How Fragile is Tourism Development in West Africa ?
The Case of The Gambia

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Institutional background of this research project

- This country research project is part of a global United Nations Conference on Trade and Development (UNCTAD) research and policy analysis project on the role and impact of foreign direct investment (FDI) in tourism

- This project does not favour foreign investment above domestic investment, but aims simply to provide empirical analysis of the impact of FDI in tourism in developing countries.

- Themes in the global project included:

    - The scale of FDI in tourism in developing countries
    - The role and implications of non-equity compared to equity modes of participation
    - Benefits and Costs of FDI in tourism in host countries

The UNCTAD project

- **The Objective**: Provide information and analysis to help policy-makers design policies that will most help their country.

- Lack of empirical studies outlining the impacts of FDI in tourism in developing countries.

- The countries were selected with the aim of gathering a broad range of experiences. They included :

    - landlocked countries, LDCs and island economies
    - countries with a long history of FDI and those with a short history
    - countries with policies that were welcoming to mass tourism and those that followed a more niche-oriented strategy
    - countries that are at early stage of tourism development compared to the ones that have reached the maturity phase

Three stages

- **Phase I (2005-2006)**:
    - 2 East African countries (Kenya, Tanzania)
    - 2 Island countries (Dominican Republic, Sri Lanka)
    - 2 Land-locked countries (Bhutan, Nepal)
    - 2 North African countries (Morocco, Tunisia)

- **Phase II**: **(2007-2008)** with the support from the International Development Research Centre (IDRC) : Mauritius, Botswana, Uganda

- **Phase III: (launched in 2009)** (with the IDRC), West Africa : Mali, Ghana, The Gambia and Senegal

Table 1: Phase I, II and III sample group countries

Tourism strategy/FDI experience	Long history of FDI in tourism	New to FDI in tourism
Relatively mass market approach	Kenya Tunisia Senegal The Gambia	Dominican Republic Mauritius
Relatively niche market approach	Morocco Sri Lanka	Bhutan Botswana United Rep. of Tanzania Uganda Mali Ghana

UNCTAD Research Approach

- Combine elements theory FDI, tourism & pro-poor literature.
- Focus on micro-level evidence.
- What is really happening on the ground? Case-studies; interview investors, hotel managers, policy-makers, NGOs.
- Exploratory, quantitative and qualitative, evidence-based approach.
- Not driven by hard hypotheses but framed by a set of expectations grounded in literature, theory, assertions etc.
- In each country, the same methodology and questionnaires were used to enable cross-country comparisons, and additional questions were added to each country context.
- The research approach compared domestically owned with foreign-owned hotels and enterprises in the same activity and of similar quality.

Research Challenges

- Separating TFDI effects from T effects.

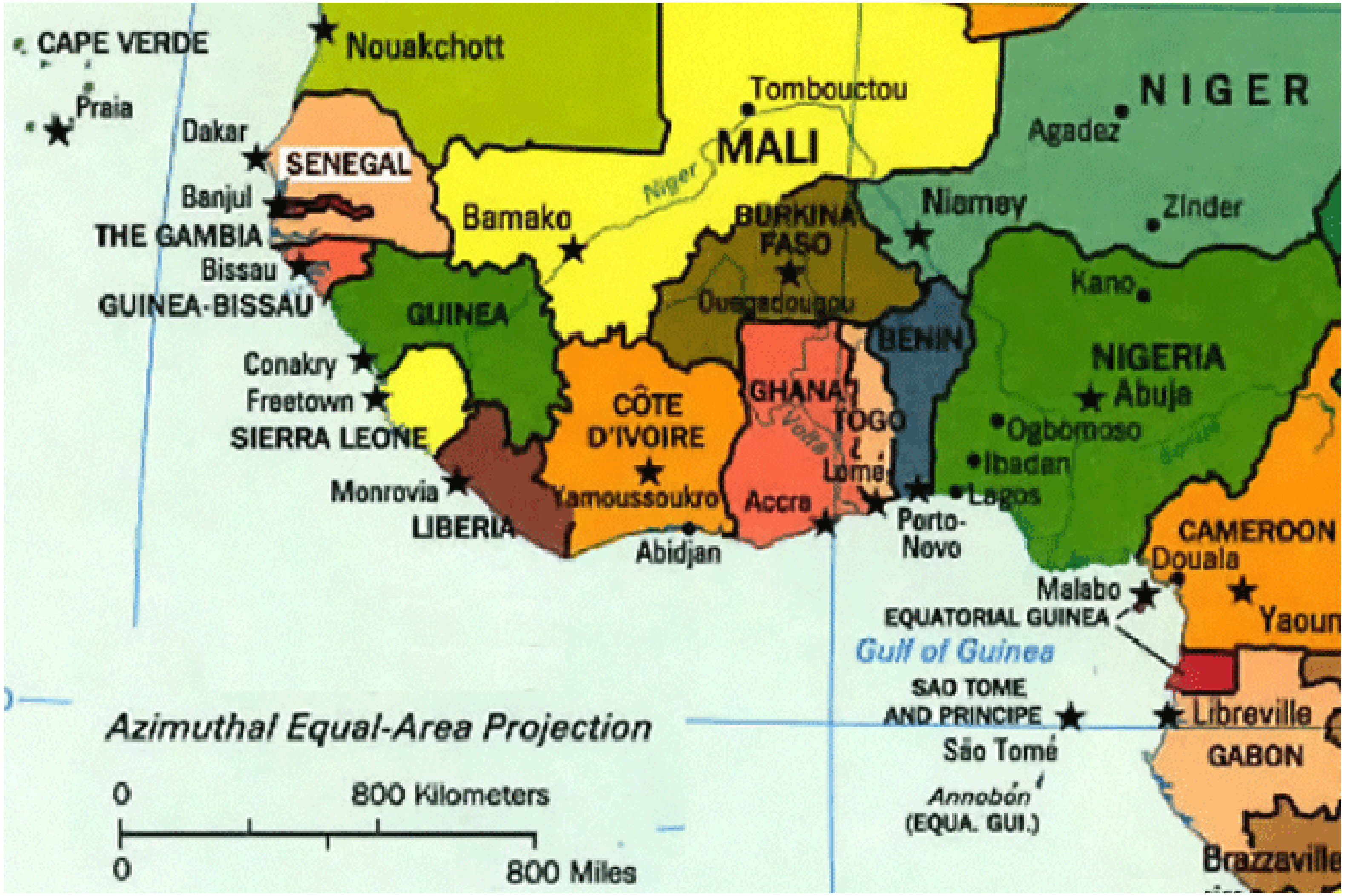
- Limited data available

- Information about what would have happened without TFDI?

- Many strongly held assertions
  - “foreign investments dominate the market”
  - “80% of tourism revenues are lost in ‘leakages’

- UNCTAD Research is not for research’s sake – need to come up with practical policy implications

West Africa


CAPE VERDE
Praia
Nouakchott
Dakar
SENEGAL
Banjul
THE GAMBIA
Bissau
GUINEA-BISSAU
Bamako
MALI
Tombouctou
Niger
NIGER
Agadez
Niamey
Zinder
BURKINA FASO
Ouagadougou
GUINEA
Conakry
Freetown
SIERRA LEONE
Monrovia
LIBERIA
CÔTE D'IVOIRE
Yamoussoukro
Abidjan
GHANA
Volta
Accra
TOGO
Lomé
BENIN
Porto-Novo
Kano
NIGERIA
Abuja
Ogbomoso
Ibadan
Lagos
CAMEROON
Douala
Malabo
EQUATORIAL GUINEA
Gulf of Guinea
SAO TOME AND PRINCIPE
São Tomé
Annobón (EQUA. GUI.)
Libreville
GABON
Brazzaville
Azimuthal Equal-Area Projection
0
800 Kilometers
0
800 Miles

Country Study : The Gambia

Background information about The Gambia

- The Gambia is the smallest country in Africa :

  - Total land area : 11, 300 km^2
  - Population : 1.8 million in 2009.

- It was granted independence from the UK in 1965

- The country is a semi enclave of Senegal, with a small coast on the Atlantic Ocean in the West (350 km long and just 48 km wide at its widest point).

- The average population density is relatively high at 166 persons per km^2 (11.7/km^2 in Mali; 63.7/km^2 in Senegal; and 99.9/km^2 in Ghana).

- Prior to the 1994 **coup d'Etat**, the country was one of the oldest existing multi-party democracies in Africa.

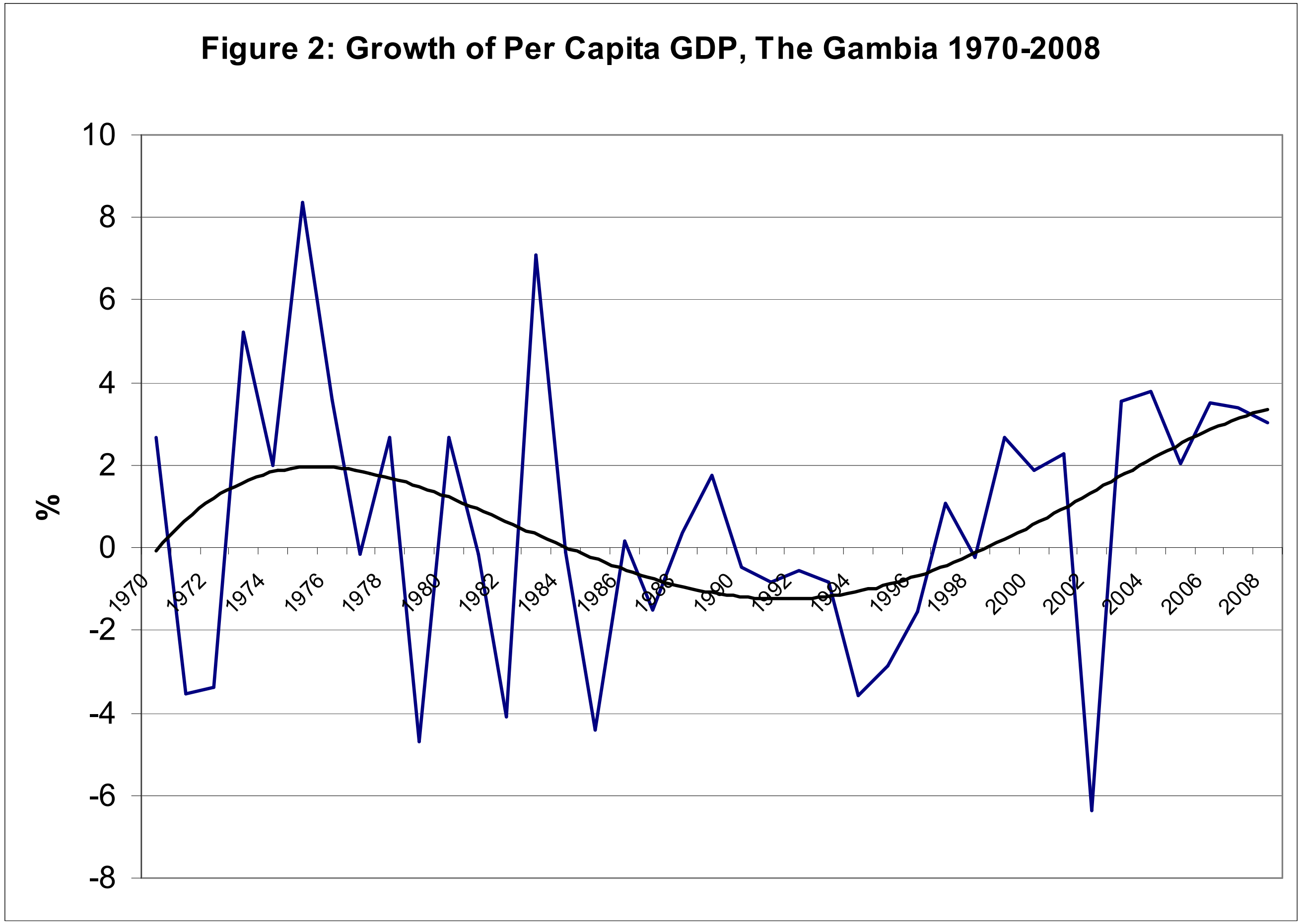
- The latest Economic Intelligence Unit's 2008 democracy index ranks The Gambia 111th out of 167 countries, putting it behind Mali, Senegal and Ghana.

Background information about The Gambia (cont.)

- The Gambia is heavily dependent on the production and exports of groundnuts and tourism
- Living conditions for most Gambians are still very difficult and poverty is widespread in this country.
- Recent poverty headcount index estimated that nearly 61.3% of the population lives below the poverty line.
- Economic growth in The Gambia has not been pro-poor (IMF, 2007; Heintz et. Al, 2009 ; Amin and Ntilivamunda, 2009).

Table 2: Selected socio-economic indicators for The Gambia (2008)

Selected Indicators	The Gambia
Population, Total (million)	1.7
Population Growth Rate	2.7
Surface Area (sq.km) (thousands)	11.3
HDI	168 out 182 countries
Gini Index (2003)	47.3
Life expectancy at birth	55.9
Maternal Mortality Ratio in 2005 (per 100,000 live births)	690*
Mortality Rate, infant (per 1,000 live births)	79.9
GNI (current US$, millions)	761.7
GNI per capita, Atlas method (current US$)	400
Active Labour force in Agriculture (%)	75
Population ages (0-14) (% total population)	42.5
Contribution to GDP (%)	
Agricultural sector	28.5
Industrial sector	15.0
Service sector	56.5



Source: Authors' calculation based on WDI (2010)
Note: The long-run trend was derived by applying a Hodrick-Prescott filter to the annual per capita growth rate.

Tourism in The Gambia

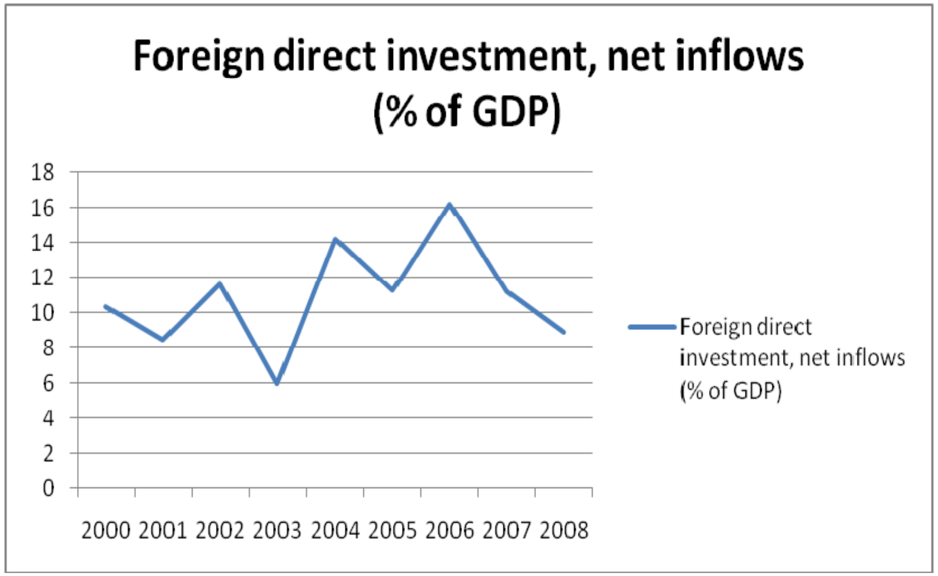
- Tourism in the Gambia is a classic illustration of mass tourism
- Focus on package vacations organised by European tour operators mainly through charter flights during the winter season (November-April).
- The tourism industry is geographically concentrated along a 10 km strip along the Atlantic cost, constituting the Tourism Development Area (TDA).
- Almost 90% of the tourist accommodation is located in 20 large hotels, with over half the national bed stock found in the seven largest hotels.
- The contribution of tourism to the GDP remains modest. This is very much due to the fact that a high percentage of inbound tourists are on package tours, paying for their trip in the home countries.

FDI in Tourism in The Gambia (cont.)

- The tourism sector is dominated by foreign investors from Scandinavia, Germany, UK, Italy, and Lebanon.
- There are also some recent investments in the tourism sector by one Kuwaiti firm, M.A. Kharafi & Sons
- There has been a recent inflow of Libyan investment in the tourism sector in the form of hotels and amusement centers.

Table 3: Sectoral distribution of FDI stock at end-2008

Sector	Percentage
Financial institutions	41.4
Hotels, catering and restaurants	24.2
Manufacturing and processing	22.1
Wholesale and retail	9.0
Agriculture and fisheries	2.8
All other sectors (including constructions and health and social work)	0.5
Total	**100**



The role and impact of FDI in tourism in The Gambia

- To assess the role and impact of FDI in tourism in The Gambia, a series of interviews were conducted with hoteliers, policy-makers, and NGOs.
- There were a total of 21 hotels in our sample. Nine of these are foreign owned, 9 are locally owned and a further 3 are joint ventures.
- This sample covers more than two thirds of the tourist beds available in The Gambia
- The sample included a range of different sized hotels.
- There were 8 small, 7 medium and 6 large hotels in our sample.
- In terms of category, we divided the hotels into up-market (4 or 5 star), mid-market (2 or 3 star) and budget hotels.
- Almost half the sample (10) are up-market hotels, 7 are mid-market and 4 are budget hotels. All of the large hotels are in the up-market category.

Table 4: Size, Category and Rooms by Ownership of Survey of hotels

		Ownership			
Up-market		**Foreign**	**Local**	**Joint**	**Sub total**
Size	Small (<45)	1	0	1	2
	Medium (45-100)	1	0	1	2
	Large (>100)	4	1	1	6
	Sub total	6	1	3	10
Mid-market		**Foreign**	**Local**	**Joint**	**Sub total**
	Small (<45)	2	1	0	3
	Medium (45-100)	0	4	0	4
	Large (>100)	0	0	0	0
	Sub total	2	5	0	7
Budget		**Foreign**	**Local**	**Joint**	**Sub total**
	Small (<45)	0	3	0	3
	Medium (45-100)	1	0	0	1
	Large (>100)	0	0	0	0
	Sub total	1	3	0	4
Total		9	9	3	21

Sample of hotels (cont.)

- In terms of ownership, 6 of the 9 foreign owned hotels in the sample are in the up-market category, and 4 of those 6 are large hotels.

- The owners of the upmarket hotels are from :
  - Libya (1 large and 1 medium),
  - Kuwait (2 large)
  - the United Kingdom (1 small)
  - Mauritania (1 large).
  - The Gambia (government)(1 large)
  - The Gambia/Germany (1 small and 1 medium)
  - England (1 small)

- The 2 mid-market, foreign-owned hotels in the sample have owners from the UK/Italy and Denmark.

- There was only one foreign owned budget hotel in the sample owned by an Nigerian businessman.

Characteristics of the sample (Cont.)

- Only 2 hotels (both foreign owned) are part of a hotel chain- The Sheraton and the Atlantic hotel, which was bought by the Libyan Arab Foreign Investment Company (LAFICO) to become part of the LAICO brand (http://www.laicohotels.com/en/pages/about-us.html)

- Three upscale hotels were run under management contracts and one mid-market hotel is leased by British managers from its Gambian owners.

- Two foreign, 2 local and 2 joint venture hotels in the sample are under the same ownership.

Table 5: Year of construction by ownership

Year of construction	Ownership			
	Local	Foreign	Joint venture	Total
1970-1994	4	5	1	10
post 1994	5	4	2	11

Hotel Location

- 16 hotels are in the main tourist development area (TDA)
- 3 in the capital city Banjul
- 1 in Brufut
- 1 hotel in Makasutu Culture Forest

Mandina River Lodge, Makasutu Culture Forest

Brief summary of the findings (cont.)

- Seasonality

  - Due to high seasonality, of the 17 hotels for which figures are available, 13 reduced their staffing levels during the off-peak season.

  - Locally owned hotels had the lowest overall average reduction at 24% compared with 29% for foreign hotels.

- Expatriates

  - Foreign owned hotels employ a higher percentage of expatriates on average.

- Female employment

  - The percentage of female employees did not vary greatly depending on hotel ownership.

  - However, when the female workforce was considered by hotel category, our findings suggest that females make up a greater proportion of the staff in hotels with a lower skilled workforce overall.

Table 6: Employment and training

		Ownership			
		Local (N=9)	Foreign (N=8)	Joint (N=3)	Overall
All	No. of full-time employees (peak season)	71	160	207	127
	Off-peak reduction in employees (average %)	24	29	53	32
	Staff/room ratio (peak season)	1.0	1.6	3.0	1.5
	Percentage of expat employees (high skilled)	11	43 (N=6)	17	22
	Percentage of female employees	39	37 (N=7)	35 (N=2)	38
	Average training budget (thousand GMD)	17 (N=8)	116 (N=4)	27 (N=2)	47
Small	Ave. no. of full-time employees (peak season)	28 (N=4)	50 (N=2)	160 (N=1)	53
Medium	Ave. no. of full-time employees (peak season)	56 (N=4)	130 (N=2)	200 (N=1)	98
Large	Ave. no. of full-time employees (peak season)	300 (N=1)	236 (N=4)	260 (N=1)	251

Brief summary of the results (cont.)

- Turnover and mobility

  - Staff turnover was generally perceived to be low regardless of hotel ownership.

  - **Reasons for low turnover by locally owned hotels** : keenness to work and a sense of mutual loyalty and responsibility between hotel owners and the staff who come from their own communities

  - **Reasons for low turnover by foreign owned hotels :** staff loyalty, high unemployment and good treatment of staff

  - Most hotels considered the opportunities for staff mobility in their establishments to be medium to high

- Wages

  - Higher than average wages were paid by foreign owned and joint venture hotels.

  - Size also appears to be an influential variable in average wage rates : large hotels were found to pay above the average

Table 7: Average monthly minimum wages by hotel ownership (GMD) (current exchange rate 1 euro= 36 GMD)

	Local	Foreign	Joint Venture	Large	Overall
High skilled staff	5393 (N=7)	13950 (N=7)	10000 (N=3)	16025 (N=6)	9729 (N=17)
Medium skilled staff	2629 (N=7)	3644 (N=8)	4333 (N=3)	4358 (N=6)	3364 (N=18)
Low skilled staff	1522 (N=9)	2141 (N=8)	2117 (N=3)	2113 (N=6)	1859 (N=20)

Table 8: Average annual turnover and GOP by ownership

	Local	Foreign	Joint Venture
Average number of rooms	107 (N=3)	92 (N=6)	34 (N=1)
Average annual turnover (millions GMD)	30 (N=3)	123 (N=6)	237 (N=1)
Average GOP	22 (N=4)	27 (N=6)	40 (N=1)

Brief summary of the findings (cont.)

- Energy Costs

  - Hotels commented on the high cost of energy.

  - The cost of electricity can e as high as 22% of turnover – the same as wages

  - Complaints about the inconsistency of supply.

  - High consumers such as hotels paid more than small consumers

  - The only hotel to specifically comment that energy costs are not a problem was a local mid-range hotel.

  - The owner of this hotel has imported and installed solar water heating from Spain.

  - For a one-off investment of 1,200 Euros per unit, his energy costs have been reduced from 200,000 GMD to 90,000 GMD during the peak season

Solar water heating in locally-owned hotel

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Brief summary of the findings (cont.)

- <u>Cost of financing</u>

  - Most local hotels mentioned the cost of financing as a problem that is discouraging investment.

  - With no investment bank in The Gambia, and high interest on loans from commercial banks (25-28%), it is locally-owned hotels that are particularly vulnerable.

  - The high servicing costs and short recovery periods on loans, coupled with high running costs and seasonality, were a cause of great concern to a number of hotel owner/managers who were interviewed, and it was reported that a number of local hotels collapsed for these reasons.

  - There was an expressed need for a fund from which investors could borrow on more sustainable terms

Brief summary of the findings (cont.)

- Taxes

  - Hotels mentioned high taxes as a problem for the sector and as having a negative impact on the investment climate.

  - Taxes include sales tax, which is 15% on monthly turnover and corporation tax which is 35% of net profit, or 2% of annual turnover if the hotel makes a loss.

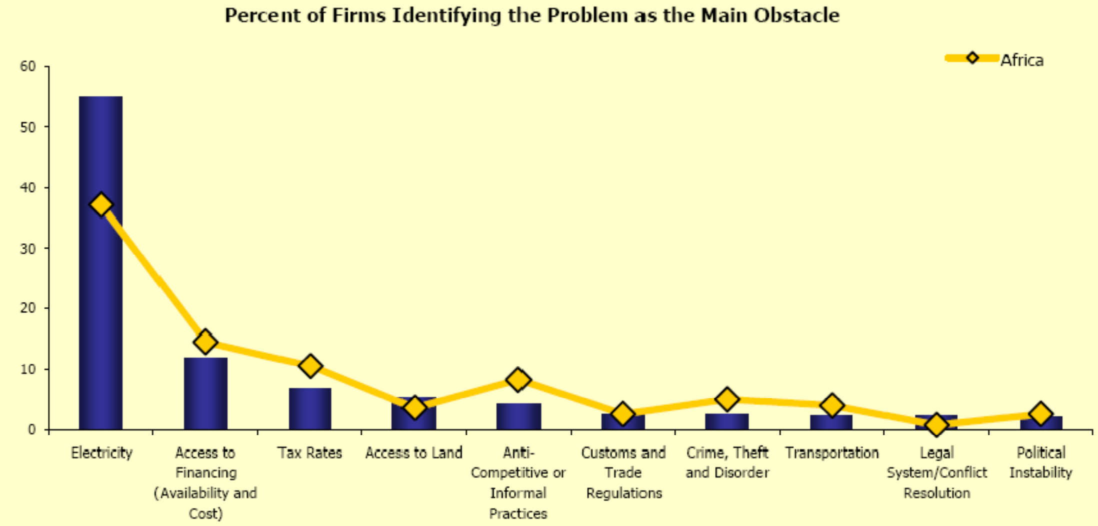
  - Other taxes which were seen to be too high were payroll tax, airport taxes and port taxes. A payroll tax on the employment of expats (excluding West Africans) was increased from 10,000 to 40,000 GMD in January 2009.

- Reinvestment

  - 17 hotels responded to the question of where they reinvested their profits. For 6 of these the issue of reinvestment was not applicable because they were not making a profit.

  Of the remaining 11, 6 had invested profits back into their hotel (for general upkeep, renovations and additions) and 4 had invested in new hotel projects. One locally owned hotel was investing in a multi-purpose centre with shops, accommodation, a supermarket and a gym.

Snapshot of the Business Environment in Gambia



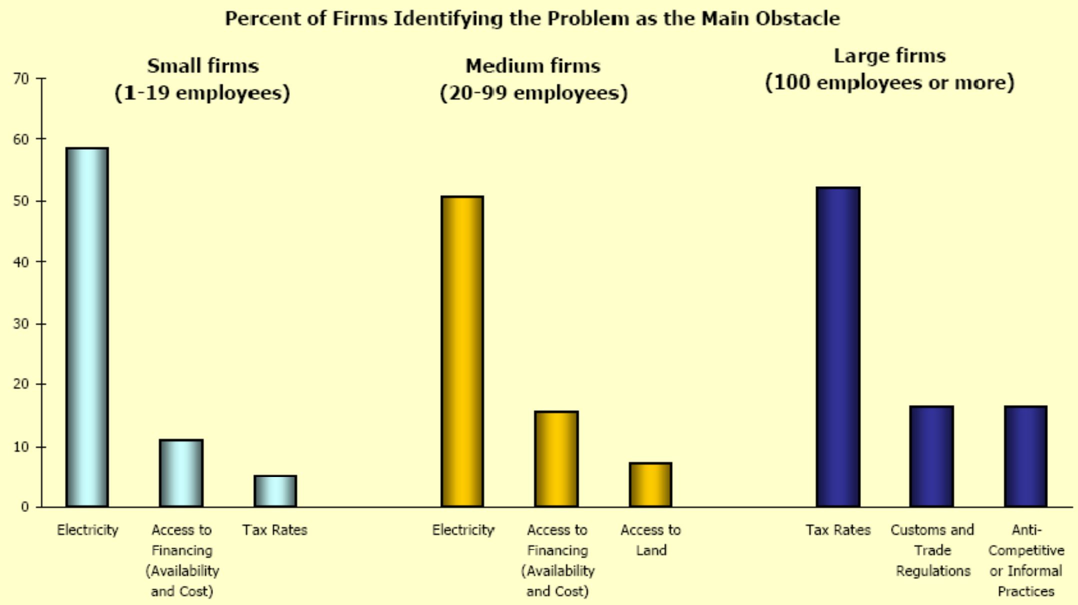


Table 12: Occupancy (high season and low season)

	N	Minimum	Maximum	Mean	Std. Deviation
Average occupancy (High season)	17	40	100	81.00	14.790
Average occupancy (Low season)	15	8	50	27.33	12.932

Occupancy rates

- Occupancy rates did not vary greatly according to ownership, size or category, although smaller and mid-range hotels seemed to fare better overall than their larger and more up-market competitors.

Brief summary of the findings (cont.)

<u>Leakages/Linkages to the local economy</u>

- Generally, the level of tourism related-imports appeared to be determined more by the nature of the tourism activity, the level of local supply capacity, rather than by ownership per se.

- Most hotels expressed their desire to buy products locally, particularly vegetables and other food items.

- The main problems faced when trying to buy local products were that some local products were not considered to be of sufficient quality (local meat, for example).

- Intermediary goods were considered particularly difficult to obtain locally, as were certain raw materials and skilled labour.

Brief summary of the findings (cont.)

<u>Community initiatives</u>

- Both local and foreign hotels were found to be involved in development initiatives

 * donations to community projects,

 * schools (including sponsoring children through the payment of their school fees) and/or local charities.

 * children's hospital, orphanages, bore holes

 * drainages systems

 * the building of a new mosque and sponsorship of sports teams and cultural groups.

Conclusions

- The main challenges facing the tourism sector in The Gambia were identified as the seasonality, cost of financing, limited air access and marketing, and the need for product development and diversification.

- There are significant opportunities for strengthening the forward and backward linkages of hotels with the local economy in order to strengthen pro-poor tourism linkages and programmes.

- This can be done by assisting local entrepreneurs to :

  – increase the value of agriculture production through improved techniques for processing and enforcement of quality standards for fruit, vegetables, meat and other food products
  – Improve the value of locally made furniture by helping to increase capacity and train employees
  – Improve information and physical infrastructure to enhance communication between buyers and sellers

Thank you