenya. However, the tour operator in Kenya must then subcontract an operator in Tanzania to handle all of the logistics and accommodations associated with a safari in Tanzania. This means that after the Kenya-based tour operator accounts for revenue of US$8,000 (in this particular case), there is an outflow of funds to a contractor in Tanzania to cover the cost of a safari in Tanzania. This puts into question the official statistics on tourism receipts. Specifically, nothing indicates that the official statistics on tourism receipts deduct the outsourced amount from the original revenue to reflect the "true" value of tourism expenditure in Kenya.

Similarly, multidestination safari packages generally begin and end in Kenya, which means that official tourist arrival data are accounting for the same tourist coming into Kenya at the beginning of their tour and again on reentry from another leg of the multidestination package. Here again, there is no clear indication that the official tourist arrival data are correcting for this double counting of tourist arrivals via Nairobi.

High Cost of Airfare: Airfare is generally the most expensive component of an airfare-inclusive tour package. In this context, it is somewhat surprising that the cost of airfare only ranks second to expenditures for a safari in Tanzania. The fluctuating cost of fuel in the past few years has certainly contributed to the increase in airfare.

High Cost of Commissions Paid to Foreign Tour Operators: Like the high cost of airfare, commission payments to foreign tour operators, in most cases, are an inevitable feature of the tourism business in Kenya and elsewhere. In most instances it is the foreign tour operator that defines the market trend and directs tourism traffic to specific destinations. Commission rates are generally well defined in the tourism sector, where wholesaler and retailer take 15 percent and 10 percent, respectively, from the package price.[54]

To help reduce the commission payments to foreign tour operators, some large Kenya-based tour operators are considering the establishment of their own retail outlets in Europe and the United States so that they, too, can cash in on the 10 percent commission. Vertical integration of marketing functions within the tourism value chain may be one way for Kenya-based tour operators to improve their competitiveness and wealth retention. At the same time, however, as more and more travelers rely on the Internet to identify, package, and purchase tour packages, supply-demand dynamics and patterns between tourists and tour operators along the value chain are expected to change in the near term.

High Public Sector Charges: Somewhat similar to the case in the private conservancy model, the premium multidestination safari package also faces high public sector charges (table A3.5). The value chain analysis revealed that of the US$1,954.71 tourist dollars expended in Kenya, nearly 45 percent (US$879.91) is paid out in public sector charges. In the case of the premium multidestination safari package model, the highest charges are corporate income tax (31.85 percent) followed by park fees (27.3 percent) and VAT (11.5 percent). These three charges alone account for nearly 70 percent of all public sector charges incurred by a tour operator and the tourist. This context highlights a commonly heard complaint about the lack of competitiveness of park fees in Kenya.

Table A3.5. Profile of Public Sector Taxes and Levies

	US$	% of Total
Visa	78.00	8.9
Airport tax	20.00	2.3
Tax/surcharge (flight)	38.00	4.3
KAA charges	15.31	1.7
Park fee (visitor)	**240.00**	**27.3**
Park fee (vehicle)	6.43	0.7
Corporate income tax	**279.92**	**31.8**
VAT	**101.10**	**11.5**
Service tax	50.20	5.7
Training levy	10.04	1.1
Fuel levy	1.92	0.2
Speed governance	0.01	0.0
Driver/guide (PSV)	0.01	0.0
Guide license (Ministry of Tourism)	0.01	0.0
Pay as you go (Ministry of Finance)	30.00	3.4

(Continued)

[54] Although the current fiscal environment has contributed to greater fluctuation for U.S. tour operators, the commission rate can be benchmarked at 30 percent (20 percent for wholesalers plus an additional 10 percent for retailers). In the case of the United Kingdom, the commission rate is traditionally 20 percent paid to wholesalers.

	US$	% OF TOTAL
NSSF/NHIF	6.60	0.8
Ministry of Tourism license	1.17	0.1
Local council license	0.35	0.0
Local council – environmental charges	0.64	0.1
Informal charges	0.20	0.0
Total	**879.91**	**100.0**
% of Total Expenditure		**10.5**
% of Local Expenditure		**44.9**

Source: Global Development Solutions, LLC

The distribution of public sector charges indicates that the Ministry of Finance collects more than 52.4 percent of these overall charges, followed by KWS/County Council (28.1 percent) and customs and immigration (8.9 percent).

Table A3.6. Distribution of Public Sector Charges

	US$	% OF TOTAL
Ministry of Tourism	1.18	0.1
Ministry of Transportation	75.24	8.6
KWS/County Council	247.42	**28.1**
Ministry of Finance	461.22	**52.4**
Ministry of Education	10.04	1.1
Ministry of Health and Social Welfare	6.60	0.8
Customs and Immigration	78.00	**8.9**
Informal charges	0.20	0.0
Total	**879.91**	**100.0**

Source: Global Development Solutions, LLC

Box A3.3. Are Park Fees in Kenya Competitive?

A common complaint heard from many tourists and tour operators is that park fees in Kenya are not competitive compared with Tanzania and South Africa.

In the past the common argument among Kenya public sector officials and some private operators was that park fees should be increased on par with Tanzania, and as of the January 2009 increase, KWS tariff rates are now higher than in Tanzania. This line of reasoning is advisable if it follows that improved revenue flow for public sector agencies will improve the current low levels of public sector investments in infrastructure development and maintenance. However, it is not clearly evident that there is a positive correlation between increase in park fees and improvements in physical infrastructure within and outside parks and game reserves.

Another interesting note regarding park fees is that both Tanzania and South Africa substantially decrease park fees for their residents and citizens to help encourage domestic tourism. In comparison, park fees for Kenyan residents, while lower than fees charged for nonresidents, are notably higher than those for residents of Tanzania and South Africa.

Clearly, the ability of tour operators to deliver high-quality wildlife tourism packages will be a function of the effectiveness of implementing a long-term conservation and wildlife management initiative that engages local communities and provides them with an equitable distribution of economic benefits. Furthermore, park fees can be a useful tool for encouraging domestic tourism with the added benefit of increasing conservation and preservation awareness among locals.

Source: Global Development Solutions, LLC

Table A3.7. Comparison of Selected National Park Fees (in US$)

Kenya			Tanzania			South Africa		
Citizen	Premium Parks:	3.82	Resident	Serengeti:	1.28	Citizen	Kruger National Park:	4.55
	Wilderness Parks:	3.82		Kilimanjaro:	1.28		Kgalagadi Transfrontier National Park:	4.13
Resident	Premium Parks:	12.74	Non-resident	Serengeti:	50.00	SADC	Kruger National Park:	9.09
	Wilderness Parks:	12.74		Kilimanjaro:	60.00		Kgalagadi Transfrontier National Park:	8.26
Non-resident	Premium Parks:	60.00				Non-resident	Kruger National Park:	18.18
	Wilderness Parks:	50.00					Kgalagadi Transfrontier National Park:	16.53

Source: Compiled by Global Development Solutions, LLC

Safari-Beach Combination Package

a. Overview and summary findings

The safari-beach mid-price tour package is possibly the most popular tourism product available in the Kenyan market. This type of package exposes the tourist to a number of different parks and game reserves while offering relief from the long, dusty game drives and including a quiet stay along the coastal area in Mombasa. In many respects this type of package falls under the mass-volume business, as the clientele is relatively young (early-20s to mid-30s), with limited disposable income. European tourists, particularly from the United Kingdom, purchase many of these packages.

The safari-beach combination considered in this analysis highlights the reliance of this type of product on foreign tour operators. Kenyan suppliers depend upon foreign tour operators to produce a viable flow of tourists through their pipeline. Although this is beneficial for the Kenyan sector, it also creates a marketplace where foreign tour operators can leverage their ability to buy "in bulk" and thus, expect high discounts. It is argued that the overall structure of this type of business has contributed to Kenyan operators experiencing difficulty with cash flow and having an ability to reinvest in their businesses consistently. Of course, this hampers individual operators and it also hampers the Kenyan destination as a group to be competitive over the long term with other options travelers consider.

b. The product

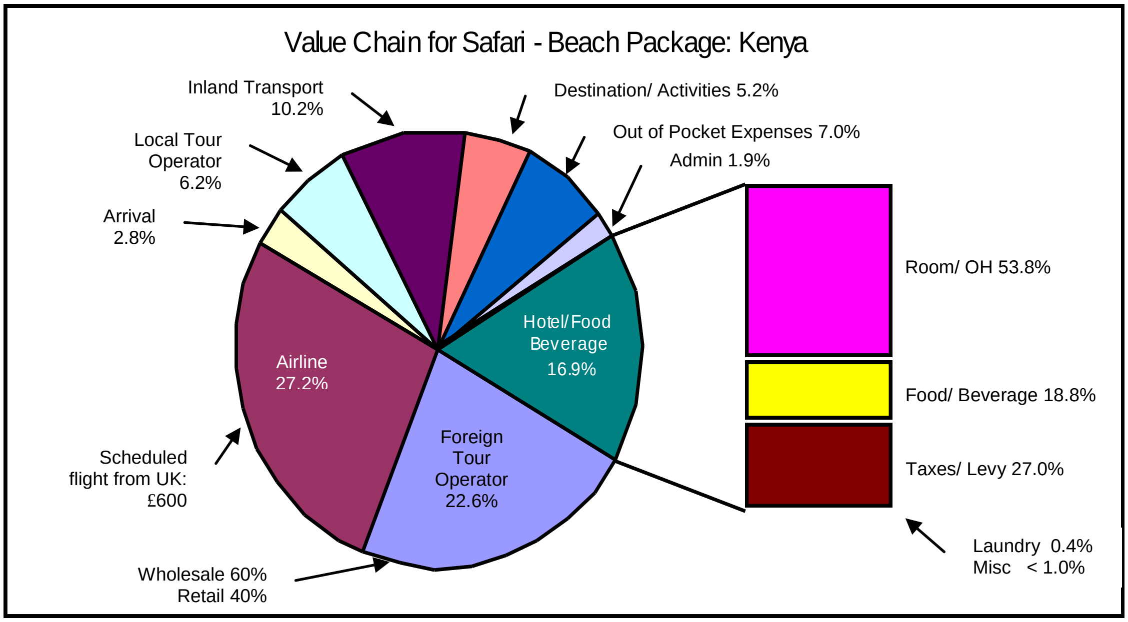
The package highlighted for the value chain analysis profiles an eight-day/six-night safari-beach package purchased by a tourist coming from the United Kingdom. The retail price of the package was US$2,600, but with out-of-pocket expenditures, the total expenditure was US$2,872 (refer to the figure A3.4 below). The package includes airfare to and from the United Kingdom, one-night stay in Nairobi on the day of arrival, a visit to three different parks (Aberdare, Amboseli, and Tsavo West), followed by a three-day stay in Mombasa at a coastal resort hotel. Prior to departure, the tourist is treated to a lunch feast at the Carnivore in Nairobi, and, finally, shuttled back to the Jomo Kenyatta Airport for departure.

c. The value chain

The package highlighted for this value chain analysis is presented below.

Figure A3.4. Safari - Beach Package Value Chain Analysis

Package Features:	8 days/6 nights Safari Beach (full board)
Retail Package Price:	$2,600.00
Total Expenditure:	$2,872.00
Total In-Country Expenditure:	$1,455.31 (50.7% of total expenditure)
Public Sector Charges:	$489.60 (33.6% of in-country expenditures)



Findings

High Cost of Airfare: The safari-beach package includes round-trip flight from the United Kingdom on a regularly scheduled flight. Generally, such packages offer discount prices that range from £450–£600 (US$585–US$780). During peak season typical airfare from Europe on a scheduled flight generally does not drop much lower than the prices indicated here. Generally, there is adequate competition within the airline industry, and with Virgin Atlantic joining the European Union-Kenya route, tourists can expect to have an increasing number of price options. However, forecasted airfares are not expected to drop much more than they are currently.

High Commissions Paid to Foreign Tour Operators: Kenya-based tour operators in the mid-class tour package business depend heavily, if not exclusively, on foreign tour operators to book package tours to Kenya. Unlike premium tour package operators, mid-class package operators do not have the option of establishing an office in Europe. Here again, as the use of the Internet expands, options for marketing to the mass-tourism market in Europe for Kenya-based tour operators may change. But for now, reliance on foreign tour operators is an essential element of the mid-class mass-tourism market.

Amount Spent Locally: Although value chain figure A3.4 indicates that hotel/food/beverage is the third highest expenditure, after deducting the cost of round-trip airfare and foreign tour operator commissions, US$1,455.31 remains to be spread over eight days to cover local transportation (flight and ground transport), lodging, and food/beverages, and profits.

The challenge facing the mid-class mass-tourism market, particularly in Kenya, is the operators' complete reliance on foreign tour operators for attracting tourists. As a result, foreign tour operators gain considerable leverage over Kenya-based tour operators and squeeze negotiating wholesale package prices.

Foreign operators are often able to push down the prices minimizing the opportunity for Kenyan operators to achieve sizable profits. This, in turn, has a substantial impact on the ability of local operators to reinvest in their facilities, thereby dimming their hopes of moving up in the market in the premium tourism segment.

As table A3.8 indicates, daily operating revenues, particularly in the coastal hotel, are very low. Specifically, operators have US$39/day to cover such costs as food and beverage, room amenities, overhead, and taxes, as well as to make a profit.

Table A3.8. Room/Food/Beverage and Overhead Expenditures for Safari-Beach Package

SAFARI CAMP	COST/DAY (US$)	% OF TOTAL
Beverage	6.16	8.8
Food	8.71	12.4
Household items	1.46	2.1
Laundry	0.71	1.0
Miscellaneous	0.01	0.0
Room/overhead	33.35	47.6
Subtotal	*30.40*	*72.0*
VAT	11.20	16.0
Service tax	7.00	10.0
Training levy	1.40	2.0
Total	**70.00**	**100.0**
MOMBASA	**COST/DAY (US$)**	**% OF TOTAL**
Food and beverage	4.03	10.3
Room amenities	2.35	6.0
Room/overhead	21.70	55.7
Subtotal	28.08	72.0
VAT	6.24	16.0
Service tax	3.90	10.0
Training levy	0.78	2.0
Total	**39.00**	**100.0**

Source: Global Development Solutions, LLC

Kenyan-based operators benefit from the pipeline of travelers provided by foreign tour operators. However, the trade-off for Kenyan operators is that foreign tour operators squeeze Kenya profit margins by leveraging their scale and ability to guarantee large blocks of business.

High Public Sector Charges: As indicated previously, the level of local expenditure after deducting the cost of round-trip airfare and commission payments to foreign tour operators is limited. But in addition to these deductions, operators must deduct another 33.6 percent in public sector charges to pay for taxes, levies, and fees (tables A3.9 and A3.10).

Table A3.9. Public Sector Taxes and Levies

	US$	% of Total
Visa	50.00	10.2
Airport tax	20.00	4.1
Tax/surcharge (flight)	38.00	7.8
KAA charges	15.31	3.1
Park fee (visitor)	**120.00**	**24.5**
Park fee (vehicle)	8.57	1.8
Corporate income tax	53.34	10.9
VAT	**108.78**	**22.2**
Service tax	**55.50**	**11.3**
Training levy	11.10	2.3
Fuel levy	2.14	0.4
Speed governance	0.01	0.0
Driver/guide (PSV)	0.01	0.0
Guide license (Ministry of Tourism)	0.01	0.0
Pay as you go (Ministry of Finance)	2.97	0.6
NSSF/NHIF	0.65	0.1
Ministry of Tourism license	1.76	0.4
Local council license	0.53	0.1
Local council – environmental charges	0.74	0.2
Informal charges	0.20	0.0
Total	**489.60**	**100.0**
% of Total Expenditure		**17.1**
% of Local Expenditure		**33.6**

Source: Global Development Solutions, LLC

Table A3.10. Distribution of Public Sector Charges

	US$	% of Total
Ministry of Tourism	1.77	0.4
Ministry of Transportation	60.15	**12.3**
KWS/County Council	129.84	**26.5**
Ministry of Finance	220.58	**45.1**
Ministry of Education	11.10	2.3
Ministry of Health and Social Welfare	0.65	0.1
Customs and Immigration	50.00	10.2
Informal charges	0.20	0.0
Airport charges (KAA)	15.31	3.1
Total	**489.60**	**100.0**

Source: Global Development Solutions, LLC

For mid-class mass-tour operators offering a beach-safari tour package, park fees (24.5 percent), value added tax (22.2 percent), and service taxes (11.3 percent) constitute 58 percent of the total public sector charges. Given the limited earnings gained from this type of tour package, it is a challenge for operators to determine how they can reinvest in their facilities to move their product up-market.

2. THE COASTAL PRODUCT LINE

Kenya's natural coastal assets provide the basis for a high-volume product line with a hub in Mombasa. Highly dependent upon air transport availability, this segment caters primarily to U.K. and European package travelers looking for a leisure experience with guaranteed sun, sand, and sea. The coast of Kenya must compete with destinations far and wide—-from the densely developed Canary Islands to the luxury offerings of Sharm El Sheikh in Egypt.

The value chain analysis for this product line reviews sample tour packages for full-board, all-inclusive, and special interest sport-fishing tours along Kenya's coast.

Beach Package: Full-Board

a. Overview and summary findings

Full-board packages offer travelers the convenience of many aspects of their travel (such as lodging, airfare, transfers, and food) being included in one price. In the case of the full-board package, all meals are included and generally served within the hotel. This provides a convenience and sense of security for travelers, particularly those visiting a destination for the first time, of food safety.

In this example, the cost structure of such packaging is detailed. This highlights the challenge hidden in such a structure that hampers the operators to become less dependent on foreign tour operators to supply tourists.

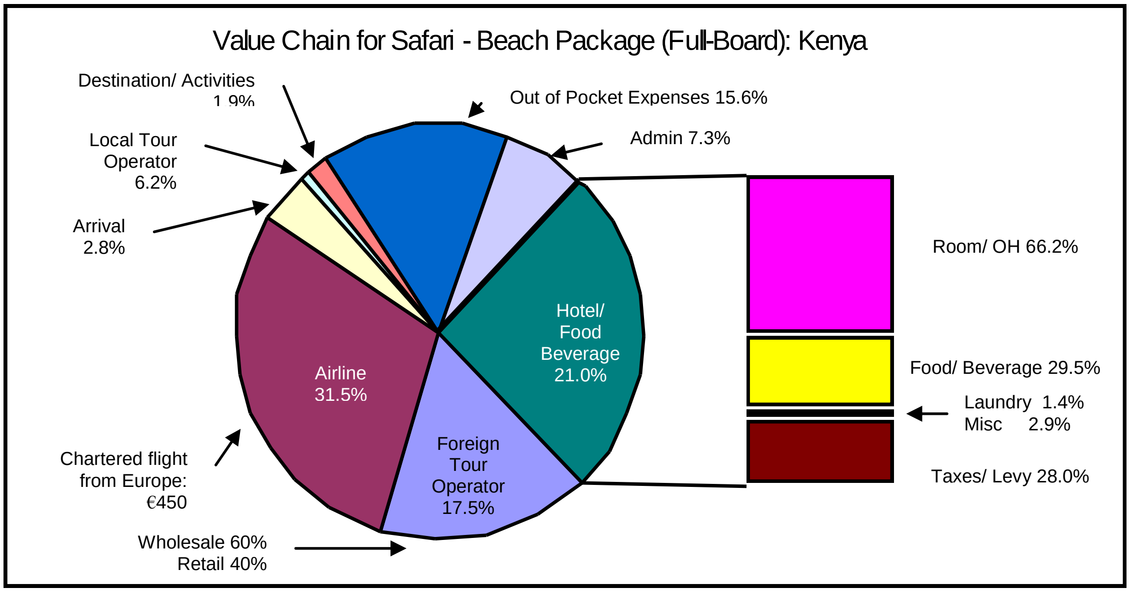
b. The product

The tour package selected for this value chain analysis is an example of a beach package with full board. It is a nine-day/seven-night package at a three-star hotel on the Mombasa coast. In this instance, a tourist from Europe paid a retail price of US$1,300 for the package, which includes round-trip airfare, commission payments to the foreign tour operator, arrival charges, transfers to and from the airport, hotel, and food and beverages. When out-of-pocket expenditures are accounted for, the total expenditure was US$1,854.20.

c. The value chain

Figure A3.5. Value Chain Beach Package (Full-Board): Kenya

Package Features:	9 days/7 nights Beach (full board)
Retail Package Price:	$1,300.00
Total Expenditure:	$1,854.20
Total In-Country Expenditure:	$959.51 (51.7% of total expenditure)
Public Sector Charges:	$289.60 (36.7% of in-country expenditures)



Findings

High Proportion of Airline Charges: As with most mid-class tour packages, airline charges generally dominate the tourist's value chain. This package is no exception. It is important to note that because of the low price of the tour package, the airline's percentage share of value added, at 31.5 percent, is somewhat higher than other tour packages.

High Cost of Maintenance and Upkeep: The second highest value addition for this product was hotel/food and beverage (21.0 percent). As figure A3.5 indicates, room and overhead charges dominate (66.2 percent) this category of value addition, which reflects the high cost of maintenance and upkeep of aging facilities. The big challenge for hoteliers is that for this type of package, all costs associated with servicing a guest, including overhead and profits, must be covered for US$55.71/person/bed night.

High Commission Payments to Foreign Tour Operators: Mid-class, mass-market, mass-tourism packages rely heavily on foreign tour operators to attract an adequate volume of tourists to cover costs. For a three-star hotel on Mombasa's coast to break even, it is estimated that a 65 percent occupancy rate for seven months out of the year is necessary. In contrast, premium safari tent camps break even at a 40 percent occupancy rate. In this example, the proportion of commission paid to foreign tour operators is relatively high. Here again, in the absence of investments to improve the quality of the facilities and the tourism experience, the likelihood of Kenya-based tour operators and hoteliers profitably transitioning from the volume tourism market is limited.

Commission payments to the local tour operator are less than 1 percent of the total value of the tour package. Interviews with local tour operators indicated that to attract a higher visitor volume, local tour operators do not take commission on groups larger than 200 guests. In return, however, arrangements are made with hotel managers to encourage guests to take a Mombasa City tour through the local tour operator at a cost of US$35/person. Of this amount, the tour operator takes a 10 percent commission to help cover the original cost of booking guests at a local hotel.

Beach Package: All-Inclusive

a. Overview and summary findings

All-inclusive tour packages have become increasingly popular, especially as a mass-market, mass-tourism product. One rationale for tour operators to promote all-inclusive tour packages, and one of the reasons why an increasing number of tourists prefer all-inclusive tourism products, is that the cost of the holiday is predictable. This predictability comes from the fact that most essential goods and services are included in a single, prepaid package price. As a result, with the exception of some discretionary out-of-pocket spending, the tourist need not be concerned with carrying significant amounts of cash to cover additional expenses.

For tourists watching their budgets or comparing a variety of possible trips, the all-inclusive can be an attractive option. Yet while a package price marketed as "all expenses included" is appealing to tourists, it is controversial with tourism policy makers since the distribution of the economic impact of such packages continues to be debated. This value chain example adds to the debate. It reinforces the fact that all-inclusive packages are not homogenous in their structure or their economic value. This discussion also suggests opportunities to spread the economic benefits to a number of suppliers at the destination rather than primarily overseas.

b. The product

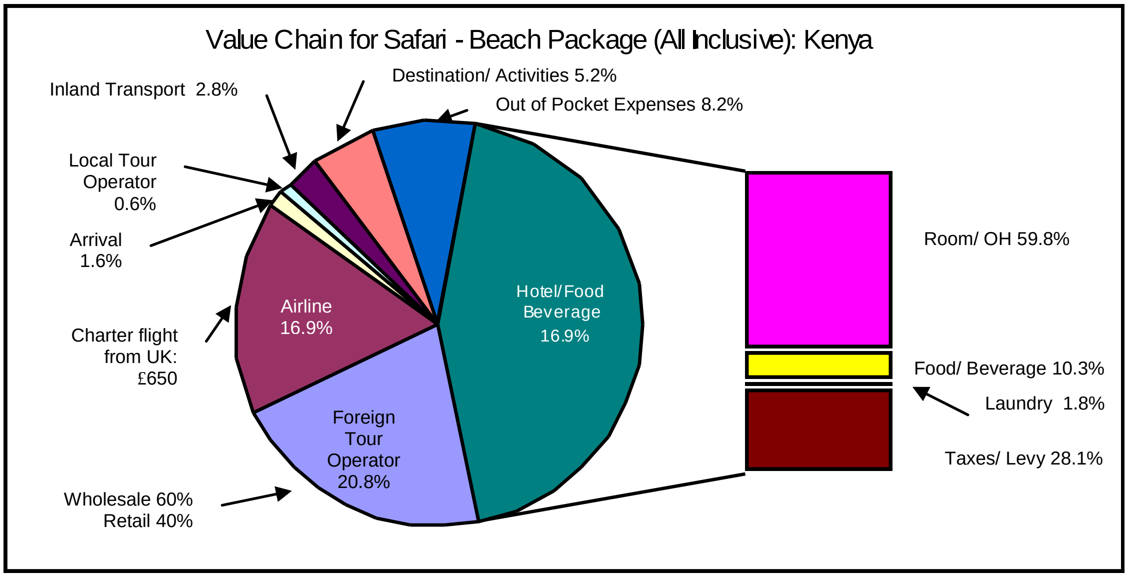
The all-inclusive beach package profiled for this value chain analysis is a 21-day/19-night holiday package from the United Kingdom with a retail price of US$4,158, including round-trip airfare and commission payments to the foreign tour operator. In addition to the beach package, the tourist took a two-day safari excursion, which was an out-of-pocket expense. Including the out-of-pocket expense, the total expenditure by this tourist was US$4,986.97. As reflected in the number of days of this package, holiday travelers purchasing all-inclusive beach packages tend to stay longer than other categories of travelers.

c. The value chain

Similar to the two previous beach products reviewed in this value chain analysis, foreign tour operators play an important role in securing paying tourists for all-inclusive packages to Kenya's coast. Also, Kenyan operators are dependent upon the air access provided through these packages—and included in the price.

Figure A3.6. Value Chain for Beach Package (All-Inclusive): Kenya

Package Features:	21 days/19 nights Beach (all inclusive)—2 day Safari (out of pocket)
Retail Package Price:	$4,158.00
Total Expenditure:	$4,986.97
Total In-Country Expenditure:	$3,065.43 (61.8% of total expenditure)
Public Sector Charges:	$869.96 (28.4% of in-country expenditures)



Findings

High Value Added for Hotel/Food and Beverage: As a reflection of the longer duration of stay, hotel/food and beverage constitutes 43.8 percent of the total value added. Compared to other tourism products, the all-inclusive beach package has the highest expenditure for hotel/food and beverage. As with other beach facilities, room and overhead costs are high (59.8 percent). Further breakdown of room and overhead charges indicates that the profit margin constitutes a relatively high proportion, 49.16 percent, of the total overhead costs. At the same time, however, nearly 65 percent of this profit is being used to service existing debt.

Table A3.11. Room Charge and Overhead Analysis

	TOTAL COST (US$)
Profits	31.40
Overhead	32.47
Maintenance	3.90
Electricity	6.49
Water	2.60
Salaries	19.48
Total	**63.87**

Source: Global Development Solutions, LLC

Optimizing Tourism Expenditures in an All-Inclusive Tour Package: To help optimize the tourist's expenditures, hotel managers use a number of strategies to help squeeze a bit more profit out of each tour package. At least three strategies are commonly used:

- ***Placement of snacks throughout the facility:*** In an all-inclusive resort environment, all food and drinks, including alcoholic beverages, are included in the package. In this context, one way that hotel managers reduce the variable costs associated with consumable items is by stocking the bar with local rather than foreign spirits, as well as placing snacks in numerous locations so that guests fill up on snacks rather than consuming large meals at lunch and dinner. This strategy helps to reduce the cost of food and beverages 20–35 percent.
- ***Promoting excursions:*** As indicated in this value chain analysis, the guest in this profile went on a two-day safari excursion, which is not included in the tour package. The excursion generally includes accommodations and food. As a result, during the period of the excursion, the hotel saves money on the food and beverages that the guest would have otherwise consumed if he or she did not leave the hotel complex.
- ***Offering free transportation to nearby destinations and activities:*** The hotel offers scheduled shuttle service to nearby destinations and activities, including transport service to the city center. Here again, a benefit of the guest spending time outside of the hotel complex is the reduction of the amount of food and beverages that a guest would consume on the hotel premises.

In the last two examples, the management's objective is to encourage guests to go outside of the hotel facilities so that the consumption and cost of food and beverages per guest in the hotel is reduced. While limiting the hotel operators' cost, this practice also provides an opportunity for local communities to capture additional tourism dollars otherwise not accessible. In this context, the value chain analysis showed that out-of-pocket expense (US$407/person/stay) for this tourism product is the highest compared to all other products analyzed for this study.

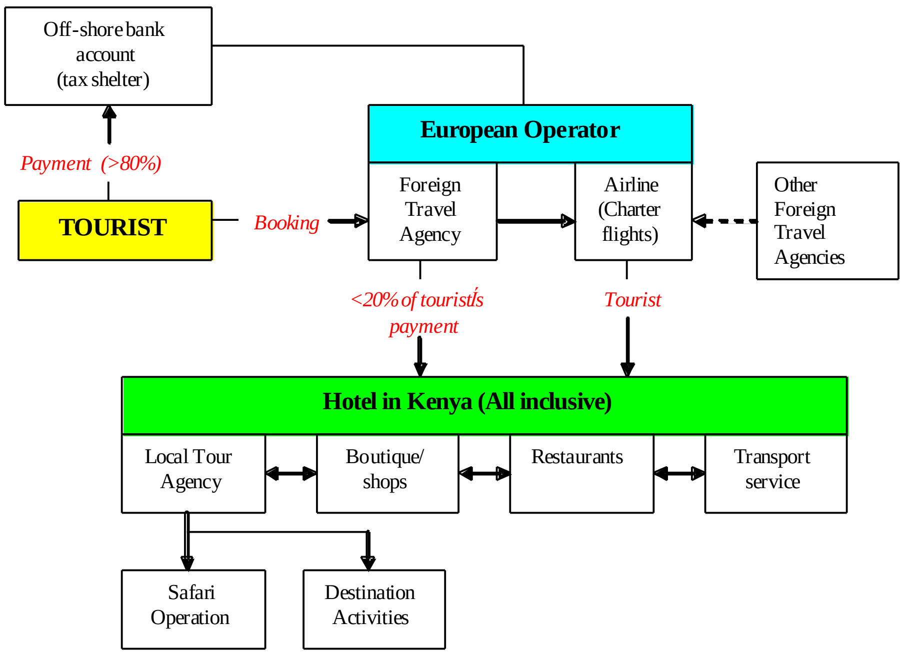
Vertical integration of the Tourism Value Chain: Another reason for the heated debate over the benefits of all-inclusive tour packages on the local economy revolves around the impact that vertically integrated tour operations have on the tourism sector in Kenya. Specifically, some tour operations in Mombasa are completely integrated, meaning that one operating company owns and operates everything from the foreign tour agency, airline, and local hotel in Kenya, as well as a local tour operation, restaurants, souvenir shops, and destination activities (figure A3.7). The actual distribution of benefits for this kind of operation is a continuing point of controversy.

In this particular supply chain structure, a tourist makes reservations for an all-inclusive tour package to Mombasa through a foreign travel agent. An advance payment is required to secure a seat on a charter flight and a room at the resort.

Once a reservation is confirmed, only about 20 percent of the value of the tourist's invoice is allocated to the hotel in Mombasa. The remaining 80 percent or more is channeled to a tax-free offshore account.

With only 20 percent or less of each guest's costs covered, the hotel in Mombasa must generate the remaining 80 percent of its operating costs through other local subsidiaries cross-subsidies. For example, guests are encouraged to take a safari or other excursions, but only through subsidiary companies operated by the foreign tour operator (all payable in euros). Proceeds from such sales are then used to cover the remaining 80 percent of the hotel operating costs. This pattern of cross-subsidies is used across the entire network of companies owned by the foreign tour operator.

Figure A3.7. Structure of a Vertically Integrated All-Inclusive Operation in Kenya



Notes
1. European Operator is fully vertically integrated owning the foreign travel agency all the way down to the local safari operation in Kenya
2. More than 80% of touristÍs payment directed to an off-shore account to minimize EU income tax
3. Less than 20% of touristÍs payment is sent to the hotel in Kenya. Remaining operating costs for the hotel is cross-subsidized through other operations owned by the European Tour Operator (local tour agency, boutique/shops, restaurants, transport service, safari operations and destination activities).
4. Cross-subsidies and transfer pricing is used to minimize profit for each operation to limit the amount of income tax paid in Kenya.

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The net effect of this cross-subsidy mechanism is that each operating company within the network must contribute its proceeds to cover shortfalls in operating costs incurred by the hotel. In turn, this minimizes the net profit of each operating company within the network, thus reducing the company's overall tax liability in Kenya. In short, only accepting euros from guests staying at the facility removes a part of the exchange rate risk faced by other operators who only accept Kenyan shillings.

For a vertically integrated all-inclusive operation in Kenya, it can be argued that this type of all-inclusive operation yields financial benefits to the local economy, but they are minimal at best. More important, however, this structure minimizes the operation's tax liability in Kenya, possibly even giving the operator an unfair advantage over other tour operators that pay local taxes.

These examples suggest that not all tour packages (i.e., all-inclusive) have a negative impact on the tourism sector in Kenya. However, it is also true that some tour operators offering all-inclusive packages, such as the one profiled in the example provided above, undermine the image and reputation of Kenya, particularly Mombasa, as a quality tourist destination.

Box A3.4. The Great Debate: Local Economic Benefits of the All-Inclusive Tour Package

It is generally thought that all-inclusive tour packages do not adequately benefit the host economy. The example of the all-inclusive tour package presented above clearly provides benefits, not only to the hotels, but also to local businesses that benefit from guests spending money outside the hotel premises. In fact, this example highlights a higher level of local impact than typically believed. However, there are variations on all-inclusive packages which have differing economic impact.

There are a number of operators in Mombasa selling all-inclusive tour packages that are not quite the same as the examples presented in this analysis. For example, at one all-inclusive facility guests are provided with the bare minimum of services and amenities. Air conditioning is available in the rooms, yet in order to use the air conditioning unit, additional fees must be paid. While meals are included in the package, an extra egg or a slice of bacon carries an additional charge for the guest. All such charges must be paid in Euros. In fact, within the facility, only Euros are accepted.

This accommodation setting is sold to tourists as an "exclusive" resort—and such a facility adopts practices that deter guests from ever leaving the complex and encourages expanding out-of-pocket money within the facility.

Source: Global Development Solutions, LLC

Beach and Sport-Fishing Package

a. Overview and summary findings

While a large proportion of coastal tour operations offer full-board or all-inclusive tour packages, in the north coast there are a number of resorts that offer bed-and-breakfast packages targeted toward three distinct clients:

- Sport fishermen/divers
- Beach goers
- Local (Kenyan) tourists

Beach tourists to Kenya tend to have an average stay of about 10 days, while tourists coming for sport fishing stay about 7 days, of which 4 days are spent on the water fishing. The north coast is one of the few locations in the world where sport fishermen can fish for all three types of marlin: striped, blue, and black. Other large sport fish, such as broadbill swordfish, barracuda, and dorado, are also found in these waters. Sport fishing is extremely popular among South African tourists who can take advantage of Kenya Airways' direct flight from Johannesburg to Mombasa each Sunday. Coastal resorts are often managed as membership clubs attractive to both locals and overseas visitors interested in the specialized activities provided.

In the instance of this value chain, the positive value of a niche tourist activity is demonstrated. The membership club/resort business benefits from a diversified client base and high repeat bookings—many of these made directly through the Internet.

b. The product

Unlike many coastal tour operations, the bed and breakfast profiled here offers a "membership club" to local residents who come to the resort to take advantage of a multitude of water sports activities or simply to have a drink and dine at the resort restaurant. Approximately 55 percent of the client base is local, and the remaining 45 percent are foreign tourists. To help attract local tourists, the resident rates are 30 percent lower than nonresident rates. This is contrary to most other coastal operations which charge more for local tourists to help offset the small margins gained from foreign tourists.

This type of operation draws revenue from three different sources:

- Club membership: 28–35%
- Sport fishing: 30–35%
- Beach tourists: 30–42%

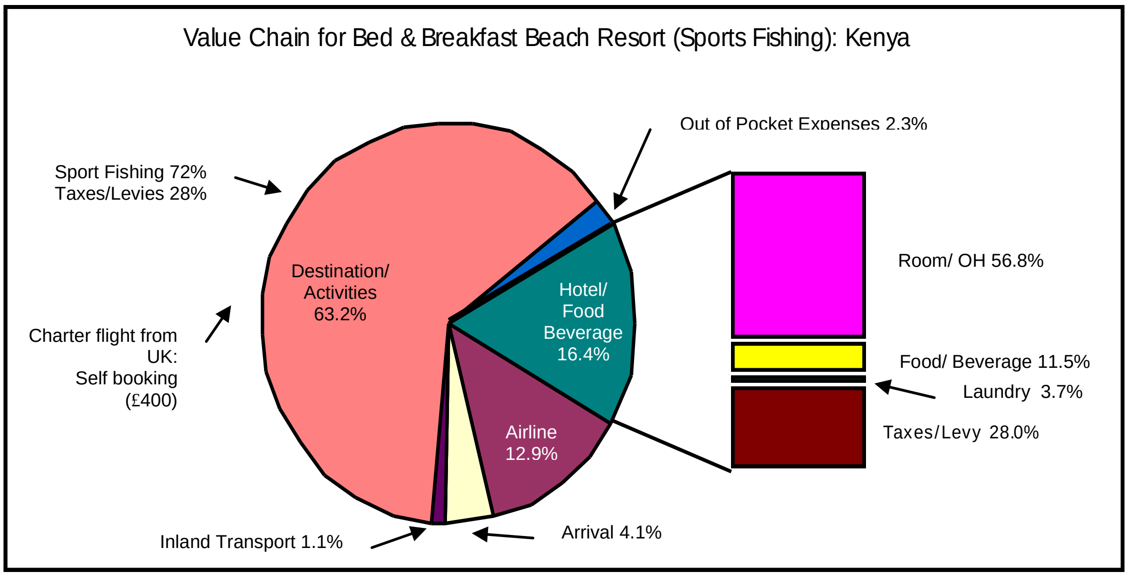
This operation enjoys a repeat foreign client base of more than 70 percent.[55] The substantial repeat client base, combined with a focus on attracting local clientele, helped this operation weather the downturn in tourism arrivals in the early to mid-2000 without much trouble.

c. The value chain

The bed-and-breakfast package selected for this value chain analysis involves a seven-day/six-night sport-fishing package, with a total tourist expenditure of US$6,152.89.

Figure A3.8. Beach Resort (Sport Fishing) Value Chain

Package Features:	7 days/6 nights Beach Resort (Bed & Breakfast)
Retail Package Price:	none
Total Expenditure:	$6,152.89
Total In-Country Expenditure:	$5,340.89 (86.8% of total expenditure)
Public Sector Charges:	$2,387.12 (44.7% of in-country expenditures)



Findings

Sport Fishing—A Lucrative Product for Coastal Tourism: As evident from the value chain diagram above, destination activities, namely sport fishing, dominate the value chain (63.3 percent of total expenditure, of this 72 percent comes from sport fishing).

On average, sport fishermen who come to the resort go fishing four out of the seven days while paying approximately £500/trip/person (US$990), which includes all of the necessary fishing gear, guide, lunch, and beverages. The four-day fishing activity alone generates revenue of nearly US$3,960 for the local economy. The willingness of tourists to pay a high price for the sport fishing experience coupled with the volume of repeat clients at this resort reflects the value of niche tourism products, such as sport fishing.

High Value Added from Hotel/Food and Beverage Service: According to the value chain analysis, the resort operation is able to charge US$194/person/bed night for room, breakfast, laundry, and other

[55] One guest has returned to the facility each year for the past 22 years with a stay of more than three weeks. On average, repeat guests have returned to this resort four to five times. Once a reservation is made, a guest is required to make a 50 percent deposit. With a 70 percent repeat client base, deposit payments alone help smooth out revenue fluctuations during the low season.

services. This substantially higher rate (2–4 times higher than some of the three-star beach resorts in Mombasa) this resort is able to charge is due to its ability to provide quality service and accommodation.

Closer analysis of the value chain data suggests that more than 23 percent of the room/overhead charges are directed toward maintenance and upkeep while an additional 23 percent is attributed to "other" costs, which include investments in the facility amenities and support infrastructure. By providing a higher quality product, the resort has been able to charge higher prices and thus support the regular maintenance and investment schedule, which, in turn, continues to help attract satisfied repeat guests.

Unlike other tour operations in the coastal region, this resorts' diversified client base enabled it to achieve revenue streams, which enable regular maintenance and upkeep as well as investments in its facilities to upgrade select amenities.

High Public Sector Charges: Somewhat similar to the premium wildlife safari packages profiled in this report, public sector charges for this operation were high—approximately 44.1 percent of total local expenditure.[56] Value added tax, service tax, and training levy accounted for more than 94 percent of the public sector taxes and levies.

Table A3.12. Public Sector Taxes and Levies Summary

	US$	% of Total
Visa	50.00	2.1
Airport tax	20.00	0.8
Tax/surcharge (flight)	38.00	1.6
KAA charges	15.31	0.6
VAT	1,621.82	68.5
Service tax	519.76	21.9
Training levy	103.95	4.4
Ministry of Tourism license	0.11	0.0
Local council license	–	0.0
Local council – environmental charges	0.04	0.0
Informal charges	–	0.0
NSSF/NHIF	0.72	0.0
Total	**2,368.98**	**100.0**
% of Total Expenditure		**10.5**
% of Local Expenditure		**44.9**

Source: Global Development Solutions, LLC

The distribution of public sector charges to government ministries suggests that the Ministry of Finance is the biggest beneficiary, absorbing 90.4 percent of the taxes and levies collected.

[56] In fact, the percentage rate should be higher as it was not possible to calculate and include the corporate income tax for this operation. With a corporate income tax of 30%, it is highly likely that public sector charges for this operation would exceed 50 percent of total local expenditures.

Table A3.13. Distribution of Public Sector Charges

	US$	% of Total
Ministry of Tourism	0.11	0.0
Ministry of Transportation	73.31	**3.1**
Ministry of Finance	2,141.57	**90.4**
Ministry of Education	103.95	4.4
Customs and immigration	50.00	**2.1**
Local council	0.04	0.0
Informal charges	–	0.0
Total	**2,368.98**	**100.0**

Source: Global Development Solutions, LLC

Unique Lesson on How to Develop a Successful Coastal Tourism Operation: Because many guests are repeat clients, more than 70 percent of the bookings are made directly with the resort and 90 percent come through e-mail. The direct relationship that the operator has been able to develop with a client is unusual in the coastal tourism business, yet provides significant benefit.

This operation's attitude toward quality service and a long-term vision regarding the development of the tourism sector in the north coast has enabled the operator to develop its client base in a different manner than other coastal tourism operators. Consequently, this operation sheds light on a number of important issues about developing a successful coastal tourism operation:

- Diversifying the client base to include local tourists helps weather demand fluctuations resulting from political uncertainties and security risks.
- By providing quality service, operators are able to attract repeat clients who book directly with the resort, thus avoid paying commission to foreign tour operators, and, in turn, attract additional tourism dollars to the local economy.
- A bed and breakfast package encourages guests to go out of the resort complex to take advantage of the many local restaurants and encourages interaction between the guests and the local community.[57] This, in turn, has contributed to the development of a more dynamic and vibrant tourism sector.

3. The Business/Conference Product Line

Business/Conference Visitor in a Nairobi Five-Star Hotel

a. Overview and summary findings

Hotel operators, particularly in the five-star category in Nairobi, point to the fact that the tourism market has slowly shifted away from accommodating airline crews, where airlines would reserve blocks of rooms for the entire year at a substantially discounted price. Instead, the current focus is on growing business and conference tourism. Given this shift, the value chain analysis for this product line focuses on a five-star hotel in Nairobi that now caters primarily to business, conference, and leisure tourists.

b. The product

In Nairobi, there are eight five-star hotels with a combined capacity of 1.14 million bed nights. Key characteristics of the business and conference subsector and the visitors coming to Kenya are provided in the table below.

[57] Most guests go out for dinner at least two times per week spending up to KES1,600/person with drinks.

Table A3.14. Basic Characteristics of Business/Conference Visitors in Nairobi

Number of five-star hotels in Nairobi	8
Number of four-star hotels in Nairobi	1
Total number of travelers	
Business	165,148
Conference	16,663
Average stay	
Conference/events	4–5 nights
Businessmen	>10 days
Average bed night price (including breakfast and taxes)	US$165–US$266
Company retreat	45–50%
Individual business	50–65%
Repeat business	50%
Source of reservation	
Local corporate office	65%
Tour operator	25%
Direct	10%

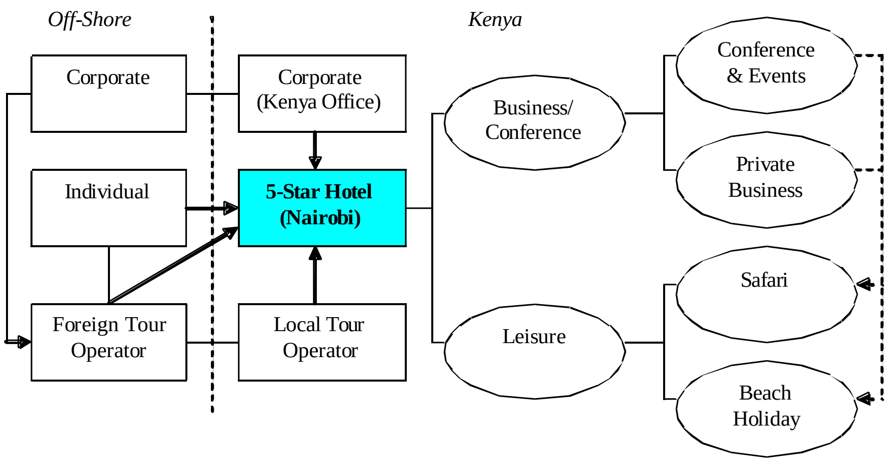
Source: Global Development Solutions, LLC

c. The traveler's booking process

Bookings for five-star hotels are made through three primary channels: corporate branch offices in Kenya, direct booking by the visitor, and through local or foreign tour agents servicing both individual and corporate clients. For the high-end five-star corporate travel, hotels generally receive more than 65 percent of bookings directly from corporate branch offices in Kenya (refer to the figure below).

Business and conference visitors, particularly first-time visitors, generally have very limited amount of free time outside of their business or conference activities. In this context, many first time visitors tend to take weekend excursions, purchasing a fly-in weekend safari package from either the hotel or through a local travel agent.[58] Most first- time business/conference travelers tend to go to the Maasai Mara.

Figure A3.9. Booking and Visitor Activities at a Five-Star Hotel in Nairobi



Source: Global Development Solutions, LLC

[58] No reliable and consistent data on the percentage of first-time business/conference attendees taking weekend safari package were available, but local operators of five-star hotels estimate that substantial a number do take advantage of weekend excursions while in Nairobi.

d. The value chain

The price per night for the five-star hotel selected for this analysis ranges from US$165– US$266. The volume of business determines the room rate that a particular company or organization brings to the hotel. The hotel has four price categories for prospective clients. Each price category differs in price by 15 percent depending on the volume of business that a company or organization is able to bring. For this analysis, the cost per bed night was US$180, including breakfast and taxes.

Prior to both the post-election turmoil and global financial crisis, during the peak season hotels would operate at near 100 percent capacity. Even during the low season, the occupancy rate is still higher than 85 percent. Such high occupancy rates are a reflection of the high demand and shortage of premium accommodations in Nairobi.

Findings

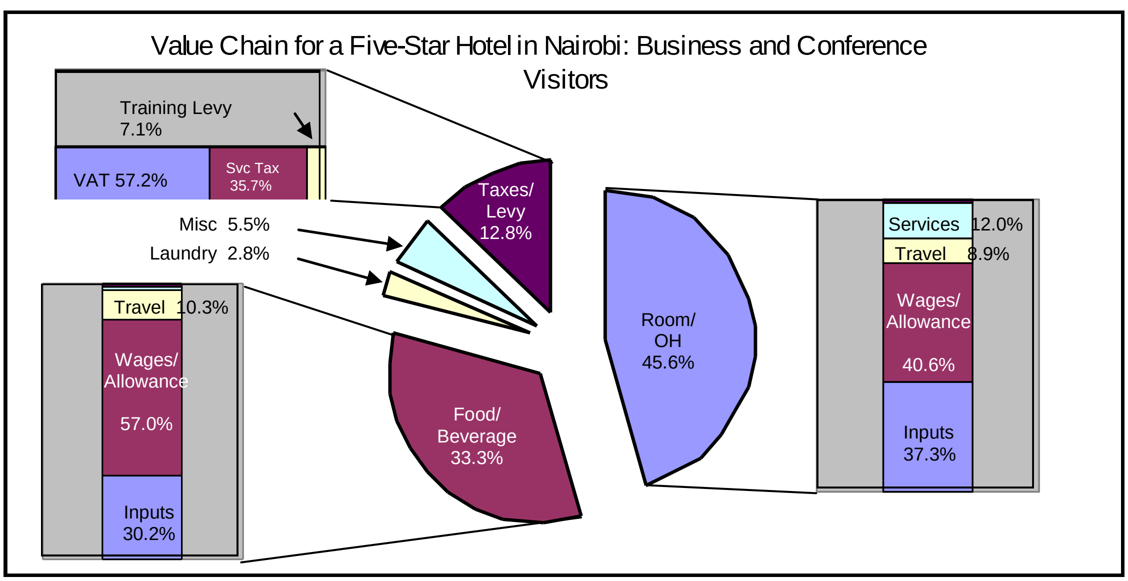
As indicated by the value chain analysis, room and overhead charges accounted for 45.6 percent of the total cost, followed by food/beverage (33.4 percent) and taxes/levy (12.8 percent).

Room and Overhead: The management of the hotel takes pride in the quality of both service offered and its staff. This is reflected in the high proportion of expenditure on wage and allowance (housing allowance)—40.7 percent. According to the hotel staff, a position in such a hotel is a prized job in Kenya, which is reflected in low worker turnover (less than 10 percent).

Locally Sourced Food and Beverages: In the past decade the quality of food and food services available in Kenya has seen remarkable improvements. As a consequence, hotels and restaurants have increased their reliance on local suppliers for both perishable and nonperishable consumable products. The exceptions are wine, of which 100 percent is imported, and spirits (approximately 50 percent is imported).

Figure A3.10. Five-Star Hotel Stay in Nairobi Value Chain

Average bed night price:	$165–$266 (includes breakfast and taxes)
Average length of stay:	
Conferences:	4 nights/5 days
Individuals/business travelers:	>10 days
Repeat business:	>50%



High Tax Rate: Taxes and levy constitute 12.8 percent of the total value chain. Of this amount VAT is 57.1 percent of the total tax bill, followed by service tax (35.7 percent) and training levy (7.1 percent).[59] Taxes, levies, and government fees appear high and possibly may be undermining private sector reinvestment in the tourism sector in Kenya.

Benchmarking Key Value Chain Expenditures for Business/Conference Tourism in Kenya and Tanzania: As indicated in the table below, business/conference tourism in Nairobi is well within the competitive range of similar quality venues in Tanzania. Higher room/overhead charges in Kenya compared to venues in Tanzania reflect the investment in and high quality of service and staff, particularly in Nairobi. At the same time, however, even though hoteliers are increasingly sourcing food and beverage from local suppliers, the benchmarking data suggest that costs are still relatively high compared to venues in Tanzania.

Business/Conference Weekend Safari Excursion

Approximately 35 percent of first-time visitors who come to Kenya for business or conference take a weekend excursion, primarily to the Maasai Mara.[60] Given the limited time available for this category of travelers, the excursion is usually for the weekend only (3 days/2 nights—double occupancy, full-board package, including local airfare).

Table A3.15. Comparison of Key Value Chain Expenditures for Business/Conference Tourism in Kenya and Tanzania

	Dar es Salaam	Bagamoyo	Arusha	Nairobi
Expenditure/bed night	\$220–\$265	\$170–\$195	\$160–\$180	\$165–\$266
Star-ranking	5	4	4	5
Value chain components				
Room/overhead	29.9%	36.9%	36.6%	45.6%
Food/beverage	26.5%	17.6%	16.7%	33.3%
Laundry	3.8%	3.8%	5.8%	2.8%
Out-of-pocket	3.2%	5.0%	4.8%	5.5%
Taxes/levy	36.5%	36.7%	36.1%	12.8%

Source: Global Development Solutions, LLC

Box A3.5. Benchmarking Wage and Allowance Overhead in Kenya and Tanzania

Are investments in skilled labor force for hotel operations comparable in Kenya and Tanzania? A comparison of the wage and allowance line item for hotels in Kenya and Tanzania illustrates the need for further investment and enhanced training.

The subvalue chain for room/overhead indicates that in a five-star business conference facility in Nairobi, more than 40 of the room/overhead charges are applied against wages and allowances for hotel staff, whereas in Tanzania, only 16.0–22.6 percent is applied against wages/allowance (see table below).

(continued)

[59] VAT is charged at 16 percent of revenue, service tax at 10 percent, and the training levy at 2 percent.

[60] The hotel kept no reliable data on the number of business and conference guests who take weekend excursions to either the coast or on a safari. In this context, 35 percent figure is an approximation based on the frequency of guests making direct bookings for excursions through the hotel, which suggests that the figure may be higher as guests frequently make bookings outside the hotel through local travel agents.

Comparison of Value Chain for Room/Overhead in Business/Conference Tourism in Kenya and Tanzania[61]

	Dar es Salaam	Bagamoyo	Arusha	Nairobi
Value chain for room/overhead				
Inputs	33.3%	29.3%	24.0%	37.3%
Wages/allowance	16.7%	22.6%	16.0%	40.6%
Travel	12.0%	6.7%	14.4%	8.9%
Services	2.7%	<0.1%	3.2%	12.0%
Entertainment	5.3%	3.8%	6.4%	1.2%
Other	30.0%	37.6%	36.0%	0.0%

The low level of wage/allowance in Tanzania reflects the poor quality and low skills level of operations staff and the limited number of qualified mid-level managers available in the country. While there are a number of training institutions and schools delivering training for the hospitality sector in Tanzania, the lack of accreditation, poor quality of training, and poor linkage with private industry has resulted in a human resource base in the sector unable to meet international standards for service. In this context, while the quality of training at Utalii College in Kenya may have waned in the past decade, it is still considered one of the best in East Africa.

Another aspect giving Kenya a competitive edge over Tanzania is that Tanzania continues to face a critical problem with regard to a shortage of mid-level managers. Currently, labor regulations in Tanzania are highly restrictive with regard to issuing visas to mid-level managers in the hospitality sector from foreign countries, particularly from Kenya and South Africa. Thus, continuing to expand training and offering competitive wages for supervisory and mid-level management positions in the hospitality sector to avoid possible "leakage" of administrative and management talent to competing destinations is expected to be a critical factor for maintaining and improving the quality of service delivery in Kenya's tourism sector.

Source: Global Development Solutions, LLC

a. Overview and summary findings

For a five-day conference in Nairobi, the average daily expenditure of a business/conference traveler is approximately US$180, or US$900/week. The same visitor, however, will expend more than US$930 for a weekend excursion over a three-day period. In this context, promoting such excursions is an important aspect of revenue generation associated with business/ conference tourism. With this noted, however, the value chain analysis suggests that more than 73 percent (US$679) of the total expenditure for such an excursion is applied toward maintenance, repair, utilities, and other operating costs of service providers across the value chain. As a consequence, only a portion of the remaining 27 percent is available to be applied against direct benefits to the local community. These figures suggest that the high proportion of expenditure on maintenance, repair, utilities, and other operating costs reflects the relatively poor condition of the tourism support infrastructure in the Maasai Mara and the urgent need for investments in physical infrastructure.

b. The product

The example used for this value chain analysis is a safari package at a five-star lodge in Maasai Mara. The total value of the weekend package is US$930 (refer to the diagram below). Taking into account that the tourist made arrangements directly with the hotel, almost 100 percent of the expenditure associated with this weekend package is absorbed by the local economy.[62]

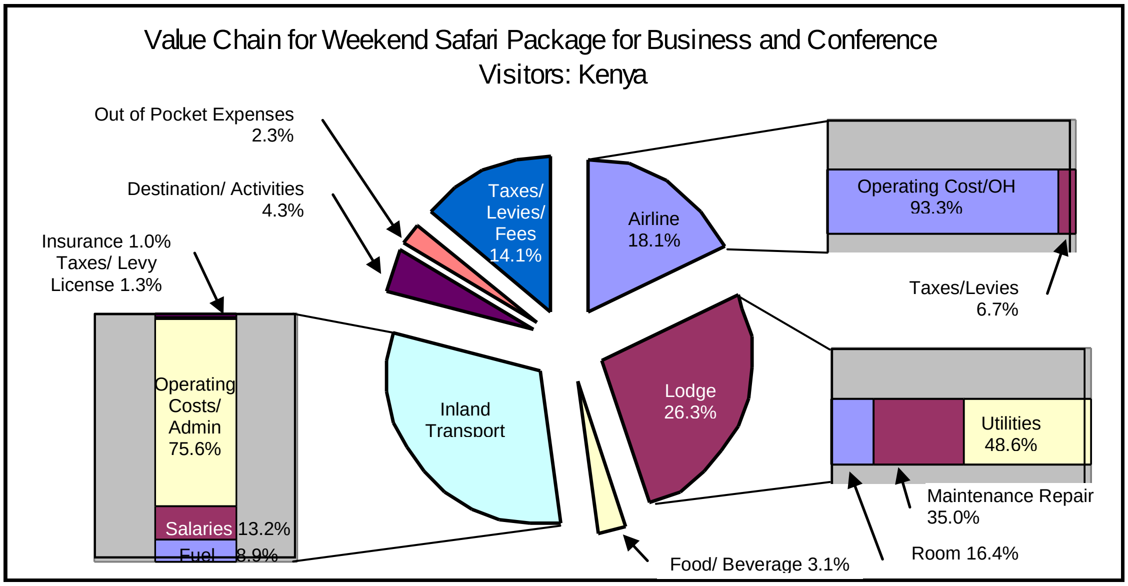
[61] It was not possible to disaggregate the 'Other' category for food and beverage as there were too many small expenditures under this category and the accuracy of the data for each individual item was not consistent.

[62] Some beverages like spirits and wine, and spare parts for vehicles and equipment, needed to operate the lodge are imported or purchased through a local import agent.

c. The value chain

Figure A3.11. Safari Package Value Chain

Package Features:	3 days/2 nights Safari Maasai Mara (full board double occupancy)
Retail Package Price:	$930
Total Expenditure:	$930
Total In-Country Expenditure:	$930 (100% of total expenditure)
Public Sector Charges:	$170.65 (18.4% of in-country expenditures)



Findings

The highest cost for such an excursion is inland transport (31.8 percent) followed by lodging (26.3 percent) and local airfare (18.1 percent).

High Cost of Maintaining Vehicles: As evident from the value chain figure A3.11 above, operating and administrative costs (75.6 percent) associated with operating vehicles in the Maasai Mara dominates the cost of inland transport. This high cost reflects the poor road conditions within and around the Mara, and the resulting damage and constant maintenance required for the upkeep of the vehicles. The cost of maintenance and spare parts is estimated to be KES 40,000–50,000 per month/vehicle. All spare parts are imported or purchased through a local import agent and must be trucked in to the lodge site, which further adds to the cost of vehicle operation.

Cost of transport, excluding maintenance, ranges from US$0.42–US$0.51/km, [63] When taking into account that guests at five-star lodges expect new and reliable equipment, and given the poor road conditions, the vehicle replacement schedule is extremely short. For example, land cruisers and land rovers, the most popular vehicles used by tour operators are replaced every 18 months and not driven more than 50,000 miles, according to one tour operator.

High Cost of Electricity Generation: The second highest cost in a weekend excursion is lodging (26.3 percent). The cost of utilities, however, constitutes 48.6 percent of the overall lodging costs. Specifically,

[63] Fuel costs are approximately KES 35,000/month/vehicle during the high season and KES 25,000/month/vehicle during the low season.

as electricity must be generated at the lodge site, cost of fuel associated with operating a generator accounts for 98.3 percent of the total utility cost.

While many smaller, exclusive camps have adopted the use of 12-volt solar panels to generate electricity for their facilities, large lodges continue to rely on diesel-powered generators. In this context, as a part of a medium- to long-term conservation measure, lodge operators will need to consider alternative energy sources to help reduce their reliance on fossil fuels and related emissions as well as inland transport charges.

High Cost of Aircraft Maintenance: Among the scheduled flights servicing the Maasai Mara, there are at least three types of aircraft most commonly used to shuttle tourists within and outside of the area. These include Dash 7 & 6, Twin Otters, and Cessna Grand Caravan 208. All five airstrips located within the Mara Triangle are murram airstrips (nontarmac mud). As a result, during the dry season, substantial amounts of dust, stone and garbage become a source of numerous operational problems for local aircraft operators.

Interviews with local airline operator suggest that the cost of operating a Cessna Grand Caravan 208 (12-seater) in the Mara is approximately US$434/hour. The operating cost for the same aircraft in Serengeti can cost as much as US$783/hour (details on aircraft operating costs are presented later in this section of the report).

To access these airstrips, airline operators are required to pay a "commuter tax" (landing fee) to the Narok County Council. Fees are charged per landing where the individual landing charge of US$50 is assessed for the Dash 7 (50-seater), and all other smaller planes are assessed US$30/landing. These fees are to be applied against maintenance and repair of the airstrip, but many operators complain that the council has done little to maintain the airstrips.

Benchmarking Expenditures for a Weekend Excursion

A close look at the per bed night expenditure rate for a weekend excursion by a business traveler in Kenya and Tanzania suggests that overall it is about the same—US$465/bed night in Kenya (weekend safari to Maasai Mara) and US$455/bed night in Tanzania (overnight trip to Zanzibar). However, there are a number of underlining differences when comparing the distribution of expenditures along the value chain. First, approximately 32–34 percent of expenditures were accounted for by hotel/food and beverage (table A3.16). While the percentage distribution is about the same, the tourist in Zanzibar stayed at a three-star hotel, while the tourist to the Maasai Mara stayed at a five-star lodge. Taking into account the difference in the quality of the accommodations (three-star in Zanzibar versus five-star in Maasai Mara), there is a perceived notion that the business traveler is getting more value for the money in Kenya.

Given the proximity of Zanzibar to the mainland, the cost of getting there, and the relative confinement of the island, the cost of inland transportation is substantially lower (2.5 percent) than in Kenya (31.8 percent). Thus, a business traveler going to the Maasai Mara spends a large portion of his or her expenditure on inland transport, while the weekend business traveler to Zanzibar allocates funds for out-of-pocket expenditures (41.8 percent compared with 7.0 percent in Kenya).[64] This suggests that tourism dollars are having a greater direct impact on the local economy in Zanzibar when compared to a similar experience in the Maasai Mara.

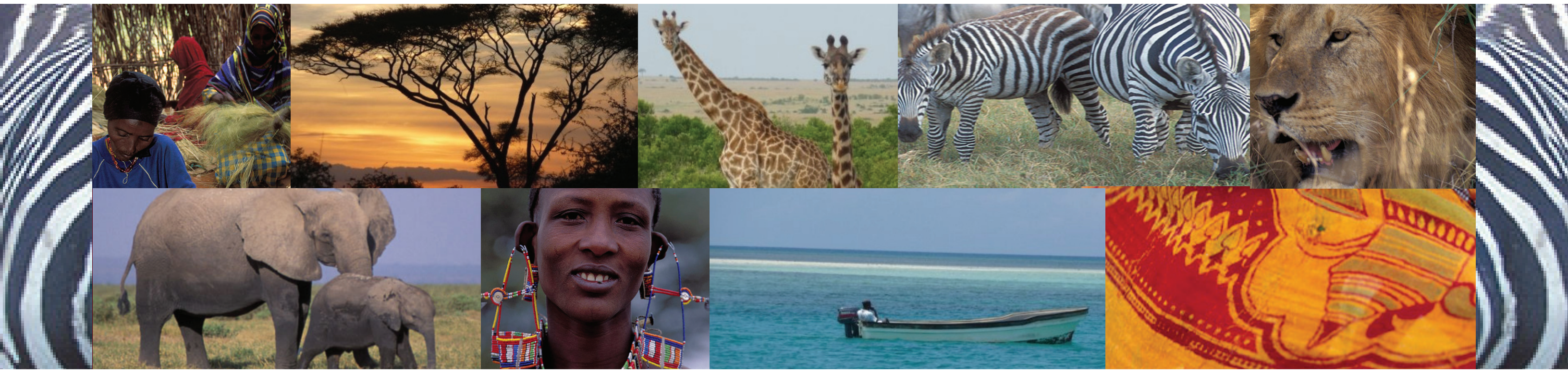
[64] Note that availability of crafts and curios shops in the Masai Mara is not well organized and the gift items available are of poor quality. Thus, many tourists tended to purchase more gift items back in Nairobi.

Table A3.16. Comparison of Expenditures by Business Travelers per Bed Night for Weekend Excursion in Kenya and Tanzania

	TANZANIA*	KENYA**
Expenditure/bed night	$455	$465
Value Chain	**% Distribution**	
Airline/ferry	16.5	18.1
Inland transport	2.5	31.8
Hotel/food/beverage	32.6	34.1
Destination activities	6.6	9.0
Out-of-pocket expense	41.8	7.0
Total	**100.0**	**100.0**

*Coastal tourism in Zanzibar
**Weekend safari trip to Maasai-Mara
Source: Global Development Solutions, LLC

Kenya's Tourism: Polishing the Jewel



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World Bank Group
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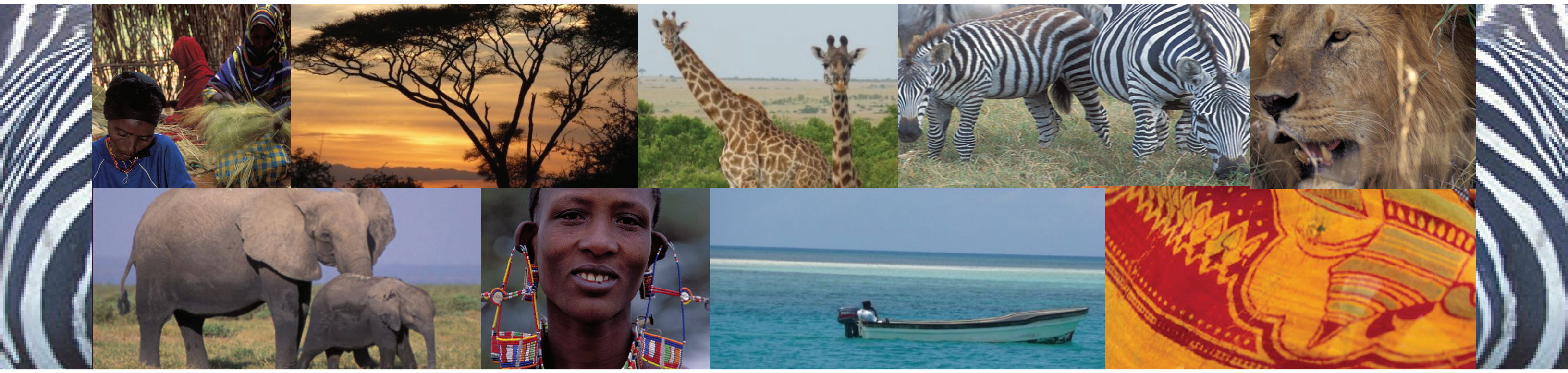

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