tourism

Department:
Tourism
REPUBLIC OF SOUTH AFRICA

DRAFT TOURISM INVESTMENT MASTER PLAN

CHIEF DIRECTORATE: AMERICAS & WESTERN EUROPE

BRANCH: INTERNATIONAL TOURISM MANAGEMENT

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1. PURPOSE

The Department of Tourism identified the development of the draft '*Tourism Investment Master Plan'* as a priority in the Annual Performance Plan for the 2016/17 financial year. The *Master Plan* aims to assist the Department as well as other institutions to target national and foreign investors for the development of the tourism sector in support of the national development objectives as set out in the National Tourism Sector Strategy (NTSS).

2. BACKGOUND AND RATIONALE

The *White Paper on the Development and Promotion of Tourism in South Africa* (1996) states that one of the key constraints that limit the effectiveness of the tourism industry is the *"the lack of inclusive, effective national, provincial and local structures for the development, management and promotion of tourism in South Africa."*[1] Provincial governments are responsible for promoting their tourism investment opportunities, however, these are insufficient to drive the national tourism development agenda. Therefore, a coordinated effort at national level is essential in maximising the attraction of limited investments into the sector through a targeted approach.

Inadequate investment in tourism economy has been identified as one of the main challenges constraining the growth of the tourism sector. The *National Tourism Sector Strategy* (NTSS, 2011) sets a number of targets that need to be achieved by 2020, *viz*.:

- Increasing investment in the tourism economy by attracting R35 billion more in public sector investment and R1 billion more in foreign direct investment (FDI), and
- Private sector capital formation for tourism related products.

The following possible underlying causes for the limited investment in the tourism economy have been identified: -

- Limited appreciation of the potential of tourism to contribute significantly to economic development, including revenues, economic opportunities and job creation, and
- Limited and incoherent national tourism investment strategy, partly underpinned by the split competence between national and provincial governments;
- Institutional discontinuity;
- Absence of an institutional champion; and
- Urban bias.

In terms of investment, the tourism economy is thus characterised by: -

- Low propensity to fund tourism projects;
- Inadequate and/or uneven allocation of resources to tourism development at provincial and municipal levels;
- Uneven planning/promotion and attraction of foreign investment for the tourism economy; and
- Underdevelopment of rural tourism economy.

[1] The *White Paper on the Development and Promotion of Tourism in South Africa* (1996), p. 10

The *Master Plan* seeks to establish a coherent national investment promotion strategy which accommodates the three tiers of government, aimed at a step-change in the achievement of national tourism investment targets.

3. OVERVIEW OF TRENDS IN TOURISM

3.1 INTERNATIONAL TOURISM TRENDS

According to the World Tourism Organisation (UNWTO), the total number of international tourist arrivals in 2016 (i.e. January to September), reached 956 million, a four (4) per cent increase from the previous year translating to 34 million additional tourists.[2] The UNWTO attributes the increased international tourist arrivals to the unusually strong exchange rate fluctuations and decline in oil prices.[3] The UNWTO's *Tourism Towards 2030:* Global Overview forecasts that global growth is likely to increase by between 3.5 per cent and 4.5 per cent which is in line with their long term projection of 3.8 per cent by 2020, to reach 1.8 billion by 2030.

- Other key trends and observations from the UNWTO Tourism Highlights 2016[4] and the *Tourism Towards 2030* are as follows:
  - Travel and Tourism contributed 10 per cent to the Gross Domestic Product (GDP) on direct, indirect and induced impact, creating 1 in 11 jobs globally;
  - International tourism generated about US$1.5 trillion in exports, representing 7 per cent of the world exports;
  - Between 2010 and 2030, arrivals in emerging destinations are expected to increase at 4.4 per cent a year compared to 2.2 per cent a year in advanced economies;
  - The market share of emerging economies increased from 30 per cent in 1980 to 45 per cent in 2015, and is expected to reach 57 per cent by 2030, equivalent to over 1 billion international tourist arrivals, whilst Africa market share is expected to reach 7 per cent in 2030 as compared to 5 per cent in 2010 and 3 per cent in 1980.

Other emerging international tourism trends are as follows:

- There has been **shift in tourism demographics**, i.e. developments show that China and some other emerging source markets are growing at double digit rates. Findings show an increase in the numbers of older tourists, under 35 years and families. However, each group has its travel requirements. According to the Northern Ireland Tourism Board, millennials (generation born 1980-1999) will drive trends in business travel as they climb the career ladder. They are twice as likely to share travel photos on social media, 80 per cent update social networks (make use of technology) at least once a day when travelling, and 57 per cent say word of mouth is influential than television adverts.[5]

- According to Internationale Tourismus-Börse's (ITB) *World Travel Trends Report 2015/2016*, social media now influences nearly one fourth of all international trips. For international travellers, the internet is by far the most important source of information, with about 75 per cent using online information as part of their trip planning compared to about one third for travel agencies and about

[2] UNWTO World Tourism Barometer, Volume 14, November 2016, p. 6
[3] UNWTO, Tourism towards 2030, global overview, http://cf.cdn.unwto.org/sites/all/files/pdf/2030_global_0.pdf
[4] UNWTO Tourism Highlights, 2016 edition, p. 3 & 5
[5] Northernireland Tourism Board, nitb.com, p. 2

one fourth rely on information from friends.[6] Mobile digital technology has become the biggest influencer for international travellers, with an expectation of permanent quality connectivity availability at their choice of destination and accommodation. New technology has changed patterns in seeking information, advertising, buying behaviour as well as information provision. Digital mobile technology enables international travellers the ability to respond quickly to external events in destination countries, requiring agile and speedy responses to any perceived negative events.

- **Safety and health concerns.** Personal safety and security issues are high profile, in terms of the reputation of destinations for violent crime, terrorism (random attacks on civilians) and exposure to disease. Mobile digital technology allows for immediate cancellation of bookings in real time in the case of any event indicating the tourist will not be safe. According to Evelyne Freiermuth, the WTTC's Policy & Research Manager, crises are divided into four categories, *viz* disease, environmental disaster (natural catastrophes), political turmoil (conflicts) and terrorism.

- **Increased accessibility and ease of access**. More countries are entering into bilateral, regional and international "Open Skies" agreements to increase tourist visits and trade, implementing easier visa requirements or waiving visa requirements entirely for particular markets or in certain circumstances.[7]

- **Increased interest in sustainable/ethical tourism**. Increasingly international tourists are choosing to reduce negative environmental, economic and social impacts on the host country, and prefer to choose destinations which include community upliftment and minimal environmental impact. The United Nations (UN) has declared 2017 as the international year of sustainable tourism for development[8].

  The Centre for Responsible Tourism (CREST) believes that the following sectors are the most vibrant niche markets and reflect the strength and diversity of responsible travel, namely:

  a. **Adventure Tourism:** According to Christina Beckmann, Research and Adventure EDU Director (Adventure Travel Trade Association), an estimate of 65 per cent of an adventure trip cost remains in the region/destination, compared to other all-inclusive mass tourism package tours, about 80 per cent of travellers' expenditures go to the airlines, hotels, and other international companies instead of to local businesses or workers.

  b. **Agri-tourism** (or agro-tourism): Key elements include farm-based tourism, community tourism, agro-heritage tourism, agro-trade (agribusiness), culinary tourism, and health and wellness

[6] ITB World Travel Trends Report 2015/2016, http://www.itb-convention.com/media/itbk/itbk_dl_all/itbk_dl_all_itbkongress/itbk_dl_all_itbkongress_itbkongress365/itbk_dl_all_itbkongress_itbkongress365_itblibrary/itbk_dl_all_itbkongress_itbkongress365_itblibrary_studien/ITB_World_Travel_Trends_Report_2015_2016.pdf, p. 34

[7] There has been a reduction in the percentage of the global population required to acquire a visa before departure from 77 percent of the world's population in 2008, to 62 percent in 2014[7]. A total of 50 destination implemented improved visa facilitation by changing their policies from *visa required* to either *e-Visa, Visa on Arrival*, or *No Visa Required*, of which 56 percent had changed to *visa on arrival*

[8] This decision follows the recognition by global leaders at the UN Conference on Sustainable Development (Rio+20) that "well-designed and well-managed tourism" can contribute to the three dimensions of sustainable development, to job creation and to trade.

tourism. According to statista.com, 32 per cent of Canadians vacationing in Europe said they would be likely to engage in agri-tourism activities such as vineyard, cheese, olive oil, etc.[9]

c. **Gastronomic Tourism:** According to a 2015 survey entitled, "The Big Business of Food Tourism and Why It Matters", an estimated 39 million U.S. leisure travellers choose a destination based on the availability of culinary activities, while another 35 million seek out culinary activities after a destination is decided upon. According to the World Food Travel Association's 2015 Food Trekking Monitor, travellers are more concerned about food/drink waste and its packaging, and they have an interest in sourcing and buying local food and drink. The peer-to-peer dining experiences are also showing a stronger appearance on the culinary tourism scene.[10]

d. **Sharing Economy:** The rapid explosion in swapping, sharing, bartering, trading and renting being reinvented through the latest technologies and peer-to-peer market places in ways and on a scale never possible before, i.e. the accommodation, transportation, food/beverage, and attraction sectors have all been transformed by the sharing economy. Surveys by Airbnb show 91 per cent of its users want to 'live like locals,' and they stay 2.1 times longer than typical visitors of a destination, and spend 2.1 times more than normal. In addition, 53 per cent of Airbnb hosts say that sharing their apartment has helped them to stay in their homes. Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content. Alibaba, the most valuable retailer, has no inventory. And Airbnb, the world's largest accommodation provider, owns no real estate.[11]

e. **Wellness/Medical Tourism:** Travel associated with the goal of maintaining or enhancing one's personal well-being." It includes the pursuit of physical, mental, spiritual or environmental 'wellness' while traveling for either leisure or business.
   - Top trends in the luxury wellness travel:
     - ✓ Travelers want to be immersed in more local, indigenous cultural experiences and destinations,
     - ✓ Travelers increasingly seek destinations with healthy body/mind offerings,
     - ✓ Travelers increasingly seek exotic, off-the-beaten path destinations.[12]

3.2 SOUTH AFRICAN TOURISM HIGHLIGHTS

3.2.1 According to Statistics South Africa (StatsSA), the total number of international tourist arrivals to South Africa grew from 8 944 163 to 10 044 163 in 2015, representing an additional 1.1 million tourists. In 2015, tourism trade balance with the rest if the world was R35 billion, which is a major stabilising force for the national account.[13]

3.2.2 The total Foreign Direct Spend (TFDS) including capital expenditure slightly declined to R65 billion in 2014, down from the R66.7 billion reached in 2013. When capital expenditure is excluded, TFDS reached R64.2 billion, up from the R63.9 billion reached in the same period. Furthermore, expenditure

[9] https://www.statista.com/statistics/439062/tourist-activites-preferred-by-canadians-in-europe/
[10] 4th edition, Trends and Statistics by the Centre for Responsible Travel (CREST), April 2016 www.responsibletravel.org
[11] 4th edition, Trends and Statistics by the Centre for Responsible Travel (CREST), April 2016 www.responsibletravel.org
[12] Ibid
[13] http://www.gov.za/speeches/international-tourist-arrivals-20-feb-2017-0000

by international tourism reached R94.1 billion whilst domestic tourism expenditure reached R124.6 billion in the same year.

3.2.3 The accommodation sub-sector showed improvement in 2014, compared to the previous year. The number of stay units reached 14 255 000, whilst stay unit night sold reached 227 585 000. Occupancy rate in all accommodation sub-sectors grew to 51.475 per cent up from 49.875 per cent achieved in the previous year. Furthermore, total income from the accommodation sub-sector grew to reach R38.9 billion whilst total income from other accommodation reached R6.5 billion in the process.

3.2.4 South Africa improved its position in the global meetings industry, showing a significant growth when compared to other competitor countries with a reputation to host many meetings. In 2014, South Africa was ranked number 32 globally, having hosted 124 meetings with an average attendance of 62.190 participants. On city rankings, the City of Cape Town was ranked number 41 globally, having hosted 58 international meetings. Johannesburg was ranked number 102 globally, having hosted 23 international meetings whilst Durban ranked 128, having hosted 19 meetings, a decline from the 25 hosted in 2013. At country level, South Africa is ranked number 1 in the African continent, with the City of Cape Town and Johannesburg being ranked number 1 & 2 respectively at city level in Africa.

3.2.5 In terms of the world's perception of South Africa's performance as a tourist destination, the country retained its ranking on the World Economic Forum (WEF) Travel and Tourism Competitiveness Index (TTCI) in 2015, ending up 48th out of 141 countries. The country compares favourably with other destinations as far as variables such as price competitiveness, travel and tourism policies and regulations, online searches for nature related activities, business environment and cultural and natural resources, are concerned.

3.3 KEY SUCCESS FACTORS IN EACH SECTOR:

According to UNCTAD, it is important to identify the key success factors in each sub-sector in trying to understand the market, for example:[14]

3.3.1 **Game lodges:** Are marketed to wealthy individuals for ecotourism, it is important to closely manage the whole tourist experience in order to minimise negative experiences. Operators may meet tourists at the incoming port of entry (usually an airport) and transport them to the destination without having to rely on services outside their control, such as public or private transport, which could lead to dissatisfaction to those customers.

3.3.2 **Backpackers:** When attracting this type of tourist a very different set of services needs to be on offer in order to ensure a positive experience because they will be travelling and visiting at their own discretion. A wide range of youth travel support services is important, graded bed and breakfast accommodation, discount travel, and the health, safety and policing networks etc. required to look after these young people.

3.3.3 **Theme parks:** To establish similar attraction targeting domestic or local tourism, the key factor is the existence of sufficient discretionary per capita income in the target customer base, which would have to be located within a certain travel time from the site. This should consider various

[14] United Nations Conference on Trade and Development: Promoting Foreign Investment in Tourism (2010), Investment Advisory Series A, number 5.

demographic features, such as average family size, numbers of people within certain age groups, availability and use of leisure time, public transport etc.

4. OVERVIEW OF THE CURRENT OFFERING

4.1 General Investment Climate

The South Africa Investor's Handbook (the ***dti***) and Protection of Investment Act[15] set out the South Africa's investment regime, i.e. regulatory requirements for doing business, taxation, incentives and industrial financing; basic legal conditions, safeguards for inward investors, transferability of profits, administrative burden to promote investments and clarify the level of protection that an investor may expect in South Africa. Through these policy, South Africa meets the specific trade and investment requirements for prospective investors.

4.1.1 Overview of the South African investment climate:[16]

- South Africa is one of the most sophisticated, diverse and promising emerging markets globally, with a rapidly expanding middle class that has been growing spending power.
- South Africa is a key investment location for both market opportunities that lie within its borders and as a gateway to the rest of the continent, a market of approximately one billion people.
- South Africa is the economic powerhouse of Africa and forms part of the BRICS group of countries with Brazil, Russia, India and China.
- South Africa has a wealth of natural resources (including coal, platinum, gold, iron ore, manganese nickel, uranium and chromium)
- South Africa has world-class infrastructure, exciting innovation, research and development capabilities and an established manufacturing base as well as strong tertiary education sector.
- South Africa has sophisticated financial, legal and telecommunications sectors, and a number of global business process outsourcing (BPO) operations are located in the country.
- South Africa has political and macroeconomic stability.
- South Africa has an abundant supply of competitive semi-skilled and unskilled labour.
- South Africa has a host of investment incentives and industrial financing interventions that are aimed at encouraging commercial activity.
- South Africa is serviced by a multitude of international airlines, with good flight connections into the rest of the continent, and its unrivalled scenic beauty and reputation for delivering value-for-money, make it an attractive leisure and business travel destination.

4.1.2 InvestSA One Stop Shop

- South Africa have establishment an inter-departmental clearing house (InvestSA One Stop Shop) for investment and investment promotion. The initiative is part of the government's drive to improve the business environment by lowering the cost of doing business as well as making the process easier. The InvestSA One Stop Shop will be the focal point of contact with the government with regards to regulatory matters, registration, permits and licensing, thereby reducing red tape and other institutional hurdles that investors may face.[17]

- InvestSA One Stop Shop services for international investors include:

[15] Protection of Investment Act no 22 of 2015

[16] **thedti**. 2015. *South Africa: Investor's Handbook 2014/15*. The dti and Deloitte: Pretoria & Johannesburg

[17] https://www.thedti.gov.za/editmedia.jsp?id=3801

- **Investment information**: opportunities, incentives, regulations, policies, strategic sectors.
- **Investment marketing**: local and foreign marketing initiatives.
- **Business facilitation**: visas, investment missions, intergovernmental co-ordination, relocations, business introductions, black economic partnerships, financing and incentives.
- **Outward investment**: connections to other African investment promotion agencies, project financing, deal structuring.

- InvestSA has been recognised for its work in attracting investments to South Africa with the *CFI.co* Best Investment Promotion Agency Africa 2016 award. InvestSA works with provincial investment promotion agencies to source opportunities for investors that meet local and national development goals. Since its inception, Invest SA has made strides in promoting packaged investment projects and facilitating direct foreign investment. The CFI.co award follows the UNCTAD Investment Award for success in attracting investment which Invest SA received in July 2016.[18]

4.2 The current tourism offering:-

4.2.1 Main sectors and subsectors

As tourism is such a wide field, the types of products and services offered are often very difficult to categorise. In addition, many companies offer a variety or combination of services[19].

- Accommodation/Hospitality,
- Food & Beverage,
- Attractions,
- Transport,
- Meetings, Incentives, Conferences and Events (MICE),
- Tourism Services,
- Incentive travel, and
- Tour Guide.

➢ Industry structure, including the whole value chain;

Table 1: A tourism value chain

Transport	Accommodation	Excursions	Food & Beverages	Entertainment
International and Local Air Carries	Hotel	Guides	Retails Centre(Mall)	Craftsman
Cruise	Resort	Tour Operators	Restaurants	Festival
Bus, taxi and car rental	Guesthouse	Travel Agencies	Bar and wine/souvenirs shop	
	Lodge	Retails		

Source: World Trade Report 2014[20]

[18] https://www.thedti.gov.za/InvestSA.jsp
[19] http://www.wikitourism.co.za/index.php?title=Tourism_Industry_sub-sectors
[20] https://www.tralac.org/discussions/article/6518-development-of-tourism-value-chains-in-the-sadc-region.html

Fig. A: Tourism Supply Chain[21]:

Source: Australia Tourism and Transport Forum, www.ttf.org.au

4.2.2 Current industry outputs – size, occupancy/visitation rates and rate of growth:

- **Hotel Accommodation**

  According to the State of Tourism Report 2014, the number of available stay units in the accommodation sub-sector grew to 14 317 000 in 2014 in 2014 from the 14 224 000 reached in 2013. The occupancy rate in the accommodation sub-sector grew in 2014 compared to 2013 growing to reach 51.475 per cent when compared to 49.875 per cent reached in 2013.[22]

Fig. B: Occupancy rate 2010-2015

Source: StatsSA

According to StatsSA's latest tourist accommodation release, hotel occupancy declined to 48.2 per cent in 2015 from 59.4 per cent in 2010. The hotel occupancy rate followed a seasonal pattern by falling in June after peaking in both October (62,4 per cent) and February (60,6 per cent). However, hotels had proportionally fewer rooms filled in June compared with the same month in previous

[21] Australia Tourism and Transport Forum (TTF). **National Tourism Infrastructure Priorities: Prioritising Environmental, Economic, Social and Transport Infrastructure**. Sydney: TTF

[22] State of the Tourism Report 2014, pp. 55-56

years. The June 2015 rate was lower than those recorded for June 2014 (49,8 per cent), June 2013 (50,3 per cent) and June 2012 (49,7 per cent). Over the last four years hotels have experienced relatively high occupancy rates during peak months (October/November and February/March), often surpassing the 59,4 per cent recorded during the 2010 Soccer World Cup. However, the rate recorded for June 2015 was the lowest since January 2012[23].

4.2.3 Drivers of growth

- **Heritage and cultural tourism**
  South Africa is a melting pot of cultures and rich in heritage resources. For instance, the country has 11 official languages (including Khoi and San cultural heritage) that relate to cultures and eight (8) World Heritage Sites, i.e. Cape Floral Region Protected Areas, Fossil Hominid Sites of South Africa (Maropeng Cradle of Human Kind), iSimangaliso Wetland Park, Maloti-Drakensberg Park, Mapungubwe Cultural Landscape, Richtersveld Cultural and Botanical Landscape, Robben Island and Vredefort Dome.[24]

- **Medical Tourism**
  South Africa is ranked amongst the best medical tourism destinations in the world. This includes countries and regions such as Asia (India, Malaysia, Singapore, and Thailand); South and Central America (including Brazil, Costa Rica, Cuba and Mexico); the Middle East (particularly Dubai); and a range of European destinations (Western, Scandinavian, Central and Southern Europe, Mediterranean).[25] However, South Africa does not market itself as such.

- **Wildlife and Safaris**
  South African National Parks (SANParks) manages a system of parks which represents the indigenous fauna, flora, landscapes and associated cultural heritage of the country. National parks offer visitors an unparalleled diversity of adventure tourism opportunities including game viewing, bush walks, canoeing and exposure to cultural and historical experiences. There are 294 state-owned and managed terrestrial protected areas including two special nature reserves, 23 national parks, 216 nature reserves, 46 forest protected areas and seven world heritage sites, which represents 6.2 per cent of total land in South Africa. Kruger National Park is the largest national park in the country with 1 962 362 hectares.

  In 2014/15 financial year, total guests to SANParks owned-parks increased from 5 235 095 to 5 578 532 (compared to the target of 5 335 000) persons, a 6,6 per cent increase. It is important to note that 73.7 per cent of visitors to national parks were domestic visitors, two (2) per cent were regional (SADC) with the rest of the world accounting for 24,3 per cent.[26]

- **Sports Tourism**
  Sports tourism is said to be worth between $182 billion (R1.9 trillion) and $600 billion (R6.5 trillion)[27]. According to the United Nations World Tourism Organization (UNWTO), sports tourism has been one of the fastest-growing niche segments of the tourism sector in recent years. Sports can be

[23] StatsSA, http://www.statssa.gov.za/?p=5311
[24] http://www.southafrica.net/za/en/guides/entry/destinations
[25] Lunt, N. et. al. undated. **Medical Tourism: Treatment, Markets and Health System Implications: A Scoping Review**. OECD.
[26] https://www.sanparks.org/assets/docs/general/annual-report-2015.pdf
[27] https://www.tourism.gov.za/AboutNDT/Branches1/domestic/News/Pages/Sports-tourism.aspx

either a permanent demand driver for a destination (for example a ski resort) or an occasional one (for example an Olympic venue).[28]

- **Beach Tourism**
  According to SA Tourism, South Africa's Blue Flag beaches are on par with the best beaches in the world, located along the extensive 3 200-km-long coastline from the KwaZulu-Natal through the Eastern Cape to the Western Cape. Overall, there are 41 beaches with the Blue Flag status in the country.[29]

5. IDENTIFY INTERNATIONALLY MOBILE PROJECTS

5.1 FDI Mobility:

Foreign Direct Investment (FDI) seems to be concentrated in few tourism activities such as accommodation, restaurants, and car rental with limited activity in high profile sub-sectors such as tour operations, reservation systems and airlines (see Table 2).[30]

According to UNCTAD[31] investors from developing countries tend to invest in their own vicinities, and evidence confirms that – as with foreign direct investment (FDI) in general – there is a trend towards more South—South mergers and acquisition (M&As). For example, South African hotel groups such as Tsogo Sun (trading under the Southern Sun banner) are active in countries such as Mozambique, Tanzania, Nigeria, etc. The greater role of transnational corporations (TNCs) from the South will also have implications for global competition. In addition, the rise of TNCs from the South could be partly explained "by large and growing numbers of tourists from places such as Brazil, China, Malaysia, and the Russian Federation, and from the Arab states of the Persian Gulf."[32]

Table 2: Project Mobility

Activity	Frequency with which FDI appear to occur		
	Frequency	Occasional	Rare
Hotels and similar	✓		
Restaurants and similar	✓		
Second homes	✓		
Passenger transport rental equipment	✓		
Railway passenger transport services		✓	
Air passenger transport services		✓	
Road passenger transport services			✓
Water passenger transport services			✓
Passenger transport supporting services			✓
Travel agencies and similar			✓
Cultural services			✓
Sports and other recreational services			✓

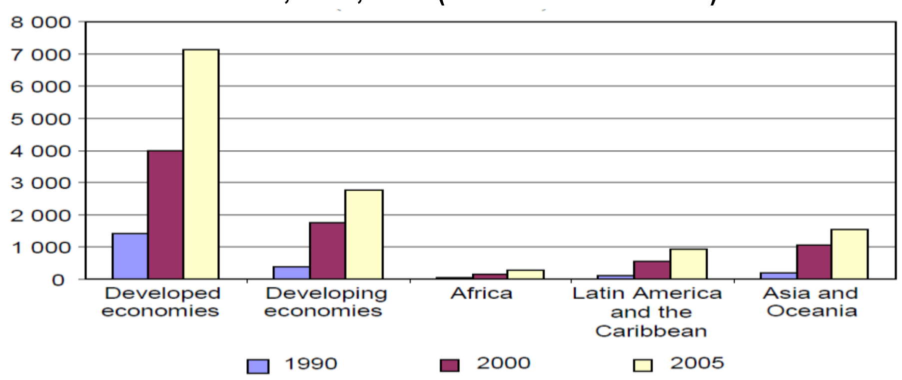
Source: UNCTAD (2007a)

[28] http://store.mintel.com/sports-tourism-worldwide-december-2012?cookie_test=true, downloaded on 3 September 2014.
[29] http://www.southafrica.net/za/en/articles/entry/article-southafrica.net-blue-flag-beaches-in-south-africa
[30] United Nations Conference on Trade and Development (UNCTAD). 2007. FDI in Tourism: The Development Dimension. New York: United Nations
[31] United Nations Conference on Trade and Development (UNCTAD). 2010. *Promoting Foreign Investment in Tourism. Investment Advisory Series A*, No 5. New York/Geneva: United Nations, p. 16.
[32] Ibid.

5.2 FDI Trends:

According to UNCTAD, "In 2005, total FDI were US$ 916 billion, with US$ 542 billion (59 per cent) received by developed countries, the highest level ever recorded."[33] Mergers and acquisitions (M&A) constitute a significant portion of total FDI.[34] In fact, the number of cross-border M&A transactions reached 6 134 in 2005 totalling *US*$ 716 billion in total value, which was almost 80 per cent of global FDI flows.[35] UNCTAD argues that the number of these transactions involving countries in the Global South (developing counties) is also on the increase. Africa's share of global FDI remains very low compared to regions such as Asia & Oceania where FDI grew more than eight fold in 15 years (1990-2005) from US$ 191 billion to US$ 1 550 billion, with Latin America & the Caribbean (LAC) recording almost similar rates. Africa's share recorded impressive results during the same period but at a very low base. The major components of the increase in FDI was derived from equity and intra-company loans while reinvested earnings have contributed the least in this regard. Therefore, the Master Plan will need to focus on this aspect, i.e. reinvestment by existing firms as the picture might have changed in the past 10 years since the survey was last conducted.

Fig. C.: Inward FDI stock, developed and developing economies, Africa, Latin America & the Caribbean, Asia and Oceania: 1990, 2000, 2005 (Billions of US dollars)



Source: UNCTAD, FDI/TNC database

Definitions[36]:

- **Equity capital:** It is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- **Reinvested earnings**: It is comprised of an investor's share (in proportion to direct equity participation) of earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
- **Intra-company loans**: Also called intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

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[33] United Nations Conference on Trade and Development (UNCTAD). 2007. ***Aftercare: A Core Function in Investment Promotion***. Investment Advisory Series A, No 1. New York/Geneva: United Nations, p. 3

[34] Ibid. p.4

[35] Ibid. p.4

[36] United Nations Conference on Trade and Development (UNCTAD). 2007. ***Aftercare: A Core Function in Investment Promotion***. Investment Advisory Series A, No 1. New York/Geneva: United Nations, p.5

6. DEVELOP SELECTION CRITERIA

6.1 The **White Paper** states that, “Foreign investment will not be encouraged in small, micro-enterprises or ancillary services sector which are clearly within the reach of the local entrepreneurs and businesses. It further states that the government should encourage FDI that meets the following criteria:[37]

- Investors and companies that will develop, promote and implement responsible tourism;
- Investors that invest in rural communities and less developed geographic areas;
- Investors that develop products that help to diversify the tourism products e.g. cruise tourism, ecotourism, heritage tourism, Afro-tourism, etc.;
- Investments that will result in the transfer of skills and technology to locals;
- Joint ventures with local partners and local communities; and
- Investors in tourism plant who have a proven track record in the industry.

6.2 In addition, UNCTAD recommends that the criteria to select targeted tourism projects should include the following factors in order to derive the maximum benefit from the targeted international investors:[38]

- The value of the opportunity, including the potential to stimulate other investment or economic activity, community benefits etc.;
- What exclusions (e.g. in favour of local investors, SMEs, etc.)
- State of readiness (pre-feasibility, feasibility/bankablity), and
- What minimum/core standards for feasibility analysis, e.g.
  - Resources required, and the difficulty/ease of accessing market.
- Nature/value proposition of the project, e.g. expansion of existing enterprise/activity or creation of new enterprise/activity.

6.3 The UNWTO also makes recommendation from its case studies work, which was conducted in various localities on tourism planning. It states that the criteria applied for selecting tourism projects for investment should also take into account the physical factors of the tourism development areas and reflect specific and systematic approach to prepare the tourism structure plan,[39] i.e., the tourism development area should have:

- One or more core attraction(s) within or near the area;
- Suitable and environmentally attractive sites for development of tourist accommodation (or existing building suitable for renovation) without creating undue social or environmental problems such as relocation of people or major economic activities;
- Adequate transportation linkages and access to the area from the tourist entry points (airports and seaports) to the tourist attraction;
- Potential to develop infrastructure necessary to other tourist facilities, such as adequate water, electric power, sanitary sewage disposal and internet connectivity; and
- Interest of local residents in having the tourism development for employment and economic activities in or near their area.

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[37] White Paper on Development and Promotion of Tourism in South Africa, 1996, p 34

[38] United Nations Conference on Trade and Development (UNCTAD). 2007. Aftercare: A Core Function in Investment Promotion. Investment Advisory Series A, No 1. New York/Geneva: United Nations, p. 41

[39] UNWTO Case Studies on Tourism Planning, p. 101

7. BENCHMARK PROSPECTIVE PROJECTS AGAINST INTERNATIONAL COMPETITORS (filter)

The final *Master Plan* during the 2017/18 financial years should consider the following issues:

7.1 Identify key competitors and comparing their offer to that of South Africa, so that it is possible to judge to what extent, and how, to compete with them; and

7.2 Learn more about good practices by those competitors and what investors think about the areas in question, so that the Department and provinces can define or redefine the offer accordingly.

8. MAKE THE FINAL SELECTION

Agreement on institutional arrangements/modalities for final selection of projects – who, when, how, applying the criteria developed in Section 6. The three initiatives underway should be harmonised in identifying projects for the immediate term, as well as a longer term pipeline.

8.1 Phase 1 (2017/18 implementation) - A *first portfolio* of projects will entail a consolidated picture of state owned assets (mapped), heritage assets and current product development/enhancement projects to be targeted for immediate attention;

8.2 Phase 2 (2018 onwards) - A longer term pipeline of projects will entail a consolidated picture (mapped) of all projects prioritised for development, drawn from the plans of provinces, as well as priorities set by the Department.

9. DEVELOPING FUNDING PARTNERSHIPS (Pots of Funds)

While the Master Plan focusses on mobilising private investment, some projects would need public funding – either in their entirety, or as part of public-private partnerhips. Pool of public funds available have been identified. (*And clear mechanisms will be established for accessing such funds*)

9.1 Financing Options:

Kaombwe argues that, "the basic options or sources available for financing infrastructure development include public financing, development assistance or grants from donors, private sector financing (by private project developers), borrowing from financing institutions (multilateral, international, regional and local), and from internally generated funds by operating institutions."[40] The *Master Plan* will explore all these options in detail:

9.1.1 Public Financing:

Public financing entails direct investment by government from its budget (*fiscus*) and soft loans borrowed by the state government. Traditionally, these, and grants received from donors, have been principal sources of transport infrastructure development financing and this also applies to tourism investment. Thus most of the major roads, railway, ports and airports development projects have in the

[40] Kaombwe, SMAK. "Financing Options for Transport Infrastructure." Planning Coordinator for the Southern Africa Transport and Communications Commission (SATCC-TU), http://repository.up.ac.za/bitstream/handle/2263/8261/25%20Kaombwe.pdf;jsessionid=260BE1672CD2D85491D307F528676441?sequence=1

past been financed by funds from these sources. However, this has changed for three major reasons, namely:

- Resources are limited,
- Increasing focus on social welfare programmes, and
- The need is so huge that the traditional sourcing of financing are inadequate.

❖ **Pots of Funds for Tourism Projects [Public Financing]:**

- Department of Tourism
  - Tourism Incentive Programme (TIP)
  - Social Responsibility Initiative (SRI) or Working for Tourism - Expanded Public Works Programme (EPWP)
- Department of Trade and Industry (**the dti**)
  - Critical Infrastructure Programme (CIP)
  - Capital Projects Feasibility Programme (CPFP)
- Department of Cooperative Governance and Traditional Affairs (COGTA)
  - Municipal Infrastructure Grant (MIG)

9.1.2 Development Assistance

Donors or international development assistance agencies have in the past provided a large amount of aid or grant funds for infrastructure development in the Southern Africa Development Community (SADC) region, to support government interventions. Just as in the case of public funds, availability of donor funds for infrastructure and tourism development is also dwindling. Donor assistance also being directed to social services, such as education and health, and other poverty alleviation programmes of direct benefit to the local people.

❖ **Pots of Funds for Tourism Projects [Development Finance]:**

- **Government of the United States of America (US)**
  - USAID – It is the lead U.S. Government agency that works on poverty alleviation and democratisation. It also funds projects on sustainable tourism.

- **Government of the United Kingdom (UK)**
  - Department for International Development (DFID) – It is the United Kingdom Government agency that works on poverty alleviation. It also funds projects on pro-poor tourism.

- **European Union (EU)**
  - EU-Africa Infrastructure Trust Fund (EU-AITF) – It offers the following services:
  - EU-AITF can deliver grant support to various stages of a project:
    - "Project identification" – when a project aims to develop or prioritise other projects
    - "Project preparation" – assessment of feasibility and design of a specific project
    - "Investment phase" – project construction and implementation

  - The EU-AITF can provide grants in this form:
    - Technical assistance in support of all project phases,
    - Interest rate subsidies to decrease the EU-AITF Financiers' loan interest rates.
    - Investment Grants to finance project components or part of the investment; and
    - Financial instruments like guarantees, risk mitigation measures, equity or quasi-equity investment or participations.

- **World Bank (WB)**
  - The WB Group has two sets of goals to achieve by 2030, namely: to end extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3 per cent and to promote shared prosperity by fostering the income growth of the bottom 40 per cent for every country
    - The WB provides low-interest loans, zero to low-interest credits, and grants to developing countries. These support a wide array of investments in such areas as education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. Some of the WB projects are co-financed with governments, other multilateral institutions, commercial banks, export credit agencies, and private sector investors.

    - For example:
      - **Morocco** - The objective of **the Sustainable Coastal Tourism Development Project** is to propose, test, and evaluate the institutional framework and contractual procedures for managing public-private partnerships that are best suited for integrated and sustainable development of coastal sites in the Moroccan context. The components include: 1) preparation of indicative development plans, and pre-feasibility studies for three new coastal tourism development sites. Total Project Cost: US$ 2.64 million and the WB committed US$ 2.20 million.
      - **Ethiopia** - The development objective of the **Tourism Development Project for Ethiopia** is to contribute to enhancement of the quality and variety of tourism products and services in targeted destinations so as to increase tourist visitation, foreign exchange earnings, and jobs. **Total Project Cost**: US$ 39.50 million and the WB committed US$ 35 million.
      - **Albania** - The development objective of the **Integrated Urban and Tourism Development Project for Albania** is to improve urban infrastructure, enhance tourism assets, and strengthen institutional capacity to support tourism-related local economic development in selected areas in the south of Albania. The project comprises of four components.
        - The first component, urban upgrading and infrastructure improvement will finance the upgrading of infrastructure in selected municipalities;
        - The second component, touristic sites upgrading will finance investments aimed at improving selected touristic sites along the south of the Albania touristic corridor;
        - The third component, tourism market and product development; and
        - The fourth component, implementation support will provide support to carry out project implementation, including maintenance of the project monitoring and evaluation system, as well as training and financing of incremental operating costs. **Total Project Cost**: US$ 71 million and the WB committed US$ 71 million.

9.1.3 Borrowing from Financial Institutions

International, regional, and local financing institutions have also been and continue to be a significant source of infrastructure development funding, through commercial loans extended to infrastructure project developers.

- **Pots of Loans from the top five (5) major banks in South Africa [Borrowing from Financial Institutions]:**
  - First National Bank
  - Standard Bank

- Nedbank
- ABSA
- Investec

9.1.4 Internally Generated Revenue

In properly managed and efficient commercial ventures, the net-result from operations constitutes a source of funds especially for expansion of capital assets.

❖ **Pots of Funds for Tourism Projects [Internally Generated Revenue]:**

- South African National Parks (SANParks),
- South African Tourism (SA Tourism) – TOMSA Levy,
- Ezemvelo KZN Wildlife,
- Gauteng Tourism Authority (GTA), and
- North West Parks Board (NWPB).

9.1.5 Private Sector Financing

There are three principal sources of finance for private sector developers of infrastructure projects, namely:

- Financing from their own investment or equity funds;
- Financing from other partner investors or shareholders such as from the capital markets; and
- Loan financing from lenders or financing institutions.

For projects to attract such financing, they must prove viable. A tourism infrastructure project would require a combination of the following factors to make it a viable proposition:

- Detailed risk analysis – to assess whether all risks (commercial and political) will be satisfactorily covered;
- Financial analysis – to demonstrate adequate cash flows; and
- Economic analysis – to demonstrate acceptable rates of return to the project and the government.

Private sector funding has been rising in the past two decades and is likely to continue to rise in the short to medium term.

❖ **Pots of Funds for Tourism Projects [Private Sector Financing]:**

Some of the major private investors in the private financing space:

- **Hotel Accommodation:**
  - Best Western International Inc.
  - Radissons Hotels
  - Marriott International

- **Wholesale and Retail Travel Outlets:**
  - Flight Centre
  - Thompson Holidays
- **Car Rental Services**
  - Bidvest Car Rental
  - Europcar
  - Avis Car Rental
- **Integrated Tourism Business**
  - Tourvest

9.2 Project Finance Structuring:

In essence, the structuring of project financing is fundamentally concerned with the sharing or allocation of risks. Different risks must be allocated to the participants that are best equipped to bear the respective risks. Generally, commercial risks will be borne by the project developer whereas other external or "environment" related risks will require a significant involvement of the government through guarantees or fiscal support. However, where commercial risk is too high for a particular project to attract private sector financing, public-private sector arrangement may be resorted to.

Over time, innovative approaches have evolved for major infrastructure project financing involving the participation of the private sector, while ensuring maintenance of strategic interests. The most well-known approach in this regard is the build-operate-transfer (BOT) arrangement and its many variants. The common variations of the BOT approach include:

1. **Build-Own-Operate (BOO) –** The investor retains ownership; operating via an open-ended franchise; [High levels of privatisation]
2. **Build-Operate-Transfer (BOT) –** The facility is paid for by the investor but is owned by the host. The investor maintains the facility and operates during the concession period; [Low to medium levels of privatisation]
3. **Build-Own-Operate- Transfer (BOOT) –** At the end of the franchise period the ownership of the facility reverts to the state and there is no terminal payment to the investor. Where a residual value has to be paid the variation is known as **Built-Own-Operate-Sell (BOOS)**; [Medium to high levels of privatisation]
4. **Lease-Refurbish/Rehabilitate-Operate-Transfer (LROT) –** This is used in the context of revamping and refurbishment, maintains and operates the facility during the concession period. [Low levels of privatisation].

9.3 Equity versus Non-Equity Modes[41]:

According to UNCTAD 2007: 35), "Hotels with foreign names remain one of the most visible symbols of FDI in global tourism in developing countries." However, UNCTD argues that appearances may be misleading because a well-known hotel chain might be running but not owning a particular hotel. UNCTAD further argues that there are a number of different arrangements including but not limited to **franchising, leasing and management contracts**.[42] These arrangements, it is argued are increasing, while **equity purchase and ownership are decreasing**. The results of an UNCTAD survey showed that, "of the total number of hotels located in developing and transition economies, 80 per cent are under non-equity modes of operation, namely management contracts, franchises or leases.[43] While in the rest of the arrangements, the TNCs have an equity stake with about half of those being joint ventures and the other half wholly owned. The survey found that in the least developed countries (LDCs) equity seemed to be occurring more frequently at just less than 38 per cent although it was not clear whether these were partial or full equity arrangements. Non-equity modes still accounted for 57 per cent.

[41] United Nations Conference on Trade and Development (UNCTAD). 2007. FDI in Tourism: The Development Dimension. New York: United Nations, p. 36
[42] Ibid
[43] Ibid

9.4 Five main reasons hotels choose non-equity modes of ownership:

1. The critical competitive advantages of firms in the hotel industry often relate to knowledge-based, intangible assets rather than tangible ones, i.e. organisational and managerial expertise; a recognised brand name, access to global reservations systems, etc.[44]
2. In fact, these intangible assets are distinct from the tangible and capital-intensive ones (this could include real estate) and UNCTAD argues that these could be protected (through contracts and other means), which facilitate the possibility for non-equity based agreements.[45]
3. Non-equity agreements are said to allow for separation of management risk from investment risk.[46]
4. UNCTAD argues that contracts could be adequately and thoroughly crafted to cover "the design, style and layout of the hotel …" These and other additional features can influence the quality and potential.[47]
5. Host country's policies on investment. UNCTAD argues that, "In the past, many developing countries had a strong preference for control of physical assets, including hotels, on their territory."[48] However, South Africa does not necessary fall in that category with a strong presence of transnational companies (TNCs) including those in the tourism industry. Therefore, South Africa has a very liberal investment climate in this regard, which means TNCs are spoilt for choice with regards to which mode of entry they can utilise when investing in the country.

9.5 The Role of Investment in the Tourism Sector:

According to the WTTC, investment in tourism infrastructure is essential for destinations to maintain and grow their market share of visitors and to appeal to an ever-growing and diverse group of travellers.[49]

- **Public Tourism Investment:** It relates to public capital spending, directly related to tourism, "on items such as equipment, land, buildings and infrastructure."[50] For example, "government spending on the construction of visitor centres, tourist information offices, publicly funded airports and government contribution to large-resort based investments."[51]
- **Private Tourism Investment:** It relates to private sector capital expenditure directly related to the tourism industry.[52] For example, "residential structures such as vacation houses and non-residential structures such as hotels and convention centres as well as tourism equipment such as airplanes, cruise ships, and rental cars."[53]

The WTTC further argues that these two forms of investment are essential in supporting tourism growth and development of the tourism industry for the following reasons:

- **Expanding capacity**: "In order to support higher and a greater volume of tourists, investment is required to, for example, build more visitor accommodation, increase airport capacity and expand transport facilities. Insufficient capacity can lead to supply-side bottlenecks and a limit on growth, as well as upward pressure on prices which affects competitiveness.

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[44] Ibid, p. 37
[45] Ibid, p. 37
[46] Ibid, p. 37
[47] Ibid, pp. 37-38
[48] Ibid, p. 38
[49] World Travel & Tourism Council (WTTC). 2014. Travel & Tourism Investment in the Americas: Will the region's infrastructure and investment constraint or support future industry growth. London: WTTC, p. 7.
[50] Ibid.
[51] Ibid.
[52] Ibid.
[53] Ibid

- **Maintaining and enhancing current infrastructure**: continued investment in current infrastructure plays a central role in maintaining and improving its functionality and quality through refurbishment and upgrading. Capital expenditure on existing infrastructure is also essential for adapting infrastructure to account for the evolution in consumer tastes over time.
- **Stimulating demand**: Visitor attraction capital projects can be used as a means of generating additional demand and gain or retain market share from competitors.

10. IMPLEMENTATION PLAN

10.1 Possible promotion platforms/channels:

Table 3: Selected Platforms for Tourism Investment Promotion

Event	Convener/Venue	Date	Details
Development of a Tourism Investment Promotion Manual for South African Missions in Key Source Markets for Investment	CD: Destination Planning and Investment Coordination (DPIC) -SA Diplomatic Missions	April - September 2017	• Institutionalisation of tourism investment promotion in selected SA Diplomatic Missions. • Draft a standard Tourism Investment Promotion presentation for SA Diplomatic Missions.
Tourism Investment Forum for Africa (INVESTOUR) [On the margins of the FITUR	World Tourism Organisation (UNWTO) – Madrid, Spain	January 2018	• To promote South Africa's packaged tourism opportunities. • Engage in Business-to-Business Platforms. • Convene a Tourism Investment Seminar on the sidelines of INVESTOUR.
Gulf Cooperation Council (GCC) Countries Tourism Investment Roadshow	South African Mission in Dubai and the DPIC – Dubai, United Arab Emirates	March 2018	• Convene a Tourism Investment Seminar (TIS) targeting High-Net-Worth Investors (HNWI) and big corporates in the GCC.
Indaba 2018	SA Tourism (SAT) – Durban, South Africa	May 2018	• Africa's Top Travel Show • Convene a Tourism Investment Seminar (TIS) on the sidelines of Indaba 2018 to showcase and promote Tourism Investment Opportunities.

11. OUTCOMES OF PROVINCIAL CONSULTATIONS:

11.1 Provinces indicated that tourism was an unfunded mandate, i.e. no budgets in municipalities for tourism projects:

- However, on closer scrutiny, it was discovered that one of the reasons tourism projects cannot secure funding for feasibility studies and project preparation emanate from the fact that they are no found within Integrated Development Plans (IDPs) and are not considered or planned for in the Spatial Development Frameworks (SDFs), which feed into the IDPs. The Australian experience is telling in this respect, for example, the Australia Tourism and Transport Forum (TTF), "…the private investment needed to improve tourism infrastructure cannot happen without"[54] the national government (and specifically the Department of Tourism) leadership. The Department needs to coordinate public investment efforts and work with relevant Departments in order to create a conducive environment to private sector investment. The TTT argues that, "when it comes to prioritising national infrastructure projects, tourism is left in the cold."[55] This is in spite of the fact that, "… it accounts for 10.4 per cent of the nation's export earnings, generating 3.7 per cent of Gross Domestic Product and comprising of 4.7 per cent of total employment."[56] The figures are almost similar in the case of South Africa, however, on closer scrutiny of the accepted doctrine that tourism is an unfunded mandate, and we discovered that tourism has not been championing its own cause.

11.2 Lack of capacity in tourism units in both provincial and local government levels is one of the reasons tourism projects have not been factored in IDPs and SDFs. As in the Australia case, this might be emanating from the fact that there is little appreciation of the value of tourism both within the sector and outside the sector.

- Planning capacity within tourism units needs to be beefed up.
- Inter-Ministerial Committee (IMC) on Investment has not considered tourism projects in the Top 40 Projects prioritised for Investment, despite, tourism's growth projections compared to a number of other sector such as mining that have experienced a decline. The Department has since been invited into the Coordinator's Meeting for the Technical Task Team on Investment, which reports to the IMC on Investment.

12. WAY FORWARD:

This first draft of Tourism Investment Master Plan will be circulated for comments to Provinces and other relevant stakeholders. Concurrently, work will proceed on the following:

12.1 Harmonising of the outputs of the Master Plan with the work that has been done on the Infrastructure Master Plan and the Product Development Master Plan. Ultimately, investment projects should emerge from a rigorous destination planning and product development approach. While a list of potential projects has been collated, there is a need to find agreement on how projects are listed in a product development and investment promotion pipeline. This will require agreement on definitions, etc., and on a phased process that will distinguish between market ready projects, and those that need to follow further processes. A pipeline with an agreed 'roadmap' will be developed.

12.2 In terms of criteria, a key outstanding aspect is that of state-of-readiness, viz. whether feasibility or pre-feasibility studies have been conducted. From consultations with Provinces, it does not seem prudent to stipulate a requirement for detailed feasibility studies. However, literature consulted in this process indicates that some reasonable level of project assessment should be a requirement, especially for mega-projects. A model will be developed which will allow for a varied approach, and which will seek to propose some minimum standard.

12.3 Institutional arrangements and modalities will be discussed as part of the joint planning process under the auspice of MIPTECH, i.e. the MIPTECH Governance and Development Working Group.

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[54] Australia Tourism and Transport Forum (TTF). **National Tourism Infrastructure Priorities: Prioritising Environmental, Economic, Social and Transport Infrastructure**. Sydney: TTF, p. 4

[55] Australia Tourism and Transport Forum (TTF). **National Tourism Infrastructure Priorities: Prioritising Environmental, Economic, Social and Transport Infrastructure**. Sydney: TTF , p.4

[56] Ibid, p. 4