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Development of National Entrepreneurship in the East African Tourism Industry

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1.0 INTRODUCTION

1.1 Tourism Sector in the Global Context

The tourism sector is one of the fastest growing industries in the world in terms of revenue generation and profit making. The sector serves more than 613 million people each year, employees more than 260 million people and has an annual investment in capital projects of over $800 billion. It also accounts for 11 percent of global GDP and is growing at an average rate of 4 per cent a year[1] [2].[3]

Most governments in developing countries are adopting tourism as a key sector for diversifying their economies, which have historically depended on producing primary raw materials, often agricultural based. The sector can be a driving force of activity in every sector of the economy. This includes agriculture, industry, construction, transport and infrastructure development, as well as education, sports, culture and entertainment. The sector contributes greatly to government revenue through licence fees, customs and exercise duty, VAT on tourism services, landing fees, passenger service charge, entry fees to game parks as well as income tax levied on employees in the tourism industry.

The tourism sector is also growing in a competitive global market place and must meet the challenges of globalisation. Value is becoming as important as the price. The operation of a competitive tourism industry largely depends on the quality of infrastructure. The existence of good and well functioning telecommunication systems, land and air transportation services, and up to standard accommodation facilities.

The sector is also vulnerable to a variety of government regulations, including border controls, health and safety, and measures within countries. However, total volume of tourism has not fluctuated as much as total world trade or other unstable commodities. Major recent falls were in 1991 (Gulf War uncertainty), 1997-8 (recession in Asia), and 2001 (September11 terrorist Attack in America). Although data on the 2001 fall is not available, Africa was not seriously affected by the previous two falls[4]. Available data however indicates that arrivals in Kenya declined by 14% after the September 11 events.

1.2 Rationale for the study

Although tourism is a major export commodity, the net value of the sector depends on the leakage factor[5]. The leakage factor is that part of the tourist dollar that leaves the country to pay for the imports consumed by the tourism sector. For instance, small islands and very poor countries may face greater costs than larger, mainland, developing countries, because they will be more dependent on imported goods,

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[1] The GDP figure depends on the inclusion of indirect and associated effects
[2] Our Planet 10.1 February 1999
[3] Africa's share in the total volume remains low, but it doubled from 1.5% in 1970s to 3% in the late 1980s and 4% in 1999.
[4] Mainly because its highly dependent on tourists from Europe. Tourism from Europe to Tanzania in 2001 accounted for 31% of all visitors compared to 6% from the USA.
[5] See Tourism In Africa by Christie et al 2001

foreign airline and foreign capital[6,7]. A quotation in one of the books summarised the scenario as follows[8]:

> "A tourist trades with the host country only in so far as he buys goods and services produced by the home country. In so far as the tourist comes to the host country with his income and spends it there on imported goods, the flow of goods must be interpreted not as international trade, but as geographical extension of the domestic trade of the foreign country".

Factors that determine the extent of the foreign exchange leakage include the extent of local ownership, and the level of development of industries and sector that are linked to tourism that can supply materials needed at the construction stage and during operation of tourism facilities. In large countries where tourism facilities are constructed, equipped and supplied largely from local resources (including staffing by local labour), net foreign exchange earnings can be in excess of 85%[9].[10] In small and relatively underdeveloped countries, imports are sometimes considerable, yielding net foreign exchange earnings of about 45%[11]. In Kenya, leakage is estimated to be between 23-25%[12]. There is therefore a need to identify how the leakages can be minimised through identifying opportunities and mechanisms for increased local entrepreneurship in the industry.

According to data on Tanzania provided by the All Africa Travel and Tourism Association (AATTA), hunting is 95% foreign owned, air travel 99%, land 80%, hotels and lodges 80% and leisure and recreation 50% [13]. The share of the wage bill that goes to pay the local staff was estimated at 2-3% of the entire bill (United Republic of Tanzania et al, 2001). By March 1999, 35 tourist-hunting companies were registered, of which 15 were wholly foreign owned, 16 Tanzania wholly owned and 4 were joint ventures (Kulindwa et al, 2001). About 55.7% of the tourist industry projects approved were local investors initiatives, 15.2% foreign and 23% joint ventures. According to Chachage (1999), due to concentration of ownership in the hands of foreigners, Tanzania looses about two thirds of its foreign earnings in the industry. Ownership is not enough, control of these enterprises is even more important. He cites the case of Tanzania where even when it is a joint venture, management is left to the foreigners (Chachage, 1999). The table below illustrates that over half of the hunting blocks are owned by foreign tourist game hunting corporations.

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[6] Leakage also covers the tourist payments for travel, insurance and financial services. Revenues from these services will seldom accrue to tourist destinations because tour operators in developed countries dominate the mobilization of tourists for international travel.

[7] Developing countries also loose their multiplier effect of tourism on the economy through the operation of all inclusive tour packages in which tourists make a single payment coverirng virtually everything-air fare, visa, airport tax, accommodation and go to the destination country with a few dollars for personal shopping.

[8] Steve Curry, Tourism and Underdeveloped, The Tanzanian Case

[9] Examples include Mexico, Thailand, Turkey and the Dominican Republic

[10] Hotel chains normally use designs and establish specifications that are difficult for local manufacturers to meet. This is especially where the chains image depends in part on the use of the same design world wide.

[11] Without allowing for repatriation of profits

[12] Recent Government policies do not show any indication that there is an attempt to improve the situation. In the 2002/3 financial year budget, the government accepted to let hoteliers import duty free furniture and equipment they needed for refurbishing their hotels.

[13] This study has not been able to establish the criteria used to arrive at these figures. The figure on hunting contradicts the table given below.

Table 1: Ownership Structure of Hunting Blocks

Ownership	No. of companies	No. of hunting blocks owned	% of total blocks
Foreign Tourist Game Hunting Corporations	15	68	53.5
Local Companies (Tanzanians)	15	39	30.7
Joint Venture	4	14	11
(TAWICO) now a private company	1	6	4.7
Total	35	127	99.9

Source: Kulindwa et al, 2001

According to Sindigo (1999) about 78 percent of the major hotels at the coast, 67 percent in Nairobi and 66 percent of the lodges have some foreign investment. Sixteen percent of the hotels at the coast are wholly foreign owned, 17% in Nairobi and 11% of the lodges. In Malindi, 60% of the tourist hotels are foreign owned, 55% in Watamu and 53% in Lamu. Jommo (1987) found total foreign investment in one way or another in 51% of the tourist hotels in Nairobi, 78% in North Coast, 73% in South Coast and 39% of the total lodge capacity. Out of about 157 Nairobi based tour operators, those who were wholly indigenous owned were only 46. Of the 64 curio shops located in the tourist square mile of downtown Nairobi, 57 were owned by people of Asian origin, and three shops were owned jointly with Africans. Independent African entrepreneurs were concentrated in the rented stall at the central city market.

Table 2: Trans National Corporations Participation in Kenyan Hotels

Region	No. of hotels Sampled	TNCs Participation (%)	Total Foreign Capital
Nairobi	21	34	51
North Coast	30	23	-
South Coast	11	29	73
Game Lodges	46	25.5	39

Source: Jomo, 1987

According to a recent World Bank report, the criticism that the tourism industry is often foreign owned and not employing locals at higher management is not entirely true[14].[15] Few hotels are sufficiently profitable to be able to carry expatriate salaries. The report cites cases in Mauritius, Zimbabwe and Kenya where the industry has been heavily locally or regionally owned and managed. The report how ever admits that insufficient research has been done on this issue in Africa.

The objectives of the study include the following:

[14] See the report on Tourism in Africa, Christie I. and Crompton D., 2001

[15] Two hundred of the world's largest companies account for at least 20% of all hotel beds world wide.

- Evaluate the current magnitude of foreign and local participation in the tourism industry in East Africa
- Identify sectors in the industry that indigenous participation will have an added advantage to the East African economies.
- Propose strategies for increasing local participation in the tourism industry.

The key focus of the study will be on issues related to ownership in the tourism industry. The study classifies entrepreneurship into the following categories:

- Multinationals
- Non indigenous local entrepreneurs
- State entrepreneurship
- Indigenous large and medium scale entrepreneurs
- Informal and small scale entrepreneurs

1.3 Methodology

The study will use a combination of desk search and interviews with stakeholders in the industry. The study will rely mainly on secondary sources of data, published literature and policy documents. The study uses case studies to illustrate the structure and development of entrepreneurship in the tourism industry. Although the study is meant to cover the three East African countries, emphasis will mainly be on Tanzania and Kenya. The first part of the study will be a literature review; the second part will be data collection and interviews, and the last part data analysis and report writing.

One weakness in the report is the assumption that the number of entrepreneurs is assumed to be synonymous with capital intensity. Lack of financial data does not allow the study to do an in-depth evaluation of the capital intensity of the various enterprises. Issues such as turn over, sophistication and capacity of the enterprises are not taken into account.

2.0 STRUCTURE OF THE TOURISM INDUSTRY

The tourism industry includes such diverse activities as transport (car rentals, taxi operators and tour guides), accommodation, recreation and catering. The most limited definition of tourist services is that of the World Tourism Organization. The definition includes only hotels and restaurants, travel agencies and guides. Tourism is a very broad term especially if all supplier and associated industries are included. Suppliers include food (directly and through restaurants), furniture, textiles, handicrafts, construction and marketing. Associated sectors with complementary demand include transportation and communication. Tourism can also be viewed in the context of activity to include business, conferences and incentive travel, privately organised activities such as weddings or other family obligations, beach tourism, eco tourism, wild life, historical or art or archaeological tourism, cultural tourism, formal entertainment, sports and shopping. The next section highlights the operations of some the key players in the industry.

Tour Operators

Their function is to organise package holidays through centralising information on the transport and accommodation sectors and then choosing different packages from among the whole services that this sector provides [16].

Tour operators determine the itinerary, content, timing and maximum size of package tours. The tour operator contracts several months ahead of time with airlines, hotels, local transportation and tourist service companies. They contract the services of local ground operating companies to supply smaller services locally such as local tours and guides. They then sell the total package to the consumer, generally through travel agencies or their own marketing arrangements.

Travel Agencies

Travel agencies sell airline tickets and end products packaged by tour operators and distributed through national networks. They need to be licensed or accredited to by the Airline Reporting Corporation and /or international air lines travel agent network to be able to issue airline tickets.

Airlines

Commercial airlines operate scheduled services and frequently their own corporate tour operations. Charter airlines operate their own services and lease their services to tour operators. Some tour operators operate their own charter airline services. Issues such as the aircraft landing rights determine the extent of the sector's growth in a country. This study is mainly be confined to domestic charter services.

[16] Package holidays are holidays that are pre-organised and prepaid

Accommodation

This can be hotels, lodges and camps. This category is a major determinant of the standard of tourist facilities in a country and subsequent number of tourist visitors. It is also a very capital-intensive venture. In most cases especially in Africa capital for large modern hotels with 200 beds and over, can not be sourced locally and have to be done as a joint venture with the state, or other local private holding companies.

Ownership and management of hotels are often in different hands, with the owners entering into contractual arrangements with chains or individuals. Foreign hotel chains have managed a number of hotels, and franchising contracts with such groups as Holiday Inn, Hilton, and Sheraton have occurred[17]. A study done by UNDP found out that while international hotel chains manage many hotels in developing countries, it is very rare for them to make a direct investment in a local hotel in the form of equity or loans. The franchised hotels would usually be owned either by host government or local interests to the extent of 100 percent.

Hotel revenues are also derived from leasing arrangements for services on the premises (shops, casinos and marine sports) and from non-hotel guests attending meetings and functions and purchasing hotel services such as catering.

Another important feature to note in the tourism industry is the degree of vertical integration. Increasingly, tour operators, airlines and hotels are coming under common ownership. Electronic commerce is also threatening traditional outlets such as travel agents.

3.0 TOURISM AND THE EAST AFRICA ECONOMIES

East Africa has a unique diversity of natural and cultural heritage. In terms of resource endowment, Tanzania has more tourist scenes than the other two countries. Its wild life experience is superior in terms of quality, quantity, diversity and visibility of the wildlife in the national parks. The size of Tanzania's national parks is three times the size of Kenya's national parks. There are thirteen national parks in Tanzania, seventeen game reserves, fifty game controlled areas, the Ngorongoro conservation area and marine park. Uganda, lacking a coast unlike the other two countries is the most disadvantaged due to lack of sunny beaches[18]. The country none the less has an outstanding eco-system and cultural diversity. Especially the gorillas in the western part of the country are unique species.

Compared to the other East African countries, Kenya has a relatively more established tourism infrastructure. Prior to independence in 1963, the country had a fairly good but limited tourism infrastructure in place. Soon after independence, the government undertook to upgrade the existing infrastructure as well as investing in additional facilities. This was through encouraging the local and foreign entrepreneurs to invest in the tourism and hospitality industries. This paved the way for the future development of the sector. Economic changes in the last decade, has also witnessed a

[17] Franchising enables a new entrepreneur to secure instant identity, recognition and image, avail himself of improved reservation and referral services, have easy access to established management assistance, brand advertising and also quality supervision and enforcement.

[18] For instance, coastal resorts accounts for 60 percent of visitors to Kenya

rapid capital expansion in the industry in Tanzania. On the other had, insecurity and deteriorating infrastructure in the last few years has led to a decline in the industry in Kenya. The growth of the sector has been around 30% in Tanzania as compared to less than 10% of Kenya.

Table 3: Tourist Arrivals and Revenue in East Afric a

	Kenya		Tanzania		Uganda	
	Arrivals 000	Receipts (US$M)	Arrivals 000	Receipts (US$M)	Arrivals 000	Receipts (US$M)
1987	661	354	131	31	37	5
1990	814	466	153	65	69	10
1996	907	493	326	322	240	100

Source: Sindiga, 1999

The tourism sector has not featured prominently in Uganda as in the other two countries. During the Fifties and Sixties, Uganda was among the most important tourist destinations in East Africa. The civil wars in the Seventies and Eighties not only destroyed the once impressive infrastructure, but also caused a drastic reduction in wildlife. Since 1986, when the current government returned the country to peace and prosperity, the important roads and hotels have been rebuilt. The animals, however, need more time to regenerate, but the rehabilitation of the National Parks has taken huge steps. However, the numbers have not yet risen to the levels known in Tanzania and Kenya.

Probably due to the number of business tourists (and others in transit), statistics indicate more visitors in Kenya than the other countries. Over 1,036,500 visitors were registered in 2000. Earnings from the tourism sector were 21.4 and 19.6 billion Kenya shillings in 1999 and 2000 respectively[19].

The contribution of tourism to GDP in Tanzania rose from a paltry 0.4% in 1986 to 7.4% in 1998. The proportion of tourism earnings to total exports grew from 12% in 1990 to 36% in 1998. The sector employs an estimated of 30,000 employees. In 1995, Tanzania earned US$ 259 million in foreign exchange from tourism. In 1996, earnings rose by 24% to US$ 322 million and in 1997 it is provisionally estimated that further rise of 22% to US$ 392 million took place. In 1999 and 2000, an estimated 627,325 and 501,669 tourists respectively, visited Tanzania[20].

Table 4: Total Direct Employment in Tanzania (1999)

Sector	Number of employees
Hotel/Lodges and tented camps	19,710
Restaurants	350
Tour guides	750
Safari and tour guide operators	2,250
Aviation (national and private)	4,600
Government institution	150
Total	28,000

United Republic of Tanzania et al, 2001

During the 1960s tourism was the third largest foreign exchange earner in Uganda, after the traditional cash crops, cotton and coffee. Total revenue from the sector was

[19] www.ipckenya.org
[20] About 97,165 visited Zanzibar. Unless otherwise clarified, data on Tanzania here refers to the mainland. Data including or referring to Zanzibar will be indicated.

almost US$ 19 million in 1970. The sector, however, suffered tremendously from the years of political turmoil in the period between 1970 and 1986. From 1987 to 1991, the government's focus was on rehabilitation of the existing tourism facilities including hotels, lodges and national parks. In 1995, 159,000 tourists visited Uganda's 10 national parks and it's game and forest preserves. In 1997, tourism accounted for 1.8% of the gross domestic product and earned the country an estimated US$4.2 million in 1998.

The tourism industry in East Africa countries is highly linked in positive and negative ways. A significant number of tourists arrive to Tanzania by road from Kenya. One tour operator estimated that 70% of his tourists in the North arrive by road[21]. When political riots on the Kenyan coast received international coverage in 1997, tourism numbers dropped in all the three countries. Similarly, the bombing of US embassies in Nairobi and Dar es Salaam in 1998 negatively impacted on tourism regionally. Similarly, there were tourist cancellations in both Kenya and Tanzania in 1999, when rebels in Uganda murdered tourists.

4.0 ENTREPRENEURSHIP IN THE SECTOR

Entrepreneurship in the East Africa Tourism industry can be easily understood from a historical context. In the colonial period, the investment environment had favoured the European entrepreneurs. It dates back to 1947, when the East Africa Tourism Association (EATTA) was formed. EATTA later established offices in Nairobi, Kampala, Dar es Salaam and London. EATTA acted as a pressure group specifically for local European private interests in the government. The private sector was thus able to receive favourable concessions regarding issues such as land grants, exchange control, physical and duty policies, loans and other financial incentives. For a long time, only Europeans were equipped socially, culturally and economically to be involved and they reserved for themselves the right to undertake and develop entrepreneurial activity.

Before 1960, tourism in the country consisted of small family hotels owned by resident Europeans, which catered mainly for prospecting European settlers. This however changed when photographic tourism started picking up especially in the 1960s, especially from the American tourism industry. Some of the Kenya Europeans who were to become prominent in the tourist industry entered business that time. As early as 1947, the Block Family bought the Stanley Hotel. The Block Hotels was later to grow into one the largest Kenya owned chain of hotels, game lodges, transporters, tour operating and air chartering firms in the country. Other examples include the Bruner Hotel by the Brunei family, Fairview and Manor Hotel in Mombasa by Szlapak family, and Hotel Ambassador by Hindocha Group.

The period after independence witnessed the entry of foreign investment through multinationals companies operating in the tourism industry. When indigenous entrepreneurship started taking root, it was not through individuals but through quasi government organisations. According to Sindigo (1999), after independence, there were few African entrepreneurs and little indigenous capital for investment in the

[21] The rationale was to take advantage of cheap airfares to Nairobi compared with Tanzania destinations.

tourist industry. The state therefore undertook to mobilize both financial and human resources in order to acquire rapid development.

The Kenya Tourist Development Corporation (KTDC) was established in 1965 to represent the state in commercial sector of tourism. KTDC was meant to act as the executive agency in tourism for government indigenisation policies. The corporations investments mainly involved partnerships with foreign capital, domestic capital such as Kenya Airways and trans national corporations in hotels and lodges. These trans national partners included the Common Wealth Development Corporation, Germany Development Company, British Airways, International Finance Corporation, Hilton International and Intercontinental Hotels Corporation. There was also partnership with county councils in a number of lodges. In 1979/80, 67% of KTDC's investments were in hotels, 15% in lodges and 18% in non-catering activities.

KTDC was also involved in management and tour operation through a subsidiary African Tours and Hotels (AT&T)[22]. AT&T was managing almost all of the hotels which KTDC had a capital investment except those with trans national corporations partnership. Although initially AT&T prospects looked promising, the organisation was later to face managerial and financial crisis due to political interference. Most of the managerial appointments did not have entrepreneurial skills required in a competitive tourist industry[23]. Another problem was that KTDC invested in areas that were strategically not profitable mainly due to political influence. The rationale was that investing in geographically dispersed locations in the country would stimulate tourism in those areas. Some of the investments included HomaBay Hotel, Mt. Elgon Lodge, Marsabit Lodge and Maralal Safari Lodge. Structural adjustment in the 1990s made KTDC divest from a number of these ventures. It sold its stake in Pan Afric Hotel, Tea Hotel in Kericho, Lion Hill Camp, Robinson Boabob club, and Pollman Tours and Safaris.

The history of state ownership in the Tanzania tourism industry dates as far back as 1964 when the Harris report recommended that the government should take up the ownership of all existing and new hotels in the National Parks and other game reserve areas. The basis of this was that for conservation to be achieved, government control was necessary[24]. State enterprises were also necessary to overcome the uncertainty on the part of foreign capital with the long-term prospects of tourism expansion in the country.

The actual development of state enterprises is however linked to the 1967 Government nationalization policy and the Arusha Declaration. The nationalization policy outlined which sectors were to be reserved for state sector ownership only, and the ones that private ownership would also be allowed to participate[25]. Parastatal companies were established to ensure that both investment decisions and operating control were in the hands of Tanzanians. For the tourism sector, there was no nationalization in totality. Not all enterprises in the sector were nationalized.

[22] Shareholding in AT&T included KTDC 52.6%, Kenya Airways 20.08%, Industrial Development Bank 9.93% and others with a total of 17.4%.
[23] Note that an exception is the Government owned Utalii Hotel and Hotel Management Training School in Nairobi is still financially stable.
[24] This was irrespective of the profit generated by the existing or new enterprises
[25] For the former, the plan was for investments in form of joint ventures but under state ownership

According to Curry (1980), the future development of tourism in Tanzania was to take place as a competitive development between state sector and foreign capital, and between state sector and non-state sector.

Around the mid 1960s, the state started tourist enterprises under a variety of finance and management agreements with foreign companies. This was mainly through equity funds, budget allocations and loans. In 1965, Kilimanjaro Hotel in Dare es Salaam that was opened in 1965 was financed jointly by government equity and foreign loans [26]. In the same year, the National Development Corporation (NDC) invested in Lake Manyara Hotels, New Africa Hotels and Tanzania Wildlife Safaris Ltd[27 28]. This was followed by game lodges in Ngorongoro and Serengeti National Park. NDC through joint ventures was also involved in the financing of New Arusha Hotels and the Bahari Beach Hotel Ltd[29].

The following management agreements for hotel operations were also made during this period:

- Hotel and Lodges Limited in 1966. This was a Common Wealth Development Corporation associate.
- Hallmark Hotels Limited. This was a minority owned by NDC and largely owned by Hallway Hotels Over-seas Ltd, a British Management Company.

Cooperation with foreign companies was however to change in the 1970s when the government policy discouraged foreign funds for hotel expansion. Hotel expansion was restricted to the Tanzania Tourist Corporation (TTC) and private investors not directly associated with foreign airline or hotel companies [30]. The table below shows the break down of investment by the Tanzania Tourist Corporation. Most of the investments were in the international hotels. A touring company was also established. In 1980, Tanzania Tours Ltd (TTL) was established in Dar es Salaam to provide transport to and from beach hotels and the southern game parks. The capital for TTL came solely from state agencies. TTL however was experiencing financial difficulties and was unable to meet its loan obligations. TTL was later purchased by former employees and is now financially stable.

Table 5: Tanzania Tourist Corporation: Break down of investments (%)

	1971	**1973**	**1975**	**1976**
International Hotels	93.8	92.8	96.3	97.6
Other Hotels	1.3	1.4	1.1	0.4
Tour	1.8	1.7	1.5	1.6
Hunting	1.0	0.9	0.1	-
Other	2.1	3.2	1.0	0.4

Source: Curry, 1980

[26] Some of the loan capital came from an Israel Company, Mlonot Ltd which also managed it under rental management until 1972 when the contract was terminated.
[27] NDC was a fully state owned enterprise. In 1969, the government transferred the direct NDC holdings and operating arrangements for the enterprise to the Tanzania Tourist Corporation (TTC), a newly formed parastatal company to operate in the tourism branch as a whole.
[28] See Tourism and Underdeveloped, the case of Tanzania by Steve Curry
[29] Bahari Beach Hotel also included funds from Industrial Promotion Services, a Swiss Finance Company
[30] See Tourism and Underdeveloped, the case of Tanzania by Steve Curry

Information available indicates an increased private sector investment in the early 1980s. In 1966, state owned enterprises constituted 62% of bed capacity in the Dare es Salaam region. This, however, in 1976 had reduced to 36% in 1976. In contrast, in the Northern Wildlife Area, state owned enterprises consisted only 33% of capacity in 1966, but this had increased to 52% in 1976. The state was there fore expanding into international holiday markets while the private sector was gradually entering into the business tourism markets.

State investment in the tourism sector could not generate enough funds to expand or recompense government expenditures made in the past. Curry (1980) concludes that in the tourism sector, the expansion of state ownership recommended through the Arusha declaration failed in its objective of domestic accumulation of investment funds.

Since 1969, Tanzania Hotels Investment Limited (TAHI) a subsidiary of the defunct TTC had invested in tourism facilities by building a hotel and five lodges in the northern circuit. It had also built lodges in Mikumi and Mafia. It had also owned hotels such as New Africa, Kunduchi and Bahari Beach in Dar es Salaam.

The dominance of TAHI began to recede in 1993. Liberalisation led to transfer of state enterprises into private partnerships. TAHI for instance entered into private partnership with ACCOR Group of Hotels, from France[31]. ACCOR become a co-owner of Novotel, Mount Meru hotel in Arusha and five lodges in the national parks (Chachage, 1999). By the year 2001, state commercial sector had been reduced to four lodges in the Northern circuit, Mt. Meru Hotel, the Mafia Island Lodge, and the Kilimanjaro Hotel in Dar es Salaam. These enterprises are earmarked for privatisation.

Indigenous private entrepreneurs in the Kenyan tourism industry had a head start compared to Tanzania where the focal point of investment was the state. A few indigenous entrepreneurs had managed to invest in tourist class hotels in the early 1980s. The financial support to make the investments was provided through the Kenya Tourism Development Corporation. KTDC had set up a revolving fund loans programme primarily to assist in the indigenisation of the ownership of tourism facilities. The institution provided loans in favourable terms to assist Kenyans to purchase facilities, develop new ones, and extend or modernise existing or newly acquired facilities. Most of the beneficiaries of the KTDC loans were civil servants and heads of Government parastatals. This included permanent secretaries in the ministry of Tourism and former directors of KTDC. They were able to access funds and invest in international tourist hotels with outside investors or as sole proprietors. Most of these entrepreneurs later ended up being ministers or members of parliament.

On the other hand, the financial support given to small and medium size entrepreneurs was not sufficient for them to compete with big businesses. KTDC was reluctant to support small and medium sized hotels, lodges and restaurants for domestic tourism because of fear of recovering its money from businessmen not well established. The later group due to their connection therefore become the main beneficiaries. Jomo

[31] ACCOR owns and manages over 2,000 hotel units world wide

(1987) summarises the role that the state played in promoting national bourgeoisies in the Kenyan tourism industry as follows:

"Most financing for the big investments such as luxury hotels came from the state institutions where the investors were more likely to have some influence. For instance, they were board members or were associated in a private venture with board members or executives of institutions concerned".

Such support was missing for Tanzania. None of the related institutions such as NDC or the Tanzania Tourist Corporation had such a facility. The 1969 Leadership Code which sought to prevent those in leadership positions in the government, party and the public enterprises from capitalist practices, aggravated the situation. Those entrepreneurs such as the owner of the Peacock hotel and Lions Hotel in Dar es Salam who managed to build medium class hotels had limited access to capital to build first class hotels. A new group of indigenous entrepreneurs have however been able to take advantage of the market changes in the early 1990s and invest in first class tourist hotels mainly through partnerships with international investors. Almost every first class tourist hotel has some foreign capital in it. Some of the major foreign investors in 2001 included Serena Hotels with a total investment of 33 million dollars, Indian Ocean Hotels from United Kingdom with 15 million dollars and Holiday Inn of South Africa with 13 million dollars. One cannot conclusively say that the hotels are foreign owned. Just like in the case of Kenya, some of the indigenous proprietors do not want to be obviously seen like they are taking advantage of their political influence to invest in business[32]. They mostly have foreign management firms fronting for them while the locals reciprocate by offering political patronage. This therefore makes it difficult to tell who really owns the big enterprises. The same scenario can be seen in the tours companies where Africans have small companies, which obtain subcontracts from the big tour operators for a small fee. It is worth noting that one cannot use number of enterprises to determine the extent of foreign ownership in the industry. Most of the trans national corporations invest in relatively large hotels and enterprises whose turnover might account for a big percentage of the revenue generated in the industry. For instance, from the data provided by Jommo (1987) one of the tour companies in Kenya, United Touring Company (UTC) had 416 vehicles. This was more than half the total number of vehicles owned by the ten biggest tour companies in the country.

A list of entrepreneurs that have been granted licenses by the Tanzania Investment Centre is shown in Annex 1. Although this data is not exhaustive (since it does not represent the actual invest and only licensed firms), it nevertheless gives you a picture of the nature of joint ventures in the tourist industry. The total local and foreign ratio since 1997 is 16.5 and 83.5%. This is an indication that the percentage of ownership by local entrepreneurs prospecting to enter into the industry is still marginal.

[32] See Jomo 1987

5.0 CASE STUDIES

This section includes a review of various entrepreneurs in the industry and the approaches they used to develop their enterprises. The chapter includes big and small enterprises, those who have stagnated and those who have had a break through. Key issues that emerge from the case study include financing, political patronage, innovation, resilience and determination, partnerships and response to different micro and macro environments. Some of the case studies were obtained through interviews. Others were obtained through literature review. Most of the entrepreneurs were not available for interviews and there was therefore no sampling.

Joseph Mfugale- Peacock Hotel, Dar es Salaam

Mr. Mfugale represents a case of an entrepreneur who started from the scratch to develop a thriving hotel business. The 58 year old entrepreneur is the owner of Peacock Hotel in Dar es Salaam. Peacock Hotel features 54 luxurious guests rooms and 5 exquisitely furnished executive double rooms. It also has a modern conference hall.

Mr. Mfugale dropped out school in standard four due to lack of school fees and went to learn carpentry as an apprenticeship. He later borrowed tools and started making benches for three years with limited success. In 1967, he got a contract from Usafwa Farmers Cooperative to make doors and was paid Tsh. 800. With this money he started a shop, which he used to get goods from Asians in Iringa for three years. He later moved to Weru where transport was more accessible. The business later expanded and by 1975 he had saved up to Tsh. 7,000. With the amount he managed to purchase a building in the middle of Iringa Town. In 1974, when some of the Asians were moving out of Tanzania, he bought a one storey house in the same town.

In 1978, with Tsh, 200,000 he started a transport business. He later bought two lorries and a bus that was going to Songea. During the war against Idi Amin in Uganda, he got a contract to supply material using his two lorries. With the money the government paid him, he bought a plot of land in Dar es Salaam where the current hotel stands. In 1984, he stopped the transport business to build the hotel. In 1987, he got a loan from the Tanzania Investment Bank to finish the hotel. The hotel was finished in 1993 and was opened by the Prime Minister. This is a case of an entrepreneur with limited education who through hard work and perseverance managed to develop a thriving business.

Njenga Karume: Landmark Hotel

Businessman cum politician Njenga Karume owns the Landmark Hotel in Nairobi, Kenya. Karume represents a case of an entrepreneur with limited education who established his business with very little external contacts. He started his business long before Kenya become independent. His first venture was transporting timber in the 1950s. He later used the proceeds from the business to open a bar in Kiambu. Later, the East African Breweries gave him a contract to distribute a third of its sales product in Kiambu district. His business expanded and he purchased a fleet of vehicles and started transport business.

When Kenya become independent, he concentrated on expanding his business and diversified into saw milling, tea processing, shoes, drugs and brick making. All this he did as equity business. For instance he held equity (a third) in a pharmaceutical factory established in 1974 by a Yugoslav Company and ICDC. He also held 70 percent of the shares in the Tiger Shoe Company while ex-Bata employees held the rest of the shares. By 1974, he was a director in about 74 firms. He was however a director in only 3 foreign firms. These were Guinness East Africa, United Touring Company and Agip Hotel. He later purchased the other shareholders of the hotel. Agip Hotel was later to be converted into a modern hotel nowadays called Landmark. Landmark Hotel is a luxurious hotel located in Westlands Nairobi. The hotel has 121 rooms with 18 executive rooms.

Another key feature in the growth of Karume's business empire was his political connections. He was the chairman of GEMA, regional tribal affiliations organisations formed in 1973. GEMA later established the Gema Holdings Corporations as a holding company and bank of indigenous capital. Karume later joined politics and become an assistant minister. His fortunes were however to be severely affected when he linked with South Africa Breweries to start a brewery in Kenya. South Africa Breweries later pulled out of the Kenyan market citing harsh business conditions.

John Michuki: Windsor Hotel Kenya

Built in 1992, the Windsor Golf and Country Club Resort is a cluster of impressive Victorian style buildings, providing 100 deluxe twins and doubles, studio sites and cottages and an 18-hole championship golf course in the outskirts of Nairobi. The hotel was built at a cost of Ksh. 226 million (US$ 10 million) of which Ksh 120 million was financed by the Nairobi Golf Hotels (Kenya) Ltd. The hotel is managed by Abercrombie and Kent an American tourism company, and who are also shareholders. Another shareholder is Fairview investment with a 51 percent shareholding. Mr. John Michuki is the principal share holder and managing director of Fairview Investments Ltd, which has diversified interests in agriculture, manufacturing, real estate and tourism. Mr. Michuki started his career as an administrative officer in the colonial government. After independence he become a Permanent Secretary of the Treasury in 1965. In 1970, he became the Chief Executive of the Kenya Commercial Bank (KCB) until 1979 when he resigned to join politics and run private business. He currently a minister in the government. Mr. Michuki represents the case of dynamic civil servant who used their positions as a leverage to enter business.

Kenneth Matiba: Alliance

Mr. Kenneth Matiba is one of the prominent entrepreneurs in Kenya with business interests ranging from hotels, horticulture, real estate and private schools.Mr. Kenneth Matiba is the chairman of Alliance Hotels. He represents the case of an entrepreneur who used the networks he had developed as a civil servant and politician to build a vast hotel industry enterprise[33]. However, it is also an indication of how politics can ruin an entrepreneur.

Mr. Matiba is a graduate of Makerere University. Upon graduation, he joined the civil service where he rose through the ranks to became the permanent secretary in the ministry of education immediately after independence, at a tender age of 31 years. Between 1963 and 1968 he served in various ministries including the ministry of Commerce, Industry and Cooperatives and Home Affairs. In 1969, he left the civil service to become the General Manager of Kenya Breweries. Between 1973 and 1979, he become Managing Director and then Chairman of the East African Breweries. He was also the chairman of the Kenya Football Federation. In 1979, he joined politics and served as a minister in various ministries. He later fell out with the regime and resigned from his ministerial post. He was later detained for several years and upon release, become one of the presidential candidates.

Mr. Matiba's interest in the hotel industry dates back to 1965, when he was transferred to the Ministry of Commerce, Industry and Cooperatives as permanent secretary. Government financial institutions such as the Development Finance Company of Kenya (DFCK) and Industrial and Commercial Development Corporation (ICDC) were under the ministry. Matiba represented Government interests in these companies as a director. Subsequently, he also become a director and later chairman of Panafric Hotel when the Government bought it.

In 1967, he was offered 26% shareholding and was invited to become the chairman of Anglo Kenya Investments. Anglo Kenya Investments was a property development company owned by George Robinson of UK. In 1968, through Anglo Kenya Investments Ltd, they bought Jadini Hotel, on the south coast of Mombasa town.

In 1969, he became a Director of Kenya Tourism Development Corporation (KTDC). He was appointed to be the representative of KTDC in the Kenya Safari Lodges and Hotels Company (KSLH), which owned Mombasa Beach Hotel and Ngulia and Voi Safari Lodges. He became the chairman of KSLH. He was also selected to be KTDCs representative in Air Kenya, a joint venture with United Transport Company (UTC) of UK. In 1970, together with Stephen Smith and Enoch Malmqvist they bought the other shares of Anglo Kenya Investments Ltd and changed the name to Alliance Investments Ltd. In 1972 , they bought Brunners Hotel and Alliance Hotels Limited was born.

This was followed by a rapid expansion in international tourism by the company. Among the new investments included, the Naro Moru River Lodge, located at the base of climbing mount Kenya. The Naro Moru River Lodge is supported by two lodges on the mountain, namely the Met Station and Mackinders Lodge, both owned by Alliance Hotels. Others included the Castle Hotel in Mombasa. The 150 bed Africana Sea Lodge, on the South Coast Mombasa which was built in1978. It was later extended to a 458 bed hotel. In 1986, the 400 bed Safari Beach Hotel was added to the list of investments. Jadini Beach Hotel was also extended to 320 beds. Joining

[33] In the book that Matiba wrote about his life (2000), he acknowledges that "I think the circumstances that led me into business and eventually politics were more coincidences than design. Things seemed just to happen…….but I don't believe that luck could have been on my side all the time. The truth is hat I worked hard enough to catch the eye of those who were responsible for taking decisions".

politics nearly ruined his business empire. Barclays Bank in 2001 put his three hotels- African Sea Lodge, Jadini Beach Hotel and Safari Beach Hotel- in the South Coast under receivership when Alliance Hotels was unable to service a Kenya Shillings 1.2 billion loan the bank had advanced to the company. Mr. Matiba later reached a compromise with the bank. One cannot say that it is only his joining politics that jeopardised his business empire (the tribal clashes at the Kenyan coast severely affected all tourist related businesses), but been an opposition politician, he could not fall back on the system to salvage his empire as is sometimes the case.

Gordon Wavamunno, Lake View Hotel, Uganda

Gordon Wavamunno is the founder and the Chairman of Spear Group of Companies. He has built a vast business empire in a wide range of fields including transport, manufacturing, tourism, motor vehicle distribution, trade, insurance and banking, commercial farming, electronic media and property development.

Mr. Wavamunno had very modest academic backgrounds. He joined his fathers trade business, a retail shop, immediately after primary school. After one year, he went to work as a cashier for Sadru Merali a Ugandan Asia, who by then had chain of businesses in Mbarara. He was attached to the agricultural produce buying section. After gaining enough experience, he left the Merali business in 1961 to venture into produce buying. Trading in agricultural produce did not require a lot of working capital or specialised knowledge.

After accumulating enough money from the produce business savings, he bought a car and started a car hire business. Later on he bought two mini buses. These vehicles were financed from his agricultural produce and taxi operations, and partly by higher purchase arrangements. In 1969 and 1970, he procured two buses respectively, on higher purchase arrangement with a guarantee from Uganda Commercial Bank (UCB). Apart from trading in agricultural produce and passenger transport service, he also started a number of other businesses in Mbarara. These included a dry cleaning business and a driving school. He has supplied groceries to Nganwa Hostel. He also managed the accommodation, bar and restaurant facilities of the hostel for two years.

He later decided to expand his business to Kampala. He became partners with two former friends who were jointly running a company known as Uganda People's Transport and Taxi Service Limited. He joined the company with a fleet of six vehicles, which were mostly hired by government officials, departments and tourist companies. He later formed his own company, Spear Touring Safaris Company. He then borrowed money and used it as a deposit to buy a fleet of ten vehicles; six Mercedes Benz cars and four Volkswagen mini-buses under higher purchase arrangements with the car dealers. Later on in 1974, he was to acquire exclusive franchise from Daimler Benz to import Mercedes Benz vehicles, spare parts and to provide after sales service in Uganda.

After the successful growth of the tour and travel agency company, he decided to venture into the hotel business by building a hotel in Mbarara. In the early 1970, construction of the present Lake View Hotel was started. Unfortunately, it was not finalised until the late 1980s owing to the political turmoil of the 1970s and early 1980s. Although he has never been involved in politics, the war in Uganda was a setback for Mr. Wavamunno. He had to rebuild his business empire again almost from scratch. Lake View Hotel is however, one of the popular tourist destinations in Uganda.

Rungwe oceanic hotels limited

The Rungwe Oceanic Hotels is a tourist and beach hotel specialising in accommodation, restaurant and sea safaris. The hotel is strategically located along the tourist attractive beaches of Dar es Salaam, Tanzania.

The hotel was built by Mr. Wilfred Mwakitwange a Tanzanian. Mr. Mwakitwange was a trained as a teacher/clerk in the colonial times before Tanzania become independent. Later he trained in cooperative management in Israel.

After the country attained independence, he become heavily involved in cooperative affairs. He held major posts such as Managing Director of the Tanzania Network Transport; which was a public company for upcountry passenger buses. He was also the secretary of the cooperative union in the country. In the 1960s, he was a member of the Tourist Board in the 1960s. He was a founder member of the Tanzania Confederation of Commerce Industry and Agriculture (TCCIA).

Mr. Mwakitange was also heavily involved in business. He was running a bulk goods transport and owned several big lorries. He was also involved in agricultural activities and supplied food (farm produce) such as chicken and pork to colleges and the army barracks in Morogoro. In addition to the hotel, he was also running a carpet manufacturing business and a 75 acres business.

In 1978, he decided to exit from the transport business and start the business of his passion; by building a tourist hotel. The initial capital was between 50-75 million Tanzanian shillings, which was savings from the transport business and contributions from a 75 acre farm. The initial construction was a 20 room building, 50 person restaurant and 100 people conference hall. Other facilities included five new cars; a 10 seater combi, 3.5 tonne lorry and 3 saloon cars. The number of staff at inception was 15.

Later on, 20 more cottages each with four self-contained rooms, a water pumping system and a 2 tonne pick up car were added. The capital for expansion was a 3 million Tanzania shillings loan from the Tanzania Investment Bank. Despite the success of the hotel in the eighties, the investment faced difficulties in late nineties. Currently, the hotel is closed down awaiting a suitable buyer or partner to resuscitate it.

It is difficult to clearly pinpoint what exactly led to the decline of the business. The major factor was however a change in the business environment after the liberalisation of the markets. Mr. Mwakitange also became actively involved in politics and started a political party. In the pre-economic liberalization period, there were no barriers as political influence offered unlimited access to internal markets and supplies, credit etc. Business outlook was inward and opportunities were readily available. The major clients were government related functions. The post reform era however created challenges and competition, which the business had not prepared for.

There was inadequate/lack of information on available opportunities. There was an absence of bridging finance to help local business to align business with demands of rule-based environment. Major international hotels and even Indian business men with relatives running tour firms as far as Canada created challenges for entrepreneurs who had thrived without competition in the pro-reform era.

One can regard Mr. Mwakitange as a dynamic indigenous entrepreneur who took risk and worked hard to establish the business. However, like most other indigenous entrepreneurs he over relied on political patronage and failed to seek ways to make it competitive in a global world.

Mr. Stanley Githunguri, Nairobi Safari Club

Mr. Githunguri is the owner of the prestigious five star Nairobi Safari Club and Lilian Towers Building. He also has some other vast businesses including Tassasia Coffee Estates.

He was the Chief Executive of the National Bank of Kenya, a financial institution, which the state is the majority shareholder.

Mr. Githunguri had a long legal battle when the state claimed that he had acquired his hotel illegally. The state wanted to acquire the hotel from him. This move is believed to have been linked to changes in the political regime.

Mr. Duncan Ndanshao: Lions Hotel, Dar es Salaam

The Lion Hotel is a medium scale family business with 45 rooms. The hotel was built by their father who was working for the State Trading Corporation (STC) in Tanzania. He had earlier attended school in Sweden and Italy. He had started business as a timber merchant before acquiring the plot where the hotel is located and starting a hardware shop and guesthouse. Initially he was also involved in running a bar and restaurant business but the partnership broke down.

The construction of the hotel was started in 1979. It however took ten years to finish the construction. As a civil servant, he was not supposed to run business and could not get a loan from the financial institutions. However, at the last stages, they managed to get a loan from the National Bank of Commerce to finish the construction. The loan was duly paid.

The son who currently runs the business is a graduate in business administration and economics. He joined the family business in 1986 when construction of the hotel was been finalised. He has since managed to modernise the hotel (TV, air conditioners) and make some extensions. His only problem is capital since the interest rates charged by the commercial banks is too high. His other problem is the many licenses that he has to pay every year to various government departments. He would like to enter into partnership with other local entrepreneurs especially those owning the tour companies but has not been able to identify one.

Mr. Ndanshao represents an example of an entrepreneur who was constrained by the socialist government policies in Tanzania. As a civil servant he could not get a loan since the laws prohibited that. He could also not enter into partnership since the business could not be registered and recognised by the law in case of arbitration.

Mr. Michael Shirima: Precision Air

Precision Air Services Limited is the first privately owned commercial airline in Tanzania started by Mr. Michael Shirima. Mr. Shirima is a former senior executive at the defunct East African Airways. He had started this line of business in 1987 with a company called Precision Flight Africa Ltd. By then the company had only two aerial sprayers planes serving large farms. A severe drought that affected agricultural production later forced him to enter a new field of passenger service.

His only drawback was capital since Tanzania by then did not have a well-established tradition of private enterprise. He however approached the Africa Project Development Facility (APDF) who carried out a comprehensive feasibility study and helped identify potential investors[34]. Approximately US$333,000 was raised in equity financing from the Tanzania Venture Capital Fund (TVCF), a $7 million vehicle backed by the Common Wealth Development Corporation (UK), FMO (Netherlands), DEG (Germany) and others. With the capital, Precision Air Services started operation in 1993. This coincided with a period of rapid growth in the Tanzania tourism industry due to liberalisation and the business was expanding rapidly. In 1994, it acquired five new Cessna's planes with a total capacity of 36 passengers and launched scheduled service flying the Arusha, Seronera and Zanzibar routes.

By 1996 the company had expanded to a level that required replacing the fleet with larger and faster turboprops. These however could still not meet the demand and APDF helped to raise $400,000 from the East Africa Development Bank. This helped to increase the fleet considerably, including two ATR 42, three 19-seater LET 410 and one Cessna Grand Caravan. Today, the airline has seven aircraft that can carry 176 passengers. Recently, in collaboration with Air Tanzania, Precision Air recently launched $175 direct service between Mwanza and Nairobi. About 145 jobs have been created. As APDF notes in its report, Mr. Shirima is a "model of entrepreneurship in Africa, a flexible man with a keen sense for markets and timing, but no fear for taking risks".

Mr. Willy Chambulo:Kibo Tour Company

Mr. Wilbert Chabulo, the owner of Kibo Tour and Guide Company has managed to expand the company despite limited education. He dropped out of school after completing standard seven. He later learnt mechanics and was employed by an international tour company Bobby Tours and Safaris as a mechanic cum driver. Through the money he acquired as tips, he saved enough money to buy an old used car for US$ 2,000. He needed US$ 2,000 to register a tour company, which he delayed him. In 1991 he managed to start Kibo Tour Company and the income in the initial years was around US$37,000. Today the company has an annual income of between 2-3 million us dollars. Three of his former employees have started their own company and become competitors .

[34] APDF is an IFC managed multi door initiative to support SMEs

Merwyn and Pervin Nunes of Wildersun Safaris

Wilder sun Safaris was registered as a tour company on the 20th of November 1980 and is licensed annually by the Tourist Agents Licensing Authority of the Ministry of Tourism and Natural resources. Considerable expansion has taken place over the years both in terms of material resources and personnel. The company now owns a fleet of 12 minivans and 6 land cruisers, and has a staff of 35 employees. The company is jointly managed by Merwyn and Pervin Nunes, who between them have a long experience in Tanzania Tourism and Travel.

Merwyn Nunes have been actively involved in the Tanzania tourism industry for over thirty years. He was trained in Israel and Germany and worked for the Ministry of Tourism for twelve years. Pervin Nunes has over 30 years experience in the industry as well. She has an IATA Diploma and worked in the airline sector for twelve years. In 1980, she resigned to join forces with Merwyn and assist in the formulation of the company. She is currently the director of finance.

Anic A. Kashasha : Renics Car Rental and Travels

Mr. Kashasha represents the upcoming group of entrepreneurs making an entry into the tourism industry. He started off as a civil servant in the Ministry of Works and Communications. In 1985, he left the civil service to start a family business based on the wood industry. The business was dealing with saw milling and timber. He didn't have problems running the business since he was keen to learn the tricks and peculiarities of the trade.

In 1987 he decided to diversify business and entered into the tourism industry. He had realised that the tourism sector was rapidly growing and potential entrepreneurs could tap into the business. He entered into partnership with other businessmen and started a car rental and travel company. Though he was a minority shareholder by then, he became the Managing Director of the new company. The business grew fast and in 1990, they opened a branch in Arusha to cater for the northern circuit while the Dar es Salaam office catered for the coastal and southern circuit. In December, 1992, he left the company to form another partnership.

With the wide experience and networks he had acquired, he entered into partnership with another businessman and started a car rental and travel company. He didn't have capital to start on his own and therefore a partner to inject more capital was handy. Unfortunately, the new partner did not have a deep interest in the car and travel industry. The company performed well until 1999, when the relationship of the partners was strained. In the year 2000, Mr.Kashasha had to file the petition with The High Court of Tanzania, Commercial Division, to wind up the company.

Mr. Kashasha did not give up and this time he decided to enter the business as the sole proprietor. He subsequently formed Renics Car Rental and Travels in 1999. Despite the competitive nature of the market competition from the big companies, he has a vision to develop Renics Car Rental and Travels, to a similar level as other major companies in the industry within the next two years.

His main draw back is lack of capital. He is not willing to get loans from the financial institution because the interest rate of 20-35% is far too high. The lowest is around 17% and he believes the favourable rate for him as a businessman is between11% and 15%. He believes an alliance with another firm(s) would be useful in reducing marketing costs. Such an alliance would enable them to participate in major trade fairs such as London, Berlin, Tokyo and Milan where they can meet prospective customers and make business contacts. This however has not yet developed as a culture among the indigenous entrepreneurs in Tanzania. Suspicion and mistrust plays a role in this aspect. This is however becoming less of a problem as Tanzania start running business as a legal entity rather than a friendship coalition. At only 40years, Mr. Kashasha represents the upcoming entrepreneurs in the Tanzania tourism industry determined to face challenges in establishing enterprises in a competitive environment.

The Handicrafts Marketing Company (MIKONO)

The Handicrafts Marketing Company (MIKONO) is a private company that promotes and markets Tanzania Handicrafts. MIKONO took over business from Tanzania Handicrafts Marketing Corporation Ltd (HANDICO), a parastatal, under the ongoing Tanzania Government Privatisation Programme. HANDICO had a monopoly to license handicrafts exports under the Ministry of Trade. Since 1992, HANDICO had however not managed to make profits despite receiving subsidies from the Government. When the government decided to privatise the parastatal the former workers requested to be given first priority through a Management and Employee Buy Out Scheme. Subsequently, the workers bought shares and the new company , MIKONO, was incorporated under the Companies Ordinance Act. This was followed by a period of restructuring to improve quality and meet the market demands.

In 1997, the company employed a General Manager Mr. Deo Kafwa who had 15 years experience in handcraft marketing. Mr. Kafwa after analysing the performance of the company observed that:

- The whole sector of handcraft is neglected and there are no clear policies that are laid down to help the enterprises involved in enterprises
- The company's name was a liability since the performance of the company in the previous few years was so bad in terms of delayed or dishonoured orders, poor quality, bad designs, poor response to enquires etc, old customers were not interested in doing business with the company.
- The company's product positioning was very poor, products were marketed as gift ware or just carvings without taking customer preferences, tastes and trends into consideration.
- The company undertook little market research and was thus not able to keep up with developments in the market.
- The company depended on middlemen to supply handcrafts. These arrangements made the products expensive and the company had no influence on the producers. This influence was necessary due to stiff competition from other buyers.
- The process of obtaining finance from financial institutions takes a long time and very difficult to secure finance, on the other hand interest rate of 30 to 40% is too high.

- Company employees were not trained at al or were poorly trained.

MIKONO runs two shops downtown and operates a handicrafts estate as well as a gallery in Dar es Salaam. The shops, the estate and gallery provide space to small talented artisans and craftsmen to produce, display and sell their products.

One year after the transfer, the company made a profit of 36 million. Today the average profit is about 100 million Tanzania shillings. The company export grew from US$ 10,000 in 1997 to US$ 100,000 in 2000. Export sales in 2001 were expected to exceed US$ 150,000. Out of the 10,000 shares allotted, 5,000 have been issued. The company is in the process of entering a joint venture with a Netherlands company to establish a cultural exchange centre.

6.0 Conclusions

As in all other economic sectors, the state was supposed to spearhead the indigenisation process in the two East African countries. In Kenya, where the state went into partnership with the trans national corporation, success was registered. In those enterprises where the state (KTDC) was not in partnership, the investments were not strategically located and were also poorly managed. In Tanzania, even where the state went into partnership, the socialist policy created a hostile policy for private entrepreneurship and the enterprises did not grow to be as competitive in the market as in Kenya. There is no evidence that during the privatisation of the state enterprises in tourism industry, indigenisation was promoted. In the case of Tanzania, some of the conditions put by the Public Sector Reform Commission before acquiring the investments were far too high for most of the indigenous entrepreneurs to meet. This is especially in the case of the hotel industry. The few local investors who have taken up the firms have been unable to implement the agreed investment plans. The Government for instance is planning to repossess the Mikumi Wildlife Lodge after the local investor who acquired it failed to honour the acquisition agreement and investment plan[35]. However in medium scale enterprises, notable success has been registered. This includes the Mikono Handicraft and ABC Travel and Tour Company, which were both acquired by former employees of the enterprises.

Although indigenous entrepreneurs have succeeded in medium hotels outside the main tourist areas and towns, trans national corporations have shown limited enthusiasm to enter into these areas and therefore competition is limited. This could be a niche for local entrepreneurs to concentrate on especially to cater for domestic tourism. Chances for local entrepreneurs entering into the first class tourist hotel business and succeeding without partnership with trans national corporations are limited[36]. As the following statement notes, the business is competitive and getting into partnership with a trans national or franchising is likely to make the business marketable :

[35] From the Department of Tourism and the Guardian Newspaper.
[36] It is worth noting that trans nationals also prefer entering into partnership with indigenous entrepreneurs especially the ones with political connections. A good example was Unilever in Kenya where Chairmen have been relatives of ruling presidents.

"Tourists will mainly go to places where they feel safe and where services or facilities are almost equivalent to that of their home places, and this they believe can be better catered for by internationally reputable companies"

Another factor that has been responsible for stagnation of indigenous entrepreneurs is vertical integration in the industry. This is evident in both countries. In Kenya, Ica safari club of Switzerland has its own charter planes, safari vehicles and several hotels at the Kenyan coast. Germany International Tour Operator, TUI owns equity shares in Pollman Tours of Kenya and several hotels including Whispering Palms, Two Fishes Hotel and Diani Sea Lodge. Franco Rosso an Italian Tour firm owns Tropical Village in Malindi and Leopard Beach Hotel in Diani and is involved in local tour operations. UTC a subsidiary of BET of Britain owns the expansive Block Hotels chain, has a hotel management unit, touring and travel, and self drive divisions.

The same scenario is witnessed with the airlines. Inter-Continental Hotels Corporation, owned by Pan-American Airways held 33.8% of the equity of Kenya Hotels Properties Ltd. Hilton Hotel owned by Transworld Airways had a 22.2% equity shareholding in International Hotels (K) Ltd. El Al (Israel) Airlines had 18.5% equity shares in International Hotels (K) Ltd, which owned Nairobi Hilton. Lufthansa had 12.63% equity share in Tourist Promotion Services (TPS) which owned Serena Chain Hotels. British Airways had 12.63% in TPS and 3.23% in Kenya Safari Lodges and Hotels Limited, which owns Mombasa Beach Hotel, Ngulia and Voi Safari Lodges. British Airways also had 20.08% in the equity of African Tours and Hotels Ltd. Swiss Air owned a third of Kuoni AG, one of the biggest tour company in the country[37]. Vertical integration has made it difficult for the indigenous entrepreneurs to penetrate into the industry. The Tanzania National Tourism Policy discourages vertical integration in tourism investments [38]. This, however, has not been enacted into a law.

In case of the small-scale entrepreneurs in the sector, the main barrier is the multiple licenses that they have to pay[39]. These licenses are prohibitive especially for new entrants. In A US$ 5000 fee and US$ 250,000 investment minimum capital is required before you can be licensed to start operating in Tanzania. These conditions are considered prohibitive to the local entrepreneurs as they favour foreign companies, which can easily raise the money.

Although the Kenyan Government policies supported the growth of local private entrepreneurs, the key impetus was the loans provided by KTDC to indigenous entrepreneurs willing to invest into the industry. There was a conspicuous absence of this in the Tanzanian case, even after the market liberalisation. However, as earlier explained, by KTDC omitting the medium scale and small-scale entrepreneurs in Kenya, a chance to promote this group into big national entrepreneurs was missed. Some of the beneficiaries, who had political patronage also ended up been defaulters.

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[37] The ownership structure could have changed in the recent years.
[38] see page 19
[39] Examples of annual licenses include; guest house licenses, restaurant license, liquor license, house keeper license, common lodge license, food license, live music band license, inspection fee, development levy, medical examination, property tax, refusal fees etc.

Political patronage also played a role in the growth of big entrepreneurs in Kenya. As explained in the above paragraph, the beneficiaries of KTDC loans were very close to the centre of power during the Kenyatta Government era. Some of these businesses were later to be put under receivership when the political patronage for that group of entrepreneurs stopped with the Moi era[40]. A new group of big entrepreneurs in the tourism industry emerged in the Moi era. Although KTDC was not providing loans during this period, the new Moi era entrepreneurs were able to access coffers in other state financial institutions and invest in tourist hotels and other businesses in the tourist industry. This is a clear indication that although big national entrepreneurs can be moulded through political patronage as in the case of Indonesia and Philippines, it is different from the examples of entrepreneurship in the USA and Europe due to different political environment. This study has not been able to establish what role this issue played in Tanzania in the "second era" after the markets were liberalised. This is, because, most of the big entrepreneurs in the Tanzania tourism industry are fronted by foreign companies.

Enterprises run as family businesses especially in the medium scale tour companies also seem to be more stable. Most of the touring companies in Arusha, seems to have this element. However, the firms were founded by an entrepreneurial driven parent who was later joined by other relatives as the business expanded. This concept is largely responsible for the success of the Asian businesses.

A number of issues emerge from the study:

- There is a heavy presence of foreign ownership in the big hotels, lodges and camps located along the tourist corridors. The small and medium scale businesses have mainly been wholly owned by Africans. This group of hotels are however do not cater tourists because they cannot meet the standards set by the multinationals. They therefore cater for domestic tourists (especially business people from other towns and neighbouring countries) and most of them are located in up country where there is little presence of tourist business.

- Majority of the big entrepreneurs in the Kenya tourism industry were former heads of public service institutions that enabled them to develop networks.

- Political patronage (cronyism) could have played a role in the emergence of these nationalists. Their fortunes changed after political regimes changed.

- Local entrepreneurs do not have the sufficient capital to invest in big tourist hotels. They however have sought partnership with major TNCS. Even where an investor has built a hotel as the sole proprietor, the management is by a franchise from USA or Europe. We cannot rule out the fact that franchises such as Hilton, Sheraton and Holiday Inn, bring in more customers to the enterprise.

[40] It is worth noting that although there are many who had relied on political patronage during the Kenyatta era, there are some who due to the entrepreneurial acumen, they businesses still continued flourishing in the Moi era. This however is a group that had kept out of politics. A good example is Stanley Githunguri who managed to withstand court battles regarding the ownership of Nairobi Safari Group and to be a prominent businessman (He later also joined politics)

- The most common trend is whereby Africans were co-opted into managerial positions or boards of foreign owned firms after independence in Kenya and later some bought shares and /or finally took over the firms as in the case of Njenga Karume and Agip Motel.

7.0 RECOMMENDATIONS

This study makes the following recommendations:

- International tourists (business and conferences) will mainly visit and use firms and hotels, which are internationally recognised. Indigenous entrepreneurs are therefore encouraged to seek partnerships or franchise with international recognised firms such as Hilton to tap a share of the big business.
- Governments in the regions should enact laws prohibiting vertical integration in the industry. As long as vertical integration still exists, indigenous entrepreneurs will have difficulties penetrating the business and the revenues leakages will still be very high at the detriment of developing countries economies.
- Big entrepreneurs in Kenya were mainly beneficiaries of the KTDC revolving loans fund, which were meant to promote indigenisation in the industry. The Tanzania Tourism Confederation is lobbying for the creation of such a fund in Tanzania from levies collected by the Government. Unlike in Kenya, the procedures for accessing such a fund should be clearly spelt out to ensure all eligible indigenous entrepreneurs have equal access to the funds.
- Although most of the revenue comes from business tourism there is still a niche for small and medium entrepreneurs, which have not been fully tapped[41]. Countries such as Botswana and Namibia have small guesthouses to cater for low cost tourists, and this is lacking in East Africa. Indigenous entrepreneurs have an opportunity to enter such a market.

[41] Research has shown that this groups mainly spends more even in purchasing things like souvenirs than holiday tourists.

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