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SECTION A: THE BUSINESS OF TOURISM
Understanding Tourism!

- **What is Tourism?** A social, cultural and economic phenomenon – entailing the movement of people to countries or places outside their usual environment for personal or business/professional purposes.

- **What is a tourist?** An individual who visits a place outside their usual environment and spends at least one night and less than 365 days and not deriving income from that place.

- **Tourism Expenditure:** Refers to the amount paid for the acquisition of consumption goods and services, as well as valuables, for own use or to give away, for and during tourism trips.
• **What is Eco-Tourism?** The UNWTOs characterises ecotourism as all nature-based forms of tourism in which the main motivation of the tourists is the observation and appreciation of nature as well as the traditional cultures prevailing in natural areas.
  
  − Therefore, ecotourism is a phenomenon where tourism supports the maintenance of natural areas which are then used as attractions.
Multiplier Effect of Tourism Projects Illustration!

New hotels set up

Create jobs directly in the hotels

Local businesses supply services

Other companies are attracted to the area

Workers spend their income in the local area; tax revenues increase

More jobs are indirectly created

The area becomes a more popular tourist destination, increasing profitability and revenue for re-investment

Taxes spent on improving infrastructure, image and tourist services

Money lost through leakage
Multiplier Effect of Tourism Projects Explained

• Tourism not only creates jobs in the tertiary (services) sector, but in the primary (raw materials) and secondary (manufacturing) sectors of industry as well. The multiplier effect, i.e. how many times money spent by a tourist circulates through a country's economy.

• Money spent in a hotel helps to create jobs directly in the hotel, but it also creates jobs indirectly elsewhere in the economy. The hotel, for example, has to buy food from local farmers, who may spend some of this money on fertiliser or clothes. The demand for local products increases as tourists often buy souvenirs, which increases secondary employment.

• The multiplier effect continues until the money eventually 'leaks' from the economy through imports - the purchase of goods from other countries.

• A study of tourism 'leakage' in Thailand estimated that 70% of all money spent by tourists ended up leaving Thailand (via foreign-owned tour operators, airlines, hotels, imported drinks and food, etc.). Estimates for other Third World countries range from 80% in the Caribbean to 40% in India. RSA stands at 11% (WTTC, 2013).
Leakages and Linkages in Tourism-led LED

- **PROBLEM**: Leakage – amount spent on importing goods and services to meet tourists needs.

- Leakage occur when the local economy is unable to provide reliable, continuous, competitively priced supply of the required product or service to meet market demands.

- **SOLUTION**: When the local economic linkages are weak, revenue from tourism receipts in a local area leaks out.

- Important to engage local suppliers, using local capital and resources and developing the skills necessary to deliver consistently at an appropriate quality and at a competitive price can reduce leakage.

- To enhance economic benefit to the local community, need to increase linkages between the formal tourism sectors (hotels, lodges, restaurants, tour operators and transport providers) and the local economy.

- **Increased integration can develop strong linkages between tourism and other economic sectors incl. agriculture, fisheries, manufacturing, construction and crafts production**.
Components of Supply (The 5 As of Tourism)

- Attractions
- Access
- Accommodation
- Amenities
- Awareness
Components of Supply (The 5 As of Tourism)

• Attractions (Public and Private Sector):
  ▪ Attraction base of a destination
  ▪ A place of interest that a tourist visits
  ▪ Based on cultural value, historical significance, natural or built beauty, or amusement opportunities

• Access (Public Sector):
  ▪ Transport to move tourists to the destination.
  ▪ The transport of choice for international tourists is air transport
  ▪ Road transport critical in domestic tourism.
  ▪ Ground transport critical for tourists who do not want to drive themselves around.

• Accommodation (Public and Private Sectors):
  ▪ Accommodation near the areas of interest to tourists critical.
  ▪ Public sector has a critical role to play in providing budget accommodation. Private sector will come in if there’s demonstrated RoI.
  ▪ The right accommodation for the target market critical.

• Amenities (Public Sector):
  ▪ Public toilets, signage, retail shopping, restaurants, visitor centres, telecommunications and emergency services critical. (Public investment)

• Awareness (Govt. and Private Sector):
  ▪ Marketing of attractions is very critical – creating awareness
  ▪ Local residents must have a buy-in and appreciation of the role tourism plays.
  ▪ Frontline staff interacting directly with tourists: service stations, retail, traffic police, etc. in direct contact with tourists need to be made aware of the value of tourism.
  ▪ Destination image in source markets need to be strong and positive.
Drivers of tourism growth in South Africa

• **Heritage and cultural tourism (eco-tourism)**
  - Eight (8) World Heritage Sites (UNESCO) – Four (4) cultural sites, Three (3) natural sites and One (1) mixed site.
  - Melting Pot (Cultures)

• **Wildlife and safari (eco-tourism)**
  - 21 National Parks, 25 Marine Protected Areas, 7 TFCAs, 1333 nature reserves
  - Kruger National Park alone attracted 1,659,793 during the 2014/15 FY while the US’s largest national park, the Great Smoky Mountain National Park welcomed 10,099,276.

• **Medical tourism**
  - One of the leading countries in medical tourism with countries such India, Singapore and Thailand.

• **Sports Tourism**
  - Worth between US$100 billion and US$600 billion. Major events like the Commonwealth Games and the FIFA World Cup attract large numbers of tourists.

• **Beach Tourism**
  - 2700km coastline with 41 beaches with a Blue Flag Status.
  - Perfect beaches incl. rugged cliffs, beautiful forests, untouched ecosystems, marine life, ancient wilderness, and hiking trains.
SECTION B: TOURISM INVESTMENT
International Mobile Projects - Funds

• FDI Mobility
  – Concentrated in few areas: Accommodation, Restaurants, and Car Rental.
  – UNCTAD: Developing country investors tend to invest in their regions (vicinity) – RSA hotel groups active in the SADC region.
  – Growing trends in South-South mergers and acquisitions (e.g. intra-BRICS investments)

**Project Mobility Table:**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Frequency with which FDI appear to occur</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
</tr>
<tr>
<td>Hotels and similar</td>
<td></td>
</tr>
<tr>
<td>Restaurants and similar</td>
<td></td>
</tr>
<tr>
<td>Second homes</td>
<td></td>
</tr>
<tr>
<td>Passenger transport rental equipment</td>
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<tr>
<td>Railway passenger transport services</td>
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<td>Air passenger transport services</td>
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<tr>
<td>Road passenger transport services</td>
<td>✓</td>
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<tr>
<td>Water passenger transport services</td>
<td>✓</td>
</tr>
<tr>
<td>Passenger transport supporting services</td>
<td>✓</td>
</tr>
<tr>
<td>Travel agencies and similar</td>
<td>✓</td>
</tr>
<tr>
<td>Cultural services</td>
<td>✓</td>
</tr>
<tr>
<td>Sports and other recreational services</td>
<td>✓</td>
</tr>
</tbody>
</table>

*Source: UNCTAD*
Selection Criteria for National Prioritised Tourism Projects

- One or more core attraction(s) within or near the area;
- Ensure that the selected projects do not have fundamental problems such as disputes on ownership, unresolved land claims, etc., which are likely to undermine investor confidence in the selected prioritised projects.
- Ensure that the necessary critical/strategic infrastructure is either in place or planned for [Engage relevant departments: viz.: DoT, DRDLR, the dti, DWS, and DCoG].
- Look for local investors or developers that could be paired with international investors. Verify the credibility of these local investors/developers. [Skills Transfer]
- Investors in tourism project who have a proven track record in the industry.
- Value of the opportunity, including the potential to stimulate other investment or economic activity, community benefits, i.e. select high-impact projects with significant multiplier effects.
- Local residents buy-in.
The Final Selection

- The Dept. of Tourism (NDT) to manage a project pipeline for bankable tourism investment projects which will be matched with both domestic and international investors [2017/18].
- The Top 20 Tourism Investment Project Portfolio developed from the more than 80 projects received from provinces and state-owned entities [2018/19].
- A platform to be created for provinces, municipalities, communities and products owners for project appraisal, assessment, etc.[2018/19]
- The NDT will manage a list of Top 20 Tourism Investment Project Portfolio focusing on projects with the following attributes:
  - High impact projects with multiplier effects, i.e. that will be able to crowd in further investment including community benefits.
  - Projects with no fundamental problems such as disputes on ownership, unresolved land claims, etc., which could undermine investor confidence.
  - Projects with one or more core attraction(s) within the area (bias towards nodal areas)
  - Projects ready to take-off within the next three (3) years.
- Once the projects have met the above criteria, it will be lifted into the Top 20 Projects portfolio.
Funding Partnerships (Pots of Funds)

While the Department’s focusses on mobilising *private investment*, some projects as identified in the Project Mobility Table would need public funding – either in their entirety, or as part of PPPs.

We are currently in the process of identifying an available pool of public funds as well as clear mechanisms on how these could be accessed.

**• 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.

**• Project Finance Structuring:**
  - The structuring of project financing is fundamentally concerned with the sharing or allocation of risks. i.e. risks must be allocated to the participants that are best equipped to bear the respective risks.
    - **Build-Own-Operate (BOO)** – High levels of privatisation
    - **Build-Operate-Transfer (BOT)** – Low to medium levels of privatisation
    - **Build-Own-Operate-Transfer (BOOT)** – Where a residual value has to be paid the variation is called, Built-Own-Operate-Sell (BOOS). Medium to high levels of privatisation
    - **Lease-Refurbish/Rehabilitate-Operate-Transfer (LROT)** – Low levels of privatisation.
• **Public Finance:**
  - Department of Tourism: TIP, Working for Tourism (WfT)
    - The WfT Programme will fund the training and deployment of 2 enumerators per local municipality to collect tourism data.
  - Department of Trade and Industry: Critical Infrastructure Programme and Capital Projects Feasibility Programme (CPFP)
  - Department of Cooperative Governance & National Treasury: Municipal Infrastructure Grant (MIG)

• **Development Assistance:**
  - USAID
  - EU-Africa Infrastructure Fund

• **Borrowing from Financial Institutions**
  - Commercial banks

• **Internally Generated Revenue**
  - SANParks, SA Tourism, Ezemvelo KZN Wildlife, Gauteng Tourism Authority (GTA), North West Parks Board.

• **Blended Financing**
  - OECD – It is the strategic use of development finance for the mobilisation of additional commercial finance. **[NB: Start with what you have!, e.g. tourism marketing budget as an incentive.]**
Municipal Infrastructure Grant (MIG)

There are different categories of infrastructure that MIG funds can be used for.

- **Households:**
  - MIG can be used for infrastructure for basic household (residential) services. This includes: electricity, water supply, sanitation, storm water management, **municipal roads**, refuse removal, and street lighting.
  - Only poor households would qualify for MIG support.
  - Where the infrastructure is used by both poor and non-poor households, the municipality must find other sources of funding.
  - Capital funds (not MIG funds) should cover the cost of providing the service to the non-poor households.
  - National and provincial infrastructure, are excluded from MIG.

- **Public Municipal Facilities:**
  - Public transport such as municipal public transport, **municipal airports**, ferries and harbours;
  - Emergency services such as fire stations
  - Community services such as: childcare facilities, **beaches and amusement facilities**, cemeteries, funeral parlours and crematoria, cleaning, facilities for animals, fencing, **local amenities**, local sports facilities, municipal health services; **public places**.
Institutions other than public municipal services:

- MIG funds may also be used for infrastructure to provide services such as clinics, recreational facilities, etc. However, only institutions which are used extensively by the poor may be included.
- These services include electricity, water supply, sanitation, storm water management, municipal roads, refuse removal and street lighting.

**MYTH:** An argument has often been made that tourism is an unfunded mandate, however, this is only as a result of the lack of an integrated approach to planning from the tourism and LED side.
- On closer scrutiny, there is nothing in the MIG principles that exclude tourism projects as most tourism projects can benefit the poor, maximise economic benefits through their multiplier effect.
- One critical condition – Projects should be included or planned for in the Integrated Development Plan (IDP) of the relevant Munic.
Tourism Projects for Private Sector Investment

• Accommodation:
  - Hotels, lodges, self-catering resorts, camping and caravan accommodation, houseboat accommodation, corporate lodges and health spas/healing centres, including conference facilities.

• Food, beverage, and retail:
  - Restaurants, take-away outlets, supermarkets, craft/curio outlets, catering businesses, and picnic sites.

• Activity-based tourism:
  - Open-vehicle safaris, hiking trails, mountain bike trails, hot-air ballooning, aerial walkways, 4x4 routes, bungee jumping, activity-based water sports, etc.

• Heritage and culture:
  - Museums, interpretation and exhibition centres [incl. viewing/lookout decks], etc. It could also include conferencing facilities and specialists tour guiding operators.

Source: PPP Toolkit for Tourism, National Treasury
Marketing Tourism Investment Projects

- **NB**: Product – Market Match is critical here. Take the right projects to the right platforms.

- The Department will host two (2) tourism investment promotion events this year (2018) to ensure product-market match. These are:
  - Gulf Cooperation Council (GCC) Tourism Investment Roadshow in Dubai (UAE), 18 March 2018
  - Tourism Investment Seminar on the sidelines of the Africa’s Travel Indaba in Durban, 8-10 May 2018
NDT MUNICIPAL SUPPORT PROJECTS 2017/18

• Training of youth as data capturers for the Collection of National Tourism Information and Monitoring System (NTIMS) data – 2 per local municipality

• Destination planning manual

• Methodology for the development of tourism precincts:

• Tourism Investment Market Analysis: A Workbook
SELECTED DESTINATION DEVELOPMENT PROJECTS 2018/19

• Institutionalising the Destination Planning Manual

• Precinct Development (Karoo and Khayelitsha Township)

• Destination Development Master Plan:
  o Science-based Node – Sutherland to Carnarvon
  o Northern Cape Coast – Hondeklip Baai to Port Nolloth
  o Port St Johns to Coffee Bay
  o Orange River mouth

• Development of an ownership and operational/management model and modalities for implementation of budget resort initiatives

• Conduct a Feasibility Study: Northern Cape Coastal Aviation Infrastructure

• Concepts (Northern Cape):-
  o Kleinzee Beach Precinct Development
  o Hondeklipbaai and McDougalls Bay Campsites

THANK YOU