Uganda Bankers' Association

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Reviving Uganda's Tourism Sector in the COVID-19 Recovery Period: Opportunities for Private Sector Finance.

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1.0 BACKGROUND

Globally, with the outbreak of the COVID-19 pandemic and the institution of the containment measures to curtail its spread, the tourism sector suffered a loss of approximately US$4.5 trillion to reach US$4.7 trillion in 2020. In the same vein, global contribution of the sector to Gross Development Product (GDP) dropped by a staggering 49.1 percent compared to 2019 (WTTC, 2022). Moreover, 62 million jobs were lost, representing a drop of 18.5 percent leaving just 272 million employed across the sector globally, compared to 334 million in 2019 (*ibid*). In addition, domestic visitor spending decreased by 45 percent, while **international visitor spending declined** by an unprecedented 69.4 percent (ibid).

For Uganda, before the outbreak of COVID-19, the contribution of tourism sector to GDP was UGX 8.36 trillion, foreign exchange earnings rose from US$ 834 Million in 2012 to US$ 1.6 Billion in 2018. By 2018, the industry was supporting 570,000 jobs (MoFPED, 2020). However, the outbreak of the virus had devastating impacts on the tourism sector (See section 2 below). Given the ambitious National Development Plan (NDP) III targets[1] for Uganda's tourism sector over the next five years (FY 2020/21 to FY 2024/25), amidst dwindling domestic resource mobilisation, harnessing private sector credit is vital for quick recovery of the sector.

The purpose of this paper is to identify priority financing areas in the tourism sector that private sector credit could prioritise as urgent financing opportunities to enable quick recovery of the sector. This paper has the following sections:

- **Section 2** examines the impact of the COVID-19 pandemic on the tourism sector in Uganda.
- **Section 3** delves into the current financing framework (public, private and donor financing) for the tourism sector, highlighting the key gaps.
- **Section 4** highlights the post COVID-19 priority financing areas that private sector credit could target to revive the tourism sector in Uganda.
- Finally, **Section 5** concludes with key policy recommendations.

[1] (i) Increase annual tourism revenues from USD 1.45 billion to USD 1.862 billion.
(ii) Maintain the contribution of tourism to total employment at 667,600 people.
(iii) Increase inbound tourism revenues per visitor from USD1,052 to USD1,500.
(iv) Maintain the average number of International Tourist arrivals from the U.S, Europe, Middle East, China and Japan at 225,300 tourists.
(v) Increase the proportion of leisure to total tourists from 20.1 percent to 30 percent.

2.0 IMPACT OF COVID-19 PANDEMIC ON UGANDA'S TOURISM SECTOR

(i) Macroeconomic impact

Considering the impact of COVID-19 pandemic on the tourism sector, Table 1 reveals that between 2019 and 2020, Uganda registered large negative growth on all the fundamental tourism indicators. In this regard, the international visitors' spending declined the largest, by 73 percent followed by the sectors' contribution to GDP, domestic spending by local tourists as well as the sectors' contribution to job creation. Specifically, the direct contribution of tourism to GDP in 2019, which was estimated at 6.2 percent of the total income, drastically declined to 2.5 percent by 2020. Other tourism contributions to the country's economic development which were affected by the pandemic include a decline to employment from 3.6 percent contribution to total employment in 2019 to as low as 2.4 percent in 2019.

Besides decline in employment, both domestic and international tourist spending was affected in 2020. Specifically, international visitor spending declined from 17.9 percent of total exports to as low as 5.5 percent of total exports. Equally, domestic visitors' expenditure reduced due to movement restrictions. With this state of affairs, without adequate financing to enable quick recovery, the impact of the pandemic on the sector could be prolonged and reverse the gains achieved by the tourism sector on the economy.

Table 1: Impact of COVID-19 pandemic on Uganda's tourism sector.

	2019		2020		Change
	US$ Millions	% of total	US$ Millions	% of total	%
Total contribution to GDP	2006.3	6.2	798.1	2.5	-60.2
Total contribution to employment	589.3	3.6	386.2	2.4	-34.5
International visitors spending	1,169.7	17.9	306.9	5.5	-73.8
Domestic spending	474.6		282.2		-40.5

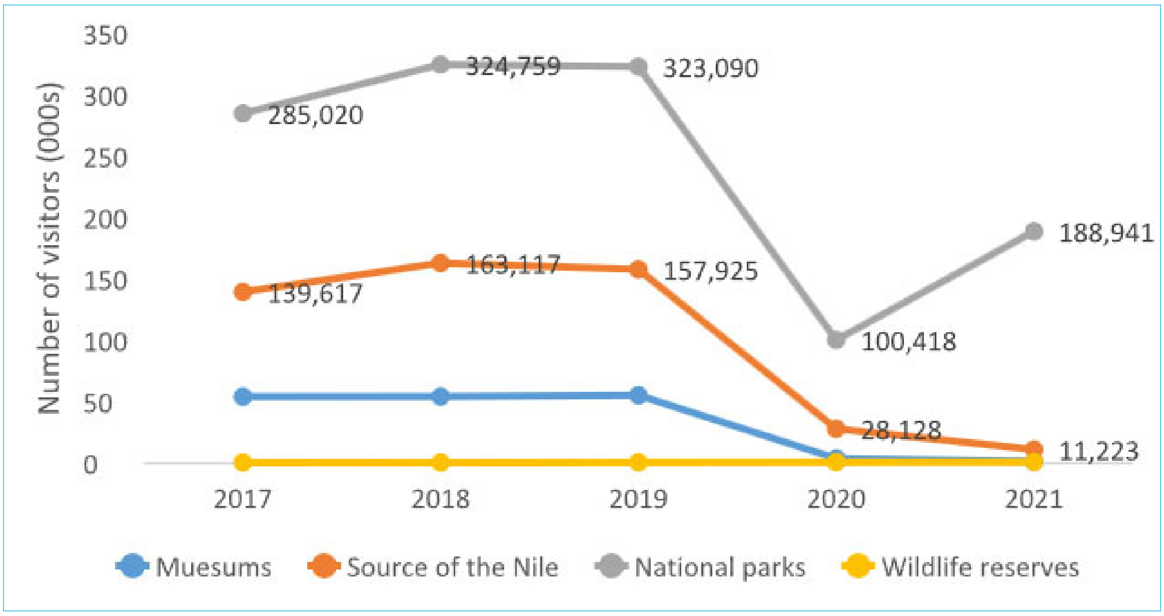
Source: Author's compilation based on the World Travel and Tourism Council, 2021. Accessed at https://wttc.org/Research/Economic-Impact

(ii) Impact on tourist traffic at national tourist attractions in Uganda

Besides impact on general macroeconomic indicators, the pandemic affected visitor traffic for the different tourist attractions in Uganda. Particularly, the largest decline in tourist numbers was registered at the source of the Nile. Between 2019 and 2020, visitors to the source of the Nile declined by 82 percent from 158,000 to 28,000 respectively. Following this drastic slump, visitor numbers had not yet recovered by the first quarter of 2021 (Figure 1). In addition to reduction in visitors to the source of the Nile, tourist traffic at the country's national parks also declined by 69 percent from 323 in 2019 to 100 by the end of 2020. These findings concur with Ahebwa and Philip (2021) who reported that by December 2020, the persistent financial constraints related to COVID-19 had forced many tourism entities to lay off all workers, due to the inability to pay them.

Despite this decline, tourist traffic to the national parks has been observed to recover faster than any other national tourist attractions (Figure 1). The strong recovery in tourist traffic between 2020 and 2021 at Uganda's national parks was buoyed on strong tourist traffic from East African residents, which increased by 101 percent and foreign residents, that grew by 69.5 percent during the same period. This evidence points to the need for private sector financiers to provide financial relief to the private sector, government agencies as well as non-government organisations operating in the area of conservation and tourism development. In this aspect, private sector credit could help to meet liquidity needs for basic operations and maintenance. In addition, the tourism sector further needs financing to adjust their facilities to the new COVID-19 Standard Operating Procedures (SOPs). This trend points to the need to deepen private sector financing for regional and domestic marketing of the country's tourist attractions. The country's marketing strategy should not only target international visitors.

Figure 1: Impact of COVID-19 on tourist traffic by tourist attraction (2017-2021)



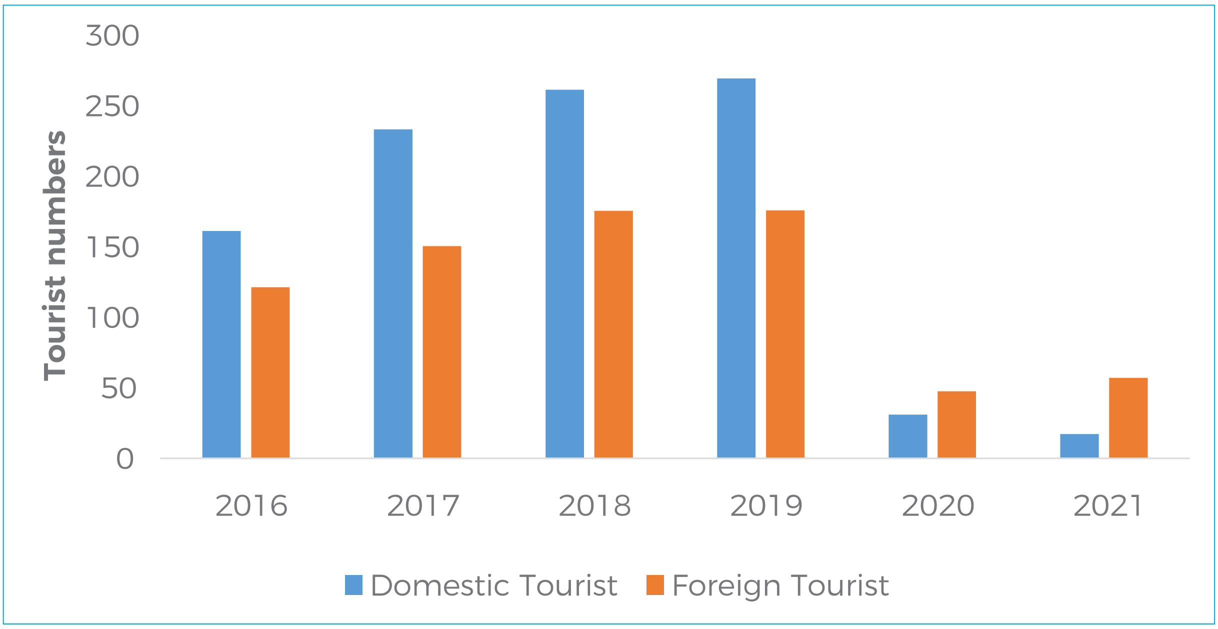
Source: Author's compilation based on Ministry of Tourism, wildlife, and Antiquities database. Accessed at https://www.tourism.go.ug/statistics

While it is plausible to conclude from the evidence above that private sector credit should prioritise financing for regional and domestic tourists, Ahebwa and Philip (2021) reported that the most lucrative form of tourism on a per capita basis is international leisure tourism. The study demonstrated that while visiting family and friends (i.e., foreign residents' tourism) generates somewhat large spending, less of this goes directly to the tourism sector value chain actors such as hotels, restaurants, tour operators, guides, and handicraft sellers. In this regard, private sector financiers need not only aim at financing the main value chain actors in the tourism sector but also ancillary actors such as up-country businesses catering for leisure tourists.

(iii) Domestic versus Foreign tourist traffic

Considering the impact of the COVID-19 pandemic by tourist category, Figure 2 reveals that before the outbreak of the pandemic, domestic tourism was increasingly gaining importance in the country's tourism fortunes. Specifically, domestic tourists' traffic increased by two-fold to 269,340 in 2019 from 161,062 in 2016. The rapid increase in domestic tourism numbers is partly attributable to the aggressive domestic tourism promotion and marketing that came with the launch of the "*Tulambule*" campaign which commenced in 2018/19. Considering the major driver of increasing domestic tourist numbers between 2017-2019, evidence (See Annex, Table 2) reveals that domestic tourist were majorly attracted to visiting the source of the Nile. Part of the large attraction of domestic tourist traffic to Jinja was the World Tourism Day celebration which attracted as high as 3,000 visitors (GoU, 2019). The large attraction to this unique tourist attraction is an opportunity for private sector credit to finance the 20-year source of the Nile master plan. This plan guides both public and private investment developments at this tourist site.

Figure 2: Trends of Uganda's tourists by tourist category (2016-2021)



Source: Author's compilation based on based on Ministry of Tourism, wildlife, and Antiquities database. Accessed at https://www.tourism.go.ug/statistics

However, the impressive performance for both the domestic and foreign tourism was short-lived. Indeed, with the outbreak of the pandemic in Uganda by March 2020, the number of domestic and foreign tourists slumped by 88.5 and 72.9 percent respectively between 2019 and 2020. Despite the large drastic declines for both foreign and domestic tourists, foreign tourist traffic has rebounded at a higher pace than domestic tourism. Particularly, foreign tourist numbers rebounded by 19.8 percent between 2020 and 2021, compared to further decline of 44.7 percent in domestic tourist traffic (Figure 3) during the same period. The relatively strong rebound in foreign tourist numbers has been due to increasing foreign tourist traffic to Uganda's national parks. This points to financing opportunities to ensure conservation of nature-based tourism, partly national parks, water bodies, wildlife, mountains, among others. The evidence above reveals that recovery of the tourism sector will not be even, as such different types of tourist attractions shall recover differently – requiring different financing structures to speak to their unique needs.

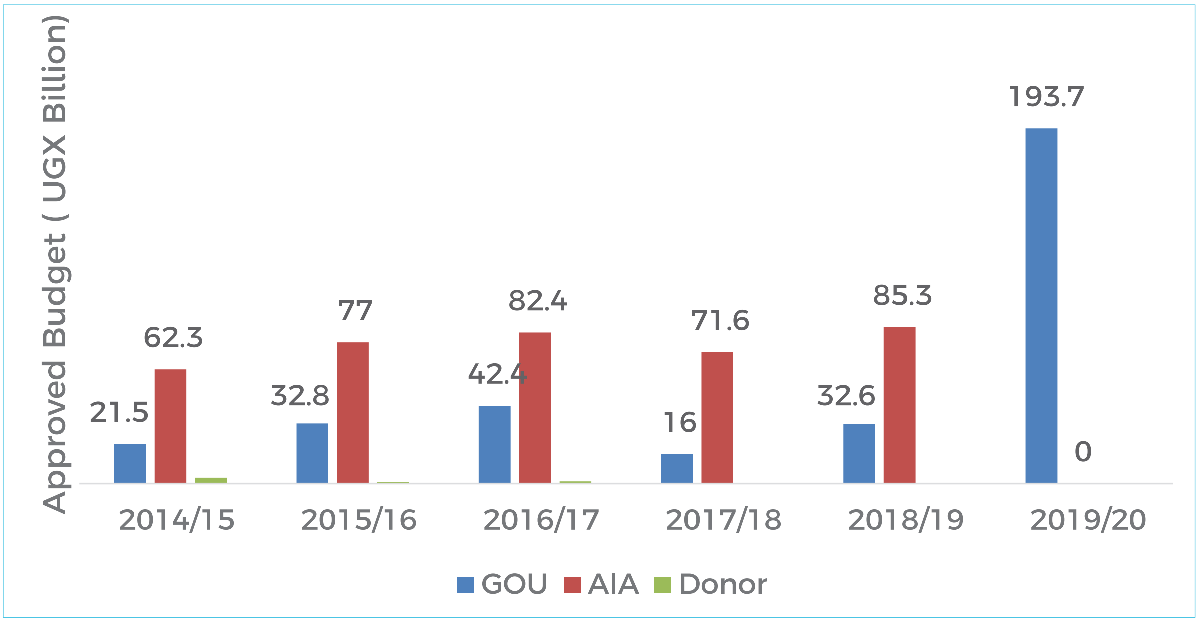
In this regard, Ahebwa and Phillip (2021) reported that although domestic tourism cushioned the sector during the outbreak of the pandemic, domestic tourist spending is not adequately transmitted to all the tourism value chain actors. In this regard, domestic tourism is dominated by a fraction of Uganda's working class and the foreign residents, who have a low expenditure multiplier effect along the tourism value chain compared to international leisure tourists. As such, the study predicted that domestic tourism, although important, was not going to sustain the tourism industry in Uganda and many up-country hotels will not sustainably operate until international tourists fully return. This evidence points to the needs for private sector financing to prioritise tourism investments that largely target foreign tourists.

3.0 CURRENT FINANCING FRAMEWORK OF UGANDA'S TOURISM SECTOR: TRENDS AND GAPS FOR PRIVATE SECTOR FINANCING

3.1 Extent of public expenditure

Government expenditure is one of the effective instruments for promoting tourism sector recovery and growth. Figure 3 indicates that in nominal terms, Uganda's national budget allocation to the tourism sector more than doubled from UGX 62.3 billion in 2014/15 to UGX 193.7 billion in 2021/22. Despite this growth, the share of the national budget allocated to the tourism sector has persistently remained low, ranging between 0.1 to 0.6 percent of the total national budget for the last eight years (2014/15 to 2021/22) (See Annex A, Table 1). These findings imply that growth in national budget allocation to the tourism sector has not been in tandem with that of the total national budget over these years. Secondly, Figure 3 below reveals that while the sector allocation has increased, much of the growth in the tourism sector budget was internally generated revenue by sector Agencies in form of Appropriation in Aid. The small share of the tourism sector in the budget allocations means less investments and reduces the sector's resilience and ability to quickly recover from the effects of the pandemic.

Figure 3: Tourism sector budget allocation (UGX billion)



Note: AIA= Appropriation in Aid

Source: Authors computations based on MoFPED annual performance budget reports (various years).

Given that most of the internally generated revenue from the tourism sector is largely reliant on nature-based tourism products, ensuring financial resilience and recovery in the COVID-19 recovery phase requires private financing of diversification of tourism products. In this regard, private sector credit could target small and medium enterprises as well as capacity-building for local communities to develop and promote local tourism products.

In addition, Ahebwa and Phillip (2021) suggest that, financing priorities could target product development and diversification through setting up regional museums (Fort Portal, Arua and Napak); profiling and development of cultural and heritage tourism sites; equator development particularly the construction of improved monuments at Kayabwe, Rwemikooma, Lake George and Kikorongo to trigger private sector investments around those areas as well as upgrading the Pian Upe Wildlife Reserve into a national park with necessary infrastructure. These financing priorities as highlighted need suitable financing including public financing, financing by development partners or through grant financing.

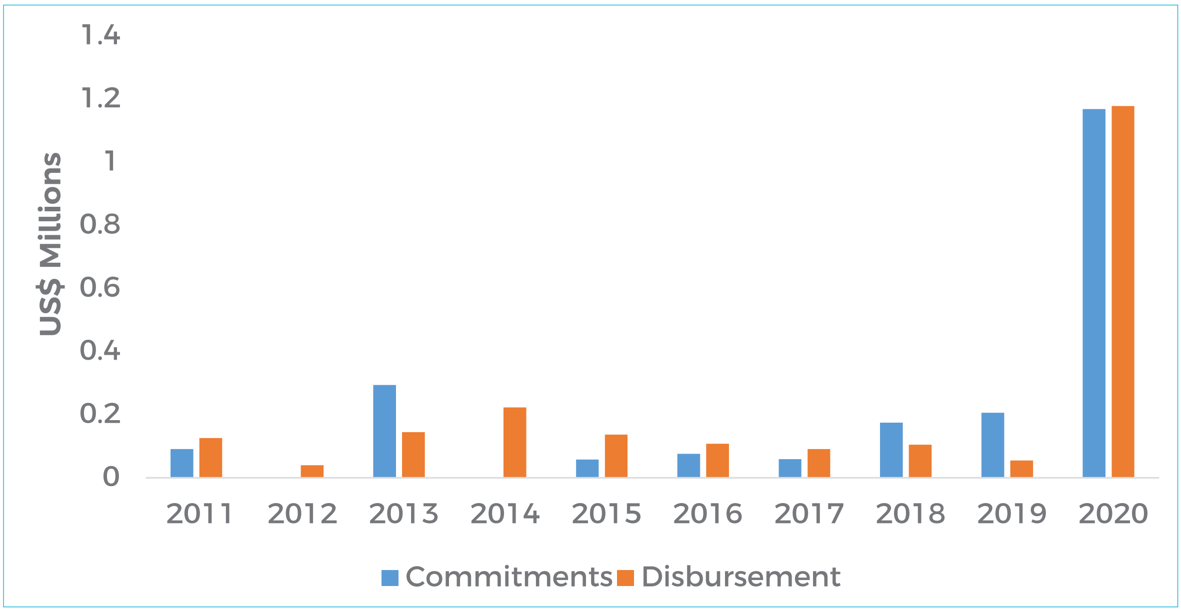
In addition, a combination of both private and public sector financing could be availed to increase the stock and quality of tourism infrastructure through expansion, upgrading and maintaining of tourism national transport infrastructure and services. In this regard, priority would be given to improving infrastructure development such as tarmacking the road for southern access to Bwindi National Park; improving access to Lake Mburo, Murchison Falls National Parks, Pian Upe Wildlife Reserve, and Bigo bya Mugyenyi; and maintain access to all Protected Areas (*ibid*). Lastly, private sector finance could also be availed to bolster conservation of nature-based tourist attractions.

3.2 Donor financing to Uganda's tourism sector

Figure 4 reveals that overall, there exists significant gaps between total Official Development Assistance (ODA) commitments and gross disbursements towards Uganda's tourism sector. Specifically, total donor gross disbursements remained below total commitments during the study period. Hearn ***et al.,*** (2009) reported that the mismatch was due to factors related to implementation modalities, specific donor conditionalities as well as unavailable implementation capacity in recipient countries. However, the mismatch could also emanate out of delays in release of counterpart funding from government, lengthy procurement processes, poor planning, and identification of projects as well as a lack of harmonised sector wide programmes in the tourism sector.

The discrepancy between aid commitments and disbursements negatively impacts financing Uganda's tourism sector. As such, it is imperative that integrated planning is undertaken between donors and government before projects are identified and later implemented, prioritization of a few value key tourism products for development, enacting a co-operation policy to streamline donor support and establishment of a monitoring and assessment framework to track the destination and impact of donor support. The framework would enable government to ensure that aid is directed where it brings the highest welfare impacts.

Figure 4: Tourism ODA commitment and disbursements- Uganda (2011-2020).



Source: Authors computation using OECD credit reporting database online, 2022

4.0 POST COVID-19 PRIORITY AREAS FOR PRIVATE FINANCE OF UGANDA'S TOURISM SECTOR

Following from the above evidence, the study presents the major areas that private sector financing could target to strengthen future resilience and recovery of the tourism sector from present and future shocks. The following are key financing areas which private sector capital can target;

(i) Financing to increase stock and quality of tourism infrastructure

Given that a bulk of Uganda's tourism revenues are nature based, private financing could target improvement in access to some of these natural attractions. Indeed, while Uganda has improved road access to some of these tourist attractions in the NDP period, Phillip and Ahebwa (2018) reported that road access to Gorilla trekking in Uganda remains inaccessible compared to her neigbhour, Rwanda. In fact, some access road to Bwindi impenetrable forest is sometimes completely blocked as a result of landslides during the rainy seasons, disrupting tourist movement for two to four days (*ibid*). Besides improving road access, private, public and/or grant capital could be leveraged to build a bridge across the Nile River in Murchison Falls National Park over Murchison to improve promptness of game drives for tourists and hence the experience.

(ii) Finance tourism product development and diversification

Uganda's tourism product space remains narrow, the country largely relies on nature mainly national parks and gorilla trekking to attract tourists. However, there remains a large potential to expand the tourist attraction list. To expand this potential, Shinyekwa ***et al,*** (2017) suggested that the country could exploit other potential products such as cultural, historical and Meetings, Incentive Travel, Conference and Exhibitions (MICE). In this regard, private sector financing could be combined with Government resources to setup regional museums and development of cultural and heritage tourism sites across the country.

(iii) Financing aggressive tourism marketing

With the impact of the pandemic on the tourism, improving marketing of the country as an alternative safari destination is desirable for enabling recovery of the sector. However, enhancing marketing would entail not only relying on convectional marketing channels but adopting a comprehensive marketing strategy, which include leveraging digital marketing platforms.

5.0 REFERENCES

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6.0 ANNEX

Table 1: Tourism sector budget allocation (UGX billion)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Budget	63.8	81.2	89.6	27.2	32.6	32.4	197.5	176.7
% of total Budget allocation	0.4	0.4	0.4	0.1	0.1	0.1	-	0.6

Note: AIA= Appropriation in Aid

Source: Authors computations based on MFPED Background to the budget and annual performance reports of various years.

Table 2: Tourist arrivals by category (2016-2021)

Domestic Tourist					Foreign Tourist			
	Source of Nile	Museums and Cultural Sites	National Parks	Total	Source of Nile	Museums and Cultural Sites	National Parks	Total
2016	90,763		70,299	161,062	25,356		95,949	121,305
2017	116,063	50,733	66,463	233,259	23,554	3,557	123,237	150,348
2018	141,365	51,669	68,281	261,315	21,752	2,709	150,931	175,392
2019	140,657	50,884	77,799	269,340	17,268	4,542	153,911	175,721
2020	24,432	2,747	3,829	31,008	3,696	1,163	42,714	47,573
2021	10,638	1,232	5,272	17,142	585	297	56,112	56,994

Source: Author's compilation based on based on Ministry of Tourism, wildlife, and Antiquities database. Accessed at https://www.tourism.go.ug/statistics

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