

Betting on East Africa's Tourism: A Private Equity Perspective



Private equity (PE) and venture capital (VC) investments in the tourism and hospitality sector have seen significant growth in recent years, both globally and within East Africa. This surge can be attributed to several factors, including the post-COVID rebound and a shift towards luxury and wellness experiences that include travel.

According to UN Tourism, tourism generates US\$ 1.7 trillion annually, accounting for 4% of global GDP and 29% of service exports. It is a labor-intensive industry, supporting approximately **one in ten jobs** worldwide. Tourism influences each of the 17 Sustainable Development Goals (SDGs) both directly and indirectly, presenting unique investment opportunities aligned with sustainability and impact. To facilitate sustainable investments into tourism, UN Tourism is creating a set of investment guidelines. This will expand avenues for investing in impact-driven businesses committed to **responsible tourism** and travel.

Tourism
US\$ 1.7 trillion
4% of global GDP
(UN WTO, 2019)

Tourism supports East Africa's economic health and dynamism. It serves as a significant contributor to GDP, a major source of foreign exchange earnings and a provider of employment opportunities for a substantial segment of the population. Recognizing the importance of this sector, private equity investments such as Alterra Capital's in the ARP Africa Travel Group are instrumental in driving its continued development and sustainability.

These strategic investments are aimed at achieving both financial returns and responsible tourism that contributes to an improved quality of life for local populations. Responsible tourism necessitates coordinated efforts to prioritize environmentally sustainable, culturally respectful, and economically beneficial travel practices. These investments are intended to create employment opportunities and elevate living standards. The adoption of sustainable practices is important for the preservation of natural resources and cultural heritage. By strengthening local economies, supporting small businesses, and financing social initiatives, these investments promote community development and enhance overall regional prosperity.

Case study: Alterra Capital's investment in ARP Africa Travel Group

Alterra Capital recently made a strategic investment in the ARP Africa Travel Group, a prominent entity in the East African tourism sector. This group comprises three established and reputable travel companies: ARP Africa Travel, Pollmans Tours and Safaris and Ranger Safaris Tanzania.

Alterra Capital invested primarily to boost the expansion of the ARP Africa Travel Group's market presence both regionally and potentially internationally. The investment will also enable the group to diversify and enhance its service offerings, ensuring they cater to a wider range of traveler needs and preferences. A key component of this expansion strategy is the modernization and fortification of the group's operational infrastructure through the integration of advanced technological solutions. These technological advancements will optimize efficiency, enhance customer experience, and streamline internal processes. This comprehensive strategic initiative will solidify and elevate ARP Africa Travel Group's position as a leading and preeminent travel entity within the dynamic and competitive East African tourism landscape.

Private Capital (PE/VC) Investors in Africa

Notable fund managers such as **Alterra Capital**, recognized for its recent investment in ARP Africa Travel Group, and **Kasada Capital**, which has undertaken the acquisition of major hotel properties in Nairobi and Kigali, and more investments around the rest of the wider African continent, are key actors.

Purple Elephant Ventures concentrates its activities on tourism technology solutions, while **Vantage Capital** and **Norsad Capital** proffer an array of financial instruments.

Development Finance Institutions, like the **International Finance Corporation (IFC)**, **Proparco**, and the **Multilateral Investment Guarantee Agency (MIGA)**, have provided financial backing and support for sustainable tourism initiatives.

These investors not only provide capital but also specialized knowledge and strategic direction, thereby improving operational effectiveness and stimulating expansion within the industry.

Recent PE Deals in East Africa



- Alterra Capital's strategic investment in ARP Africa Travel Group (2025).
- Kasada Capital's acquisition of Crowne Plaza in Nairobi, Kenya (2022).
- Kasada Capital's acquisition of Umubano Hotel in Kigali, Rwanda (2022).

Private capital in East Africa's tourism can help position the region as a top travel destination.

Why Tourism is Attractive for Investors

Tourism presents investment opportunities to contribute to social development alongside financial returns:

1. **Strategic Mergers and Acquisitions (M&A) through Buy-and-Build Growth Strategies:** Investors can capitalize on the fragmented nature of the tourism industry by employing buy-and-build strategies. This involves acquiring smaller, existing businesses and integrating them into a larger, more efficient operation. Such strategic M&A not only expands market share but also creates synergies that drive down costs and enhance service offerings.
2. **Scalability with Similar Business Models across the Region:** The tourism sector benefits from the relative ease of scaling successful business models. A well-performing hotel chain or tour operator can often replicate its model in other locations within a region, tapping into similar customer bases and operational requirements. This scalability offers a predictable path to growth and market expansion with minimized risks.
3. **Leveraging Technology to Expand Distribution Channels:** Investors can pour resources into developing online booking platforms, enhancing digital marketing strategies, and utilizing data analytics to understand consumer preferences. These tech-driven initiatives will expand distribution channels.
4. **Refinancing and Restructuring Debt to Improve Cash Flow:** Refinancing existing debt at lower interest rates or restructuring debt obligations can dramatically improve cash flow. This financial agility frees up capital that can be reinvested in business expansion, infrastructure improvements, or marketing efforts.
5. **Sustainable Investing Aligned with the UN Sustainable Development Goals (SDGs):** A growing segment of investors prioritizes sustainability. The tourism sector offers multiple avenues for impact investing that align with the UN Sustainable Development Goals (SDGs). This includes eco-tourism initiatives, investments in renewable energy for hotels and resorts and support for local communities to ensure that tourism benefits them directly. Aligning with the SDGs not only enhances brand reputation but also attracts a socially conscious investor base.
6. **Gender Investing as Tourism Leads in Advancing Gender Equality:** The tourism industry has a proven record of empowering women. Investors who champion gender equality can find opportunities/projects within the tourism sector that further this cause.

Opportunities: Sectors of Investment

The tourism sector offers diverse investment opportunities, including:

- Accommodation: Hotels
- Food and Beverage: Restaurants, mobile food services.
- Passenger Transport: Road, water, rail, air.
- Transport Equipment: Motor vehicle leasing.
- Travel Agencies and Tour Operators.
- Cultural Activities: Performing arts, museums, historical sites.
- Sports and Recreational Activities.



Benefits of Private Capital for Businesses

For businesses, private capital offers several advantages:

- **Alternative Capital Source:** Provides patient capital compared to commercial sources.
- **Experienced Partners:** Combines operational and strategic initiatives.
- **Operational Enhancements:** Streamlining systems with modern technologies and bringing in new leadership.
- **Strategic Improvements:** Targeting high-margin segments and divesting underperforming assets.
- **Investor Readiness:** Facilitates follow-on funding from other investors.

Challenges in Investing in Tourism

Investing in the tourism and travel sector, while offering significant potential for growth and economic development, faces inherent challenges, as with all investment areas. These challenges can significantly impact profitability and stability, necessitating careful strategic planning and risk management.

1. The sector exhibits susceptibility to **market volatility**. This is driven by fluctuating consumer demand, which can be sensitive to a variety of factors, including economic cycles, consumer confidence, and seasonal variations. A downturn in the economy or a decline in disposable incomes can lead to a sharp decrease in travel expenditure, impacting businesses across the sector.
2. The sector is exposed to a high degree of **macroeconomic shocks**. Geopolitical events, such as political instability, terrorism incidents, or international disputes, can create fear and uncertainty among travelers, leading to a rapid decline in tourism.
3. **Natural disasters**, pandemics, and global health crises can severely disrupt travel patterns and operations.
4. **Currency fluctuations**, changes in government policies and shifts in global trade dynamics can also considerably impact the sector's performance.

These vulnerabilities bring out the need for resilience and adaptability in strategies for investing in the tourism and travel sector. Diversification of offerings, robust risk management frameworks, and the need for AGILE responses to unforeseen circumstances are important to profitable investments into tourism.
