

The Guest-House Segment of the Tourism Industry 3 Findings and Recommendations.

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This is the third and final article of the series published on mer.mv about the growth, the significance and the impact of the Guest House segment on the larger tourism industry and the economy. The first of the series looked mainly at the growth in numbers and geographical spread of Guest Houses mostly since 2008. The analysis showed that the number of beds in the Guest House segment had grown by 1900% since being officially promoted from 2008, expanding to account for nearly 20% of the beds in the tourism industry today. According to published statistics the segment grew by a massive 30% while the larger tourism industry grew by a modest 3.49% during the past 5 years 2014-2018.

The major conclusion of the first article was that the guest-house segment is here to stay and that 'it's time for the larger tourism industry to recognize this truth and work with the segment for the larger good of the Tourism Industry'.

The 2nd article attempted a deeper analysis of the numbers through the contribution to GDP and the inclination of the incoming tourists to prefer the guest houses as their preferred option. While the growth of the Guest House segment was remarkably impressive, the segment had not been able to make its impact felt in GDP figures quite so manifestly. The average GDP share of the segment, over the 5-year period (2014-18) is a modest 1.68% and only reaches 2.6% in 2018. For comparison, the Fishery Industry contributed an average of 3.8%, Construction Industry 6.2% and the resort segment of the larger Tourism Industry contributed an average of 21.2% to GDP figures during the same period. Therefore, even while the growth in beds in the Guest House segment have been robust and even widespread, the contribution of the segment to the larger economy remain modest.

Meanwhile, the hoped for growth of middle-income tourists being attracted to the Guest House segment because of its more affordable prices, are also not evident in

published numbers. The Green Fund Tax Report published by the Ministry of Finance and Treasury from January to July 2019 shows (the previous analysis was done only on data available then for January and February) that only 6.3% of the those who paid Green Fund tax stayed at Guest Houses while 88% of visitors stayed at resorts. (The analysis was done after adjusting for the difference of Greed Fund Tax of 6 \$ for resorts and 3 \$ for other accommodation services.)

Additionally, while guest houses had opened through-out the country, close to 87% of those who preferred to stay at a guest house limited their stay to guest houses in close proximity to the capital; in guest houses in Kaafu, Ari and Vaavu Atolls.

To summarize, the major findings of the two articles are

- That the Guest House segment is here to stay. Small Investors have invested in 548 Guest Houses spread throughout the country and more are being built.
- That incoming tourists are still, by and large, preferring to stay at resorts.
- That 87% of those who prefer the Guest House segment are still limiting their choice to the Male' Atoll and the 2 atolls closest to Male'; V and Ari.
- That the contribution to the economy remain modest at an average of only 1.7% in the national accounts.

We shall, as indicated in the 2nd article, attempt to offer a set action points comprising of thoughts which could benefit the prospects of the Guest House Segment of the Tourism Industry

Lower ROI

Firstly, while there is no doubting the potential of the Guest House segment to improve the prospects for entrepreneurs and small business, the numbers show that the segment is not performing to expectations.

While there are obvious data gaps in the published statistics, there can be no doubt that close to 90% of incoming guest still prefer resorts and that 87% of those preferring guest houses are still limiting their choice to those in close geographic proximity to the capital.

September statistics for the segment show that presently there are 1,765 beds in 132 Guest Houses in atolls other than Kaafu, Ari and Vaavu. While they represent only 18% of the 9,350 total beds in the Guest House segment, the entrepreneurs who had invested in this 132 Guest Houses, will, to say the least, be rather disappointed.

As anticipated ROI's do not materialize, this disappointment is unlikely to be limited to mental and emotional distress and would surely, at least in most instances, be financial too, even if some of them maybe self-financed.

Therefore, and in order to maintain the vitality and to meet the potential of the segment, it is

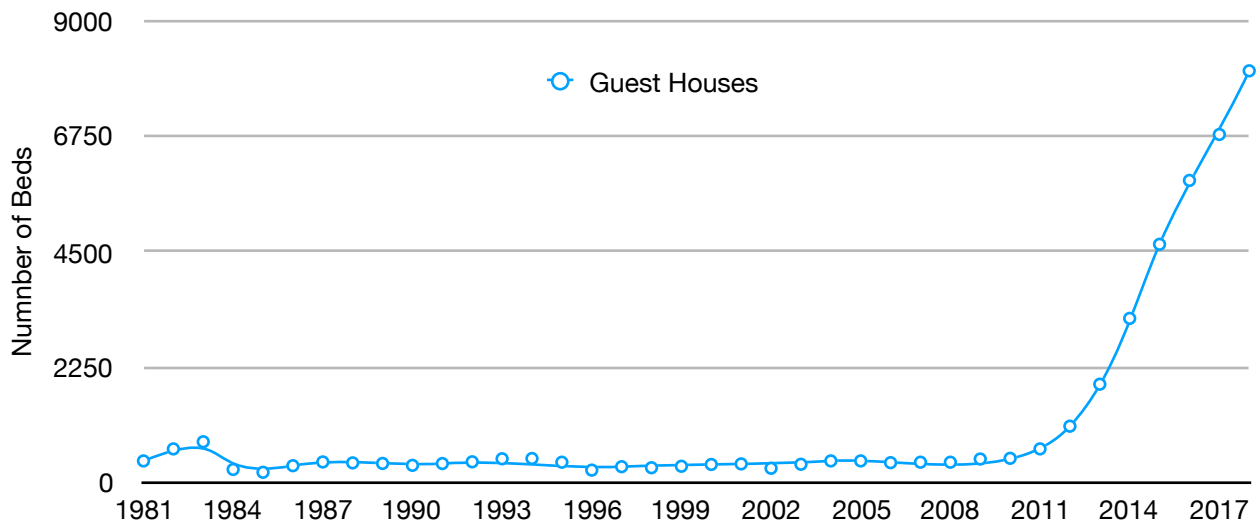
capital, dampens the enthusiasm of travelers who might otherwise have decided to stay at Guest Houses further away. Therefore, innovative and more entrepreneurial ways to overcome the transport cost need to be identified before guest houses in the further atolls become more attractive.

While the more affluent of the traveler might decide on a resort further away because of brand loyalty or because of personal choice, there is no doubt that high transfer costs to the outer atolls, will in fact deter all class of travelers, regardless of whether their intention was a resort or a guest house.

Yet, more tourists being able to stay at accommodation that are geographically further away, will, *ceteris paribus*, help stated national objectives of spreading the positive effects of tourism to further atolls.

Therefore, a national incentive scheme targeting transport providers to offer more modest travel charges will help boost and encourage travellers to resorts, hotels to

Guest House Registration from 1981 - 2018



important to recognize the specific difficulties of those entrepreneurs and offer them financial and tax incentives.

The pitfalls and lower ROI's in the segment, need also to be made more widely known, such that would be entrepreneurs are more aware of the reality of the landscape.

Transportation hurdles

It is widely acknowledged that the high cost of travel to the islands further away from the

guest houses in the further atolls.

Working together

As stated before, and quite obviously, the Guest House segment is here to stay. The segment has got to be recognised as an inherent part of our tourism landscape today. Yet, even today, there are misunderstandings, mutual mistrust and cynicism between the Resorts and Guest House segment.

The average Maldives dream holiday is still an expensive affair and largely affordable to the rich and the wealthy. But the Guest House segment avails itself to a different market category of middle-class travellers, enabling the less affluent, who has heard and dreamt of the fabled Maldivian holiday to experience the Maldives on a budget. The market for the Guest House segment is significantly different with little crossover and in effect no competition between the 2 segments. This fact needs to be absorbed, accepted and more widely spread such that the fog of confusion may be lifted.

There is mutual benefit and profit to be made when the resort operators and the Guest House segment are, finally able to work together. Joint marketing and promotional effort, perhaps even including joint holidays split between stay at guest house or 2 for a period and culminating in a night or two at resort can be and will be both attractive and mutually beneficial.

Significance of statistics

There are obvious data gaps on the published statistics. This is very evident in the published information on the Green Fund Tax as for example apparently not a single tourist visited Meemu Atoll in the month of July. The low % of visitors to Guest Houses in the further atoll may perhaps also be affected because of such black holes in data collection. Such black holes will surely exist in other data and statistics too. Yet, it is important to acknowledge that good decisions and policy initiatives can and should only be drawn from sound statistics.

Guest Houses in islands and especially in Male' - the capital, were a known and an important feature allowing for visitors to stay, enjoy and explore the country in times past. George Corbin and his team who visited in 1971, conducted their initial exploration into the possibility of starting a tourism sector in the Maldives, stayed at guest houses. Earliest statistics on the number of guest house beds show that there were 161 beds registered as Guest Houses in 1981.

As statistics so fluently demonstrate, the Guest House segment had 'survived' and then thrived and grew as the segment was officially recognized and promoted by the state since 2008. Today it is a feature of the Maldivian tourism landscape. Numerous small investors have invested in the segment and it had grown rapidly and made their presence known in all atolls of the country.

The Guest House segment, even though making modest contributions to the National Accounts today, have the potential to be an important player and help thrive and develop the tourism industry, the larger economy and as an added bonus, boost the Entrepreneurial spirit of the country. However, these will happen, only with the appropriate assistance from the Government and in partnership with the more established resort segment.