

## Financial Lending Institutions in the Tourism Sector in Kenya.

### Authors

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### Abstract

This study sought to examine the financial lending institutions in the tourism sector. According to World Travel and Tourism Council, one out of every 13 workers are employed directly or indirectly in the tourism sector. Financial injections in the tourism industry have been on the rise in the twenty-first century since numerous financial lending institutions in the world. In conclusion, financial lending institutions are investing in the tourism industry more due to its great growth potential. Investors in the tourism and hospitality establishments access financial aid from international, regional and local institutions. Loan security gives financial lending institutions the courage to lend out capital, making institutions such as MIGA very instrumental in the tourism sector. This study recommends that the government of Kenya, under the Ministry of Tourism and Wildlife, should provide guarantors' services to investors who are seeking financial aid for growth in the tourism industry.

**Key terms:** Financial, lending institutions, tourism sector, tourism council.

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## Introduction

In many developing countries, tourism plays a significant role in economic development. According to the United Kingdom's (UK's) Department of International Development (DFID) (2015), tourism in third world countries is directly proportional to job creations, tax revenues and foreign exchange income, which directly or indirectly improves the living standards of the people. In countries that have limited income-generating alternatives, tourism plays a critical role in enhancing economic development. Even though Tourism has not reached its maximum production rate, financial lending institutions invest in the industry due to its tremendous growth potential (MIGA, 2009).

One of the world's fastest-growing industries is Tourism. It is predicted that by 2030 tourism will overtake the agriculture industry as far as economic returns are concerned. According to World Travel and Tourism Council (2012), one out of every 13 workers are employed directly or indirectly in the tourism sector. Additionally, the tourism industry contributes tremendously to the world's Gross Domestic Product (GDP), with records showing a contribution of up to \$3.5 trillion per year. In Kenya, the trend is not different; for instance, in 2018, Tourism contributed to the country's GDP a whopping \$7.9 billion. Financial institutions, therefore, are not shy to lend money in the tourism industry since it is ever growing.

### LITERATURE REVIEW

Tourism investment options can be of the following origins; foreign or domestic and public or private. For a long period, the tourism industry has been facing a challenge of lack of diversity amongst financial lending institutions. This directly translates to the little growth for sustainable tourism globally. Due to the high potential that the tourism industry has, both public and private sectors have been motivated to invest in the tourism industry in the recent years, especially in the sustainable tourism field.

In Finland for instance; 25% of the European Regional Development Funds have been directed towards sustainable tourism business ventures. Therefore, new and expanding business have been financed through the initiative.

In the tourism industry financing public involvement is very crucial since it helps in providing incentives, unlocks finances and build capacity. This is demonstrated by the activities of supra national, national and sub-national public fiancé institutions. The financial aid from such institutions helps reduce risk of collapse of firms at different stages of development. The European Union has implemented diverse initiatives for the tourism industry development and promotion. From the year 2014 – 2016, the European Commission has supported over 100 projects under the programme for Competitiveness of Enterprise and Small and Medium-sized Enterprise (COSME). The projects cover environmentally friendly tourism, cultural based travel itineraries and hiking or cycling routes. In Kenya, financing options include; conventional debt, hybrid instruments and equity. Debt instruments, which includes loans, are the common source of financing in the varied tourism business. On the other hand, hybrid sources of funding combines debt and equity and is common to big tourism establishments.

### METHODOLOGY

The key instruments used in the study to collect qualitative and quantitative data were literature review and key informant interviews. Professionals in the tourism and hospitality industry were the main KIIs. A wide variety of documents, including journals and newspapers, were reviewed and synthesized to source information relevant to the study. Data, information, and photographs retrieved from the literature review was analysed, and the results presented descriptively.

## RESULTS

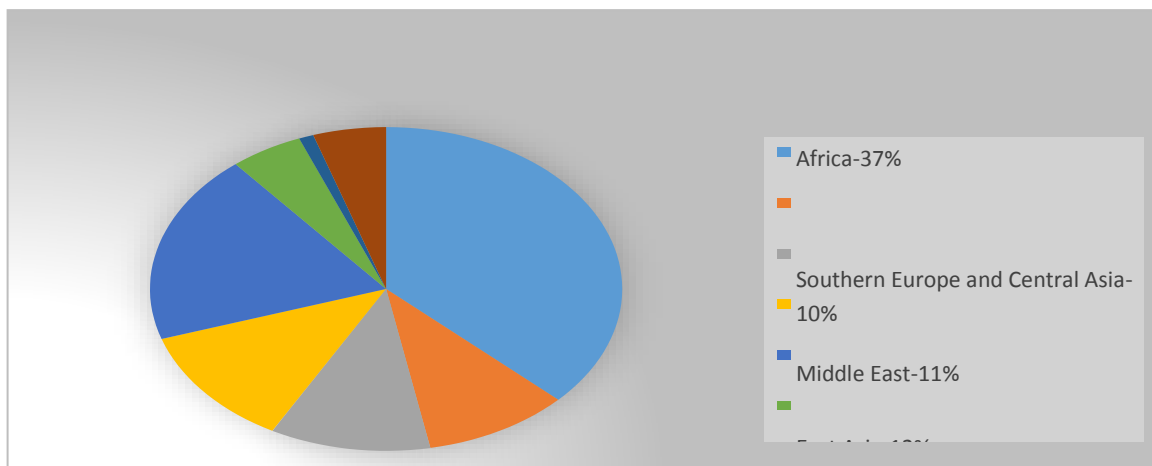
### International Financing Institutions

**International Finance Corporation:** International Finance Corporation (IFC) is one of the World Bank agencies that facilitate financing to the target market. Amongst the World Bank agencies, IFC is the only agency that has financed tourism projects continuously for the past three decades. It started investing in tourism projects in the year 1967. Prior to 1989, IFC only proved a maximum of three projects per year. However, from the year 1990, the projects have been on the rise with an average of 12 projects per annum. As a result, there has been growth in the tourism industry since 1990, and the demand for IFC finances has increased over the years (IFC, 1992).

IFC provides technical assistance and advice to the government and businesses, finance private sector investment and mobilizes capital in the international

financial markets. IFC partners with private investors to provide loan and equity finance for businesses ventures in third world countries. IFC investments are very diverse geographically. The institution's projects are spread over 42 countries, which are fairly spread regionally. Listed below are the characteristics of IFC's tourism portfolio (IFC, 2007);

- ❖ IFC continues to invest in both city/commercial hotels and resorts.
- ❖ The institution still recognizes the need for luxury hotels in certain city markets and resort destinations in an attempt to upgrade the overall destination.
- ❖ Tourism investments are frequently IFC's first investments, and in some countries such as Angola, Cyprus, Laos, the Maldives and Vanuatu, they remain the only projects.



**Figure 1 IFC Hotel Investment- Number of projects**

### Multilateral Investment Guarantee Agency (MIGA)

MIGA World Bank member. MIGA mission is to reduce poverty, improves people's lives and promote foreign direct investment in developing countries. Although MIGA does not offer financial support directly, their guarantees

help to mitigate non-commercial tourism and hospitality investment risk, therefore, lowering the cost of capital. MIGA reassures lenders that their investments are protected. Prior to signing hefty deals, MIGA helps equity owners deliberate on costly investments projects in

countries. With the backup of the World Bank, MIGA guarantees projects developments, which bring money lending institutions peace of mind. While increasing the probability of a better risk-weighted return, MIGA political risk guarantees can (MIGA, 2009);

- Decrease the cost of capital
- Lengthen the loan tenure
- Enhancing companies borrowing capacity
- Reduce the risk profile of institutions' tourism and hospitality investments

### Norfund

Norfund is a Norwegian investment fund for third world countries. The organization mission is to create jobs and improve lives by investing in the business for sustainable development. The Norwegian government owns and

funks Norfund with the aim of strengthening the private sector and reducing poverty in developing countries. Norfund targets selected countries where capital is scarce where international investments will have a great impact. Norfund has invested in 29-core countries transport, which was selected due to high investment needs, limited access to capital/investors and Norfund's knowledge of the market. Additionally, it has invested in 20 more developing countries that are fragile and offer partnership opportunities through reputable private equity funds, strategic partnership and investment platforms. For example, Norfund financed Asilia Africa, which is East Africa's market-leading safari operator. Being a responsible investor, the institution is concerned with climate and environment, corruption prevention, human rights and gender equality.



Figure 2. Norfund's Sustainable Interests

### Investment Fund for Developing Countries (IFU)

IFU is Investment Fund for Developing Countries initials from its Danish initials. IFU provides risk capital and advice for companies wanting to invest in Africa, Asia, Latin America and Central and Eastern Europe. IFU is a self-

governing state fund that is pro promoting economic and social development in third world countries. They make their investments in the form of loans and share capital to project companies. IFU has cooperated with more than 800 Danish companies, and it has recorded over 1200

investments in 100 developing countries. Unlike other money lending institutions, IFU does not provide business grants. However, it works on a commercial basis to believe that business investment is an excellent way to create sustainable economies. There are 146 countries eligible for IFU's equity, loans, and guarantees, Kenya being one of them.

### Regional and Sub-Regional Organization

The African Export and Import (AFREXIM) Bank—AFREXIM was established in the year 1993, and its headquarters is based in Cairo, Egypt. It aims at stimulating a consistent

expansion and diversification of African trade tourism included. In 2015, the bank injected \$1 billion into tourism-related projects across Africa. The bank has also made it easy for its member states to easily deliver on their tourism strategies. The bank has regional offices all around Africa, which helps in facilitating the countries within the sub-regions. The regional offices are in; Harare, Kampala, Abuja, Abidjan and Yaounde. AFREXIM mandate is to finance and promote intra and extra African trade using the following three broad services; risk-bearing, credit and trade information and advisory services.



**Credit**

- a. Trade finance
- b. Project finance

**Risk bearing**

- a. Guarantees
- b. Credit insurance

**Trade information and advisory services**

**Figure 3. AFREXIM Bank 3 Broad Services**

### Financing Institutions in Kenya

**Tourism Finance Corporation:** Tourism Finance Corporation (TFC) is a corporate body established in 1965 through an Act of parliament, Cap 382 of the Kenyan law. TFC has specialized in Development Financial Institutions (DFI). The corporation's mandate is to facilitate project funding and provide advice for the sustainable development of the tourism industry. Its mission is to provide customer-

focused financial solutions that will ultimately drive the tourism sector development and socio-economic growth. The corporation provides funding for;

- Restaurants
- Renewable energy projects
- Development of hotels
- Health Spas
- Entertainment centres

- Non-conventional tourism projects such as small and medium enterprise
- Shopping malls
- Multiplexes
- Any other innovative tourism product

**Commercial Banks and Microfinance Institutions**

Commercial banks and microfinance institutions in Kenya offer loans and grants to investors. These institutions offer loans to credible members who are able to pay back the amount offered within the prescribed time. Even though the banks and microfinance have no special provision for

tourism, they still finance the tourism sector by accessing investors' financial credibility and offering loans to creditworthy ones. These financial aids might not be significant as compared to other money lending institutions. However, it helps the development of small tourism enterprises. In Kenya, for instance, banks like; ABSA group, Equity bank, Co-operative bank, amongst others, offer loans that are directly or indirectly injected into the tourism industry.

**SUMMARY**

Below is a summary of the financial lending institutions.

Category	International	Regional/Sub regional	Local
Institution types	<ul style="list-style-type: none"> <li>✓ International Finance Corporation (IFC)</li> <li>✓ Multilateral Investment Guarantee Agency (MIGA)</li> <li>✓ Norfund</li> <li>✓ Investment Fund for Developing Countries (IFU)</li> </ul>	<ul style="list-style-type: none"> <li>✓ African Export and Import (AFREXIM) Bank</li> </ul>	<ul style="list-style-type: none"> <li>✓ Tourism Finance Corporation</li> <li>✓ Commercial banks</li> <li>✓ Microfinance</li> </ul>

**CONCLUSION AND RECOMMENDATION**

**Conclusion:** Financial injections in the tourism industry have been on the rise lately since there are numerous financial lending institutions in the world. Financial lending institutions are investing in the tourism industry more due to its great growth potential. Investors in the tourism and hospitality establishments can access financial aid from

international, regional and local institutions. Projects and investors with high credibility stand a better chance of securing financing. Loan security gives financial lending institutions the courage to lend out capital, making institutions such as MIGA very instrumental in the tourism sector.

**Recommendation:** The government of Kenya, under the Ministry of Tourism and Wildlife, should provide guarantors' services to investors who are seeking financial aid. This can be done through the institutions under the State Department of Tourism, such as the Tourism Fund,

Tourism Regulatory Authority, and Tourism Finance Corporation, amongst others. Furthermore, the government should collaborate with commercial banks and microfinance to provide funding for sustainable development.

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