Grant Thornton

Final Report: Mpumalanga Tourism Investment Promotion Strategy presented to the Mpumalanga Tourism & Parks Agency

March 2009

Grant Thornton

Confidential

Mr Madibakubu Justus Mohlala
Manager: Tourism Investment Portfolio
Mpumalanga Tourism and Parks Agency
Private Bag X11338
Nelspruit
1200

Strategic Solutions
Public Private Partnerships
Research Based Consulting
Tourism Hospitality & Leisure

Grant Thornton Office Park
137 Daisy Street
Sandown
Johannesburg 2196

Private Bag X28
Benmore 2010

Dx 169 Randburg

T +27 (0)11 322-4500
F +27 (0)11 322-4767
www.gt.co.za

Attention: Mr Madibakubu Justus Mohlala

30 March 2009

Dear Sirs

Tourism Investment Promotion Strategy for the Mpumalanga Province – Final Report

We have pleasure in presenting our final report in respect of the above study.

The opinions and recommendations contained in this report are based on such information as was available to us at the time of our research and the study is based on estimates, assumptions and other information developed by us from our independent research, general knowledge of the industry, and from consultations with the Client and its representatives. We assume no responsibility for inaccuracies in reporting by the Client, its agents and representatives or any other data source used in preparing or presenting our study.

In performing our procedures, we have assumed and relied upon, without independent verification, the accuracy and completeness of the information provided to us or otherwise received by us for the purposes of this report, whether in writing or obtained through research or discussions with various parties including the Client and its representatives, and we have not assumed and do not assume any liability therefore.

To the extent that our advice is based on unaudited information provided to us, obviously we cannot accept responsibility if such information (and therefore advice based on it), is incorrect.

The estimates and projections included in our report are not presented as results or outcomes that are inevitable under any circumstances. Factors which are unquantifiable and unpredictable, including but not limited to the weather, the general state of the economy, market acceptance, management approach, quality and effectiveness of design and others have not been considered in the preparation of this report. The estimates and projections are, instead, subject to the various assumptions and bases stated in the report.

Our report is based on the current economic and regulatory conditions. It should be understood that subsequent developments may affect our conclusions which we are under no obligation to update, revise or affirm. Therefore, as is customary with studies of this nature, we advise that the Client ensure that all data and conclusions are reviewed and updated from time to time to take account of changing conditions.

Our report is solely for the information purposes of the Client. Our complete report may be used for presentation to relevant third parties, however, we require that you inform us in writing of all parties to whom the report is made available. Our report may not be quoted or distributed in part without our prior written consent.

We trust that the report will prove useful for your purposes. We would, of course, be pleased to discuss any aspect of the report with you in more detail should you so require.

Yours sincerely

Christelle Grohmann
Director
Grant Thornton Strategic Solutions

Contents

1. Background & Methodology

1.1 Background

Mpumalanga Tourism & Parks Agency ("**MTPA**" or "**the Client**") is the mandated management authority for the Mpumalanga Provincial Parks. In common with the historic role of nature conservation agencies, MTPA has protected and managed biodiversity, and also delivered tourism and recreational services to visitors to the nature reserves.

MTPA is at an important juncture regarding tourism in its parks. The agency has developed a Tourism Growth strategy 2006 to 2007 which broadly outlines the performance of the tourism industry in the areas of attracting tourists, tourist spend, products variety, nature conservation and tourism investment.

The steady increase in tourism arrivals has presented challenges on the local tourism product owners to improve the quality of their products and increase the variety of the product offering through further investment in tourism products.

To assist in attracting increased investment into the Province's tourism industry, the MTPA wishes to develop a Tourism Investment Promotion Strategy ("**the Strategy**" or "**the project**" or "**the study**").

1.2 Client Requirements

According to the Client's Terms of Reference ("**TOR**"), the Strategy should:

- cover all tourism industries within and outside the MTPA parks
- include tourism investment trends internationally and nationally
- identify the Mpumalanga tourism sectors' competitive advantage
- identify tourism investment opportunities for Mpumalanga
- assess the incentives and regulatory framework governing the tourism sector
- identify challenges for tourism investment and strategies to address these
- identify potential sources of investment
- include a SWOT analysis
- include a marketing strategy
- specify the economic benefits of engaging in tourism investment**.**

The Client specified the following outputs and outcomes for the Strategy:

- Outputs:
  - Promote investment opportunities in the tourism industry;

  - Identify home countries of potential investors;
  - Incentives and regulatory framework by national government to attract tourism investments;
  - Identify strategies to address challenges within the sectors.
- Overall outcomes:
  - Reflect the competitive advantage of the tourism sector to attract investors;
  - Creating jobs opportunities;
  - Participation of SMME's in tourism projects.

1.3 Grant Thornton Clarifications & Specification of Study Limitations

Grant Thornton Clarification:

In respect of the above study content Grant Thornton clarified that:

- investment opportunities would be identified by sub-sector/product/geographic tourism region basis and not on a per project basis;
- incentives and the regulatory framework will be assessed **in relation to tourism investment**;
- the SWOT analysis will be **in relation to tourism investment**;
- the marketing strategy will be **in relation to tourism investment** and not in terms of a complete marketing strategy of the province for tourism.

Given the short time frame within which this strategy needed to be developed in (commence January 2009 and deliver by 26 February 2009), Grant Thornton specified that much of the information will be drawn from existing strategies and reports (ie secondary research such as the Mpumalanga Tourism Growth Strategy) with some minimal primary research to be undertaken which primarily relates to high level interviews with tourism stakeholders in Mpumalanga and in South Africa.

1.4 Approach and Methodology

Grant Thornton's approach to this assignment incorporates 4 phases namely:

Phase 1: Plan & Project Manage
Phase 2: Research
Phase 3: Recommend
Phase 4: Finalise

This report is in respect of Phase 3, ie Draft Report, which will be finalised in Phase 4 and a Final Report will be produced.

Phase 1: Planning & Project Management

Please note that some components of this phase takes place on Study commencement whilst other components runs concurrently with phases 2 to 4 throughout the Study.

On commencement of the Study we:

- Met with the client and the steering committee to finalise the scope, constraints and peculiarities of the study, and gained a full understanding and agree in detail, the expected outputs of the assignment;
- Compiled a workplan detailing the key deliverables and timeframes for the project;
- Obtained all existing documentation available from the Client relevant to this assignment.

During the remaining periods of the Study, we provided succinct 2-weekly written progress reports to the steering committee and had 2 face-to-face progress meetings in Nelspruit with the steering committee.

Phase 2: Research

In order to address the Clients requirements of identifying tourism investment trends **internationally and nationally**, we:

- Compiled and reviewed information available from the World Tourism Organisation ("**WTO**") and the World Travel and Tourism Council ("**WTTC**") on tourism investment;
- Compiled and reviewed other international tourism investment research conducted by ourselves and others (including other provinces in South Africa as well as national institutions such as DBSA, dti, IDC, etc);
- Undertook a few key interviews with national organisations such as DEAT, DBSA, dti and IDC.

In order to address the Clients requirements of ***identifying the Mpumalanga tourism sectors' competitive advantage*** and ***identifying tourism investment opportunities for Mpumalanga***, we:

- Compiled and reviewed the tourism investment promotion and other relevant information available from the MTPA;
- Reviewed the Mpumalanga Tourism Growth Strategy as well as other information available on tourism product development in Mpumalanga as well as information on tourism product development and tourism visitor requirements for South Africa and highlighted the tourism niches and sub-sectors suitable for investment promotion in Mpumalanga;
- Compiled a competitor analysis for Mpumalanga in regards to the niches/sub-sectors identified for tourism investment promotion.

In order to address the Clients requirements of ***identifying potential sources of investment***, we:

- Compiled and reviewed documents/lists available on the country of origin of tourism investment in tourism in southern Africa and in Mpumalanga;
- Interviewed organisations that have been involved in the last few years in organising tourism investment conferences for South Africa and Africa and compiled a list of investment sources and international investor countries for the Mpumalanga investor attractive sub-sectors identified.

In order to address the Clients requirements of ***assessing the incentives and regulatory framework governing the tourism sector***, we:

- Reviewed the roles and responsibilities of the various institutions in Mpumalanga and South Africa that support tourism investment;

- Conducted interviews with select tourism stakeholders in Mpumalanga and South Africa to gain their input on the regulatory environment for tourism investment;
- Conducted a succinct comparative analysis on the regulatory framework for tourism investment in other provinces in South Africa as well as in other comparative regions in the world;
- Compiled a gap analysis of existing institutions and their functions and the key functions required for tourism investment in Mpumalanga as well as for incentives required in Mpumalanga.

Phase 3: Recommend

During the course of the recommend phase we compiled the draft Mpumalanga Tourism Investment Promotion Strategy.

Phase 4: Finalise

During the course of the finalisation phase we will, inter alia:

- Present the draft document at a workshop with the Steering Committee and other stakeholders that the MTPA would want included;
- Obtain and integrate comments from the workshop and from the MTPA and deliver the final document.

1.5 Secondary Research Sources

We undertook a detailed secondary research exercise globally and in South Africa to identify existing information pertaining to general foreign direct invest and tourism investment trends, policies, legislation and expectations. A register of secondary data sources obtained and used throughout this report will be attached to the Final report.

1.6 Primary Research

Although this study was primarily based on secondary research, we conducted limited primary research by way of stakeholder interviews (either face-to-face or telephonic). The list of organisations interviewed will be provided as an Annexure to the Final report.

1.7 Report Structure

This report is structured as follows:

Part A: The Situation

1. Trends and future expectations in Foreign Direct Investment ("**FDI**") & Tourism Investment
2. FDI & Tourism Investment Promotion Delivery
3. Barriers/Drivers for FDI & Tourism Investment Promotion
4. Mpumalanga Tourism Product Offering (referenced against SA as a whole)

Part B: The Strategic Recommendations

1. Mpumalanga Tourism Comparative Advantage
2. SWOT for Mpumalanga Tourism Investment Promotion
3. Strategy for Mpumalanga Tourism Investment Promotion
4. Marketing Plan for Mpumalanga Tourism Investment Promotion
5. Economic benefit of tourism investment promotion

1.8 Terminology & Abbreviations

The following abbreviations are used throughout this report:

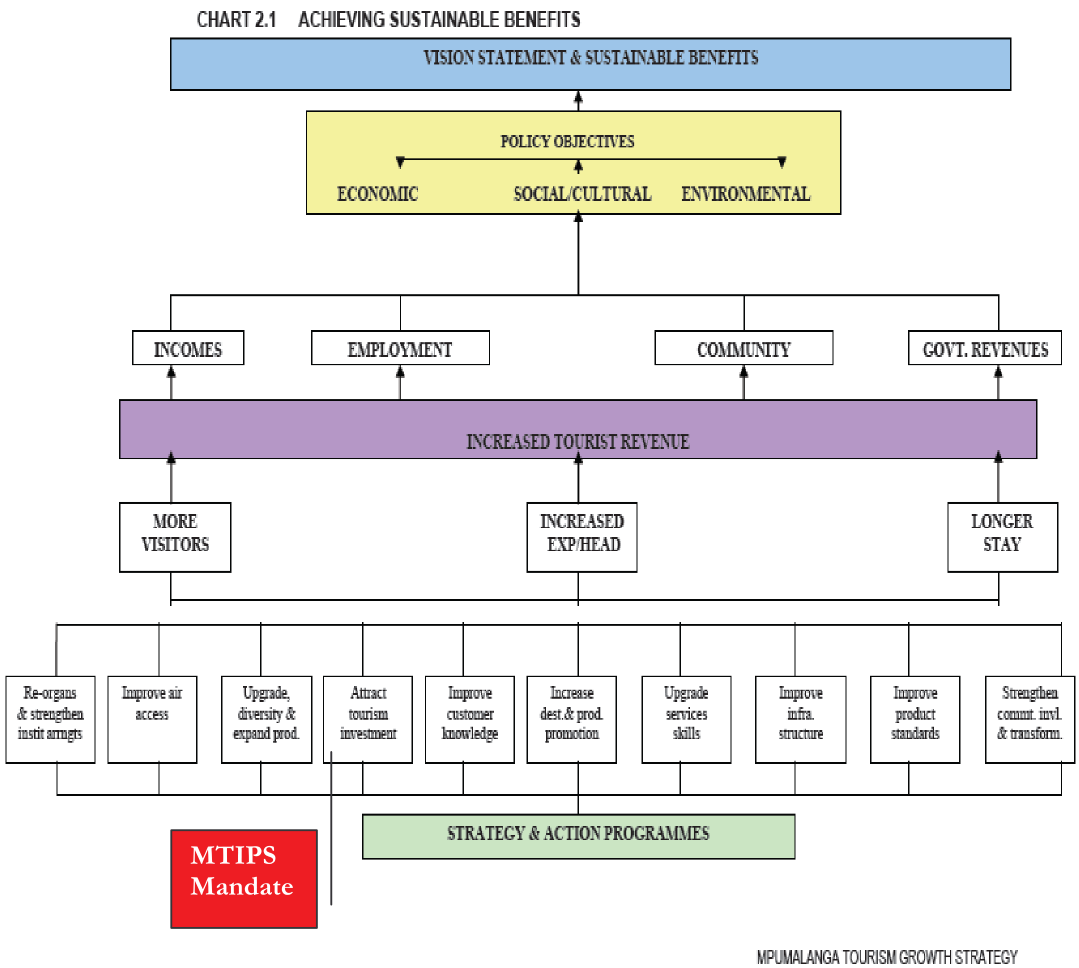
- MTPA: Mpumalanga Tourism & Parks Agency
- FDI: Foreign Direct Investment
  FDI occurs when an investor resident in one country (the source country) acquires ownership in and a significant influence over the management of an enterprise or productive asset in another country (the host). This may involve creating a new enterprise (greenfield investment) or changing the ownership of an existing enterprise (via a merger and or acquisition). This definition is usually taken to mean a minimum of a 10% equity stake, although it is of course possible to control a firm or assets with less, and even without an equity share.
- UNCTAD: United Nations Conference on Trade & Development
- SARB: South African Reserve Bank
- TTR: Trade, Tourism & Recreation
- PGDS: Provincial Growth & Development Strategy
- TNC: Trans-national Company
- TIPS: Tourism Investment Promotion Strategy
- MTGS: Mpumalanga Tourism Growth Strategy
- SWOT: Strengths, weaknesses, opportunities & threats
- KNP: Kruger National Park
- LDC: Least Developed Countries

1.9 Linkages to the Mpumalanga Tourism Growth Strategy

It is important at the outset of this assignment to clearly establish this Mpumalanga Tourism Investment Promotion Strategy ("**TIPS**" or "**MTIPS**") in the context of the greater strategic framework for tourism for the Mpumalanga Province. The linkages to the current tourism strategy being followed for the province, the Mpumalanga Tourism Growth Strategy ("**MTGS**") 2007, are indicated below.

Tourism Investment Promotion (or "**TIP**") is one of 10 activities to be undertaken to achieve the strategic targets and vision as set out by the MTGS (**Figure 1.1**).

Figure 1.1: The MTGS – Objectives & Activities



Source: Mpumalanga Tourism Growth Strategy, 2007.

According to the MTGS, the MTIPS should in the least incorporate the activities as set out in Action D in **Figure 1.2** below.

Figure 1.2: The MTGS Actions

2.7 ACTION PLAN IMPLEMENTATION

We see the implementation of the growth strategy in three distinct but related phases.

Phase / Actions	Phase I: 2007 – 2008 Organising for Growth	Phase II: 2008 – 2011 Growth 'take off' Phase	Phase III: 2011 – 2016 'Rapid Growth Phase	Agencies Responsible
A. Arrangements for Strategy Implementation	➢ Provincial Govt. approval of strategy ➢ 'buy in' by stakeholders ➢ publication of strategy document ➢ adequate funding for MTPA ➢ PPP commercialisation for MTPA parks/reserves	➢ update of growth strategy ➢ increased funding for MTPA	➢ update of growth strategy ➢ increased funding for MTPA	Govt, MTPA Stakeholders
B. Institutional Framework	➢ staffing & strengthening of MTPA ➢ establish Tourism Forum ➢ rationalise RTO structure ➢ registration of tourism operators ➢ prepare MTPA corporate strategy & plan	➢ strengthening/training of MTPA staff ➢ update of MTPA corporate strategy and plan	➢ on-going strengthening/training of MTPA ➢ update of MTPA corporate strategy and plan	Govt, MTPA RTOs, LTOs, DMs, LMs
C. Destination and Product Marketing	➢ undertake low cost/high market profile initiatives to effect quick turnaround and generate momentums for growth ➢ production of collaterals ➢ improve web-site ➢ brand Mpumalanga Route ➢ formulate marketing plan ➢ establish reliable statistical data base and market research ➢ establish marketing groups and partnerships	➢ continuation of initiatives to maintain momentum ➢ increased destination & product marketing ➢ increased resources for branding/promoting Mpumalanga Route ➢ set-up e-commerce (reservations system etc) ➢ regularly update marketing plan ➢ increased range of collaterals ➢ emphasis on promoting MICE	➢ intensive destination & product marketing ➢ increased resources for branding/promoting Mpumalanga Route ➢ regularly update marketing plan ➢ joint campaigns with other SA provinces, Swaziland and Mozambique ➢ e-marketing/e-distribution	MTPA, RTOs, KNP, KMIA,
D. Upgrade, Diversity & Expand Product	➢ prepare outline feasibility assessments for flagship projects ➢ facilitate implementation of national classification and grading system ➢ establish data base of potential investors	➢ investment promotion ➢ excellence awards scheme ➢ establish 'one-stop' shop for investors ➢ update data base of potential investors	➢ on-going investment promotion campaign ➢ improve and extend excellence awards scheme	MTPA, MEGA, Treasury & other relevant Depts
E. Upgrade Service Skills	➢ survey of training needs ➢ set-up HRD Consultative Committee ➢ organise HRD Forum ➢ undertake tourism awareness programme ➢ training for MTPA, Provincial, District & Local tourism personnel	➢ train-the-trainer courses ➢ training programmes for new entrants & existing employees ➢ expansion of MRTT's training programmes ➢ Set-up in-house training programme	➢ train-the-trainer courses ➢ training programmes for new entrants & existing employees	MTPA, MRTT THETA

MPUMALANGA TOURISM GROWTH STRATEGY

Source: Mpumalanga Tourism Growth Strategy, 2007.

The MTGS clearly specifies that to achieve the target of R10 billion in tourism spending (see **Table 1.1** below) over the next decade, Mpumalanga will have to move to an investment driven strategy.

Table 1.1: Mpumalanga Current & Future Tourism Performance/Contribution

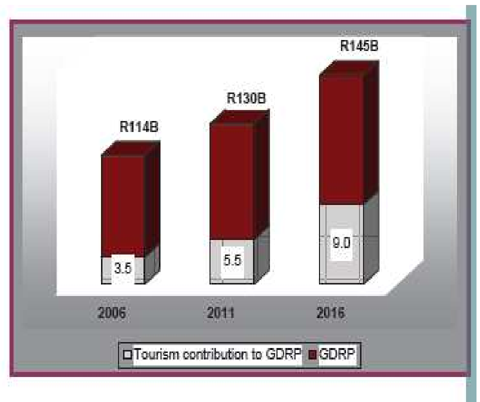
Current Tourism Performance/Contribution	MTGS Target Tourism Performance/Contribution
Tourism's direct contribution to the Mpumalanga economy was about R3.5 billion, representing 3.0% of the Province's output (GDRP) in 2006. When the indirect impacts of tourist spending are also taken into account, tourism's overall contribution to GDRP is likely	The PGDS has set goals and targets to improve the economic performance of the Province. GDP is targeted to increase by 2.5% annually. For tourism, the target is to increase by 10% per annum its contribution to GDP.

Current Tourism Performance/Contribution	**MTGS Target Tourism Performance/Contribution**
to have been between 7 and 8%. Assuming that the relationship between tourism's contribution to GDP and direct employment at national level holds true at provincial level for 2006, it is estimated that the number of jobs directly dependent on tourism to be about 30 000.	This is a formidable challenge. It means that tourism must grow consistently by 10.0% yearly, significantly outperforming not only the Mpumalanga economy generally, but also the national tourism industry

Value of Tourism to Mpumalanga, 2006

Variable	Arrivals (000s)	Spend R (Billion)	Avg. Nights
Foreign Tourist	1,200	3.0	4.0
Domestic Trips	1,800	0.8	n/a
Total	3,000	3.8	-

Source: South African Tourism, Consultants estimates

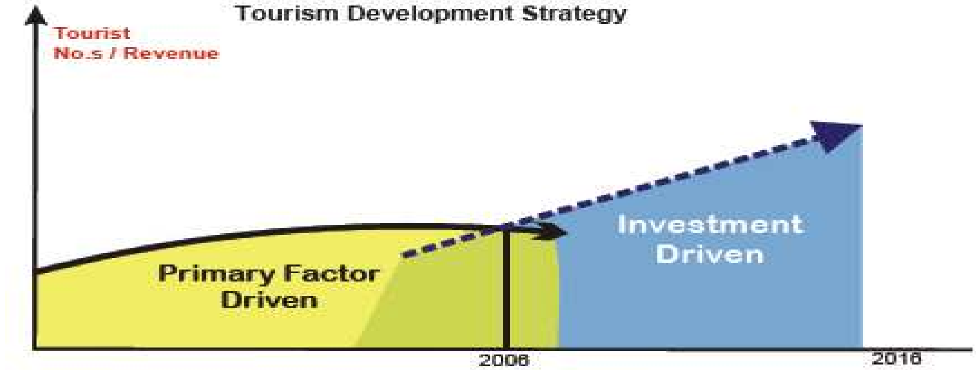


Source: Mpumalanga Tourism Growth Strategy, 2007.

Excluding parts of KNP and the private reserves, Mpumalanga is a short stay/low spend destination. This is because the tourism industry is totally dependent on its natural attractions as the motivation for tourists to visit. But the natural attractions, though unique in many ways, are not sufficiently strong in themselves to attract the numbers required to support a significant tourism sector. This is a primary factor driven strategy and characterized by limited investment, insufficient accommodation, medium to low quality product and inadequate airlift. Mpumalanga is not alone in this regard. All destinations, where the core products are nature and culture based but are not considered world class (such as the Galapagos, Egypt, Greece) face this problem. The strategy that many destinations which do not have 'world class' nature and cultural attractions have pursued, is to invest heavily in related products – golf, health & wellness, theme parks, conference & incentive etc. These destinations have seen their tourism sectors prosper and grow.

To move on to the next stage of development requires an investment driven strategy, with sustained investment in all aspects of tourism – new products, destination marketing, human resource development, etc.

Figure 1.3: Tourism Development Strategy



Source: Mpumalanga Tourism Growth Strategy, 2007.

2. Part A – The Foreign Direct Investment & Tourism Investment Current Situation

2.1 Trends, Expectations & Characteristics in general FDI & Tourism FDI

2.1.1 Foreign Direct Investment

Global

- Global FDI inward stocks increased by 420% from 1995 to 2007 (14,8% compound per annum for the 12 year period), whilst Inward FDI stocks to developing countries increased at a slightly lower rate at 400% (14,3% compound per annum for the 12 year period).
- FDI inward flows per annum were particularly strong from 2003 to 2007 (around 20% compound per annum for global and developing economies).
- Developing Countries represented 28% of total inward global FDI stocks in 2007, lower than the 2005 share of 30%, but higher than the 1990 average of 27%. This shows that Developing Countries' share of global FDI is consistent but not necessarily growing significantly.
- The financial instability triggered by the United States subprime crisis which began in the summer of 2007 has led to a progressive deterioration of the investment situation. Various indicators during the first half of 2008 already suggested a decline in world growth prospects as well as in investors' confidence. This deteriorating climate began to leave its first negative marks in investment programmes, including FDI, in early 2008. According to the United Nations Conference of Trade and Development's ("**UNCTAD**") 2008-2010 World Investment Prospects Survey, conducted from April–June 2008, 40% of the respondent companies already mentioned at that time that the financial instability had a "negative" or "very negative" impact on their investment expenditures and programmes.

South & Southern Africa

- Inward FDI stocks to South Africa from 1995 to 2007 increased by 511%.
- Although South Africa's inward FDI flows have grown faster than the global average in the last 7 years (31% pa compared to 21%), unlike the even increases experienced globally, South Africa's growth is extremely volatile, with some years even showing negative inflows and others reflecting over 1 000% increases.
- Although FDI has increased over time since the political democratisation process of 1994, relative to the size of South Africa's economy and other similar developing countries classified as emerging markets, South Africa's inward FDI performance is below expected levels. South Africa's FDI stocks represents a less than 1% share of global FDI inward stocks (0.5% in 1995 and 0.6% in 2007).
- Even its share of developing countries' FDI is still low, although it has improved since the 1990s (2.2% in 2007 compared to 1.8% in 1995).
- South Africa ranked 112th in 2007 in terms of Inward FDI Performance, up from 124th in 2006. However in respect of Inward FDI Potential, it dropped in ranking from 71st in 2006 to 74th in 2007. This is due to the volatility of the inflow as well as the political changes starting at the end of 2007 and increasing in 2008.
- The latest UNCTAD figures show a significant growth in FDI inflows for South Africa in 2008, particularly in a year where global FDI retracted significantly. South African FDI Inflows increased from US$5,7 billion in

Global	South & Southern Africa
• In the face of the global economic slowdown (and recession in a number of major economies), tighter credit conditions and falling corporate profits, many companies have announced plans to curtail production, lay off workers and cut capital expenditure, all of which has implications for FDI. According to a preliminary estimate by UNCTAD, world FDI flows are expected to have declined in 2008 by 21%. • However, the impact of the crisis varies widely, depending on region and country. Developed countries were the most affected in 2008. In many developed countries, preliminary data suggest that in 2008, as a result of the protracted and deepening problems affecting financial institutions, as well as the liquidity crisis in the money and debt markets, FDI flows have fallen, leading to a decline estimated at about 33% for this group as whole. In developing and transition economies, FDI inflows have so far remained more resilient. The growth rate of FDI inflows to developing countries, while lower than in 2007 (when it exceeded 20%) should still reach an estimated 4%. Flows to Africa are expected to grow further to more than $60 billion, despite the slowdown in global economic growth and its negative consequences for the region. • Financial factors have negatively affected TNCs' (Trans National Companies) capacity to invest, both internally and externally, as tighter credit conditions and lower corporate profits curtail TNCs' financial resources for overseas investment projects (as well as domestic ones). The gloomy evolution of markets, including the looming sharp economic recession worldwide (and even recession in a number of developed countries) and a heightened appreciation of risk, has also reduced firms' propensity to invest for further expansion both domestically and internationally of production capacity. • Companies' investment plans may also be scaled back due to a high level of perceived risks and uncertainties. • Beyond its immediate negative impact on FDI flows in 2008 and presumably 2009, the ongoing crisis opens a period of major uncertainty. For effectively dealing with the crisis and its economic aftermath, it is important that policymakers maintain an overall	2007 to US$12 billion in 2008 (an 111% increase). Given that a large proportion of South African FDI is resource seeking rather than efficiency or market seeking (the primary reasons for FDI), South Africa could weather the economic and consequent FDI storm better than many other counterparts.

Global	South & Southern Africa
favourable business and investment climate (including for FDI) and refrain from protectionist tendencies.	

Region	Inward FDI Flows Per annum (US$ millions) 1990-2000	2004	2005	2006	2007
World	492 605	717 695	958 697	1 411 018	1 833 324
Developing economies	130 755	283 641	316 444	412 990	499 747
Southern Africa	2 002	3 715	6 571	1 278	7 063
SA	854	799	6 571	-527	5 692

Source: World Investment Prospects, 2008, UNCTAD.

Region	Inward FDI Stocks (US$ millions) 1 990	1 995	2 000	2 006	2 007
World	1 941 252	2 914 358	5 786 700	12 470 085	15 210 560
Developing economies	528 638	851 534	1 738 255	3 303 169	4 246 739
Southern Africa	15 557	24 110	60 586	114 138	123 100
SA	9 207	15 005	43 462	87 782	93 474

Source: World Investment Prospects, 2008, UNCTAD.

2.1.2 FDI in Tourism

Secondary Information: General FDI

According to an UNCTAD publication, as a general rule, the more developed the economy the better the FDI data. The United States, for example, provides among the most comprehensive FDI data. For many countries, including some that appear to be increasingly significant sources of outward investment in developing countries, the data on FDI in tourism is still largely lacking and the dynamics of FDI in the tourism sector, and its implications, have been relatively little studied. Furthermore there is very little empirical information about the extent of tourism-related FDI in the global economy or its overall impact. Certainly this has been evident in Grant Thornton's research into tourism investment trends in South Africa – it seems that FDI or even general investment in tourism is not officially tracked by any organization. Although several organizations (particularly dti, DEAT and provincial tourism organisations) attempt to unofficially track tourism investment, due to the unreliability of the information they are not willing to share these lists and it remains for their internal purposes only.

According to an UNCTAD study on FDI and Tourism Development, in order to track tourism FDI properly, both FDI Stock Values and FDI Inward Flows need to be measured. It is important using flow data to understand why the stock values have increased or decreased in any given year. For example, stock values could increase, even if there were no new inflows, if long-held assets were re-valued upwards because of a real-estate boom or the increased profitability of the company. In the tourism industry it is also important to focus on other ways of measuring the scale and scope of FDI activity, such as the level of employment in foreign affiliates or the number of hotels affiliated to a TNC. The latter is especially important in tourism given the fact that many TNCs are reducing equity in "their" hotels, or even hold no equity at all while still maintaining a managerial or overseeing role through a management or franchising contract (allowing them to still maintain control over the company). Moreover, because the impact of a TNC depends upon a whole package of elements including technology, managerial techniques and access to world markets, in addition to equity capital, non-equity modes of having a presence are considered as important in many circumstances.

FDI in tourism is relatively low, compared to other globalized activities (including services such as telecommunications or finance), and compared to domestic investment. FDI exists in only a small number of the many diverse activities that comprise what could be called the "international tourism economy". The main investments are in hotels and restaurants, with little FDI in airlines (although this is growing) and in high profile and important activities such as tour operations or global reservation systems. Tourism accounts for no more than 1 or 2% of total outward FDI stocks from the largest source countries; and an even smaller proportion of total inward FDI stocks for the largest host countries. Reflecting this, tourism does not have as many global mega corporations as in other sectors.

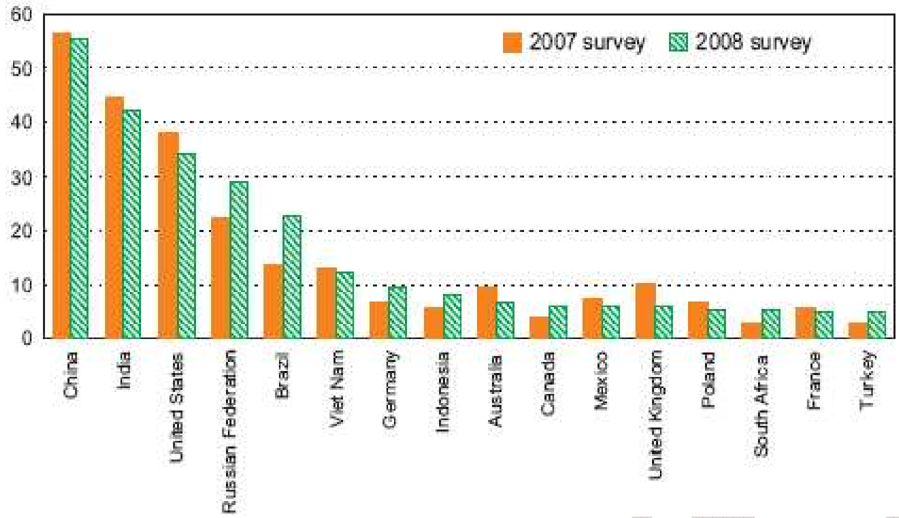
However, although the amounts in dollar terms may be small, this does not mean they are insignificant. Firstly, national accounts data on tourism-related FDI are likely to underestimate the true extent of TNC activities, where managerial contracts rather than equity ownership is increasingly important. Secondly, these relatively small capital flows, coupled with non-equity TNC presence, can have a significant impact, especially in developing countries that are relatively new to international tourism. Thirdly, the indications are that tourism-related FDI and TNC activities are likely to increase significantly in the medium term, in virtually all developing regions.

2.1.3 Top Regions for FDI & Tourism Investment

Secondary Information: General FDI

UNCTAD undertakes an annual survey of the investment prospects amongst TNCs. The 2008 survey indicates that five very large countries clearly emerge as favourite investment destinations: China, India, the United States, the Russian Federation and Brazil (in that order). Their rankings are unchanged from the 2007 survey. However, the Russian Federation and Brazil catch up noticeably in terms of the number of responding companies that cited them. Four of the five top country destinations are emerging economies. Among the other top 15, Vietnam ranks again in 6th place. Germany and Indonesia have improved their rankings to 7th and 8th place respectively, while Australia, France, Poland and the United Kingdom have lost ground, but still remain among the 15 most preferred FDI destinations. **Newcomers to the top 15 are Canada, South Africa and Turkey in that order.**

Figure 2.1: The 15 most attractive economies for the location of FDI *(% of responses to the UNCTAD survey)*



Source: World Investment Prospects, 2008, UNCTAD.

Although South Africa features on the 15 most attractive economies for location of FDI list, the sub-Saharan Africa region remains the least attractive region for FDI. Developing and transition regions have gained in importance in the preference rankings relative to developed regions. The region of South, East and South-East Asia remains in first place, followed by the EU-15 and North America (which have switched places). The new EU-12, Latin America and West Asia have each gained one position, while South- East Europe and the CIS have moved up two positions. "Other developed Europe" and "other developed countries" have each moved down two positions. North Africa and sub-Saharan Africa remain at the lowest end of the regional preference rankings.

Figure 2.2: Ten most preferred regions for FDI: rankings of 2007 and 2008 surveys compared

WIPS 2007 ranking	Region	WIPS 2008 ranking	Region	Change in ranking
1	South, East and South-East Asia	1	South, East and South-East Asia	-
2	North America	2	EU-15	↑
3	EU-15	3	North America	↓
4	New EU-12	4	New EU-12	-
5	Other developed countries	5	Latin America	↑
6	Latin America	6	South-East Europe and CIS	↑
7	Other Europe	7	Other developed countries	↓
8	South-East Europe and CIS	8	West Asia	↑
9	West Asia	9	Other Europe	↓
10	North Africa	10	North Africa	-

Source: World Investment Prospects, 2008, UNCTAD.

Sub-Saharan Africa is expected to remain a marginal player for FDI flows during the next three years. Only 16% of responding companies have established a presence there, and the region accounted for only about 2% of world inward FDI stock in 2007 (UNCTAD, 2008). Despite a marked rise in FDI flows in 2007, amounting to $31 billion, partly the result of the current boom in commodity markets, sub-Saharan Africa remains at the bottom of the investors' preference list, with few signs of improvement for the next three years. Only 17% of the responding companies indicated an intention to increase their investments in the region. Access to natural resources remains one of the major location assets. Economic prospects are also positive, with a projected GDP growth rate of around 6% until 2010 (World Bank, 2008), although starting from low levels. South Africa is the only country of the region that figures among the 30 most preferred locations for FDI.

Secondary Information - Tourism FDI

As **Figure 2.3** shows, the United States is by far the largest recipient country of tourism FDI stocks, whilst the United Kingdom is the largest source country for tourism FDI stocks.

Figure 2.3: The world's top five source and host countries *(FDI stocks in hotels and restaurants)*

A. Inward tourism-related FDI stocks						
Host/year	**1990-1992**	**2000**	**2002**	**2003**	**2004**	Share of tourism in inward FDI stocks
	$ m	$ m	$ m	$ m	$ m	%
Canada	..	2 876.3	2 907.7	3 831.6	..	1.4
France	493.3	688.3	660.7	1 818.7	1 743.5	0.3
Hong Kong (China)	..	6 102.0	5 521.0	3 706.2	4 578.0	1.0
United Kingdom [a]	3 955.6	6 250.8	6 058.8	11 673.7	9 546.9	1.3
United States	12 191.0	22 230.0	21 435.0	23 369	23 556.0	1.5
B. Outward FDI stocks						
Source/year	**1995**	**2000**	**2002**	**2003**	**2004**	Share of tourism in inward FDI stocks
	$ m	$ m	$ m	$ m	$ m	(%)
Canada		7 321.0	8 009.6	8 701.6	8 701.6	2.8
France		3 952.8	4 787.0	6 018.2	5 478.4	0.7
Hong Kong (China)		8 469.5	6 416.1	5 445.2	6 762.3	1.7
United Kingdom	13 574.9	10 142.5	40 804.4	37 773.2	34 404.0	2.7
United States	10 417.0	17 474.0	21 085.0	22 669.0	24 525.0	1.2

Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

Data on the location of tourism-related FDI or TNC activity are limited, but it appears that the distribution is rather uneven among regions. On the basis of national accounts data from the two largest sources of tourism-related outward FDI that provide such information (the United Kingdom and France), Latin America and the Caribbean and Asia dominate as recipient developing regions, while Africa and the Pacific receive very little of such FDI. These findings are supported by an UNCTAD survey of TNC hotels with a presence in developing countries, which confirms that Latin America is the single largest recipient of tourism-related FDI; around one quarter of all hotels in developing countries located in that region. South, East and South-East Asia, the transition economies of Europe, and North Africa share second place, accounting for 13 to15% of the total number of TNC hotels, followed by Southern and sub-Saharan Africa, Central and Eastern Europe and West Asia. Central Asia and the Pacific each accounted for less than 1% of the total number of hotels. It is possible that these proportions may change over the next five years.

Figure 2.4: Number of world's 22 largest hotel chains with a presence in selected developing countries

Country	Number of hotel
Mexico	18
Brazil	15
China, Indonesia, Singapore, Thailand, Turkey	14
Egypt, Malaysia	13
Dominican Republic	11
Oman	10
Costa Rica, Ecuador, Philippines, Saudi Arabia, South Africa	9
Chile, Colombia, Lebanon, Peru, Republic of Korea, Venezuela	8
Bahamas, Guatemala, Kuwait, Panama	7
Bahrain, Cuba, Cyprus, Viet Nam	6
Cayman Islands, Jamaica	5
Fiji, Honduras, Nigeria, Pakistan, Yemen, Zimbabwe	4
Bangladesh, Cambodia, El Salvador, Ghana, Gabon, Mauritius, Trinidad & Tobago, Qatar, United Rep. of Tanzania	3

Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

UNCTAD data on the destination of past greenfield tourism projects (2002 to 2005) shows that the focus was mostly in developing countries (70% of projects), with as indicated above, the majority being in Latin America, then Asia and the least in sub-Saharan Africa.

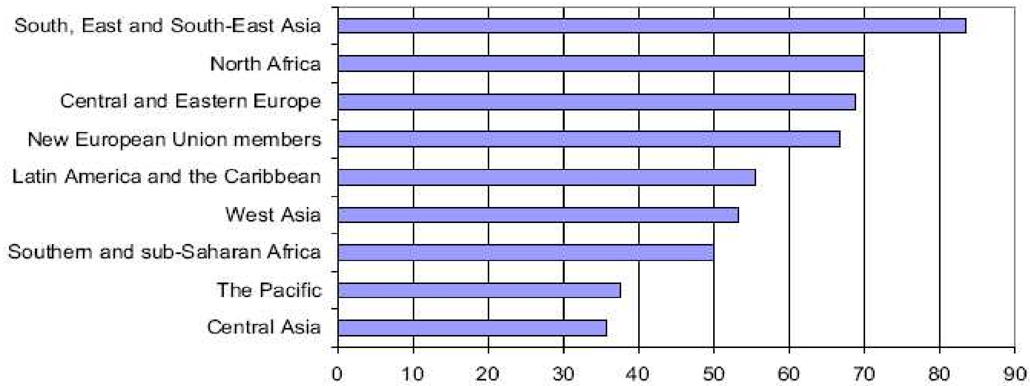
Figure 2.5: Hotel & restaurant Greenfield FDI projects, by number of projects, 2002-2005

	Host economy					Home economy				
Location	**2002**	**2003**	**2004**	**2005**	**Total host**	**2002**	**2003**	**2004**	**2005**	**Total home**
West Asia	17	33	21	31	102	4	9	7	16	36
South, East & South-East Asia	20	29	23	20	92	6	29	27	13	75
China	7	25	39	8	79	1				1
Latin America	28	36	52	13	129	3	5	5		13
North Africa	13	7	9	11	40		1		3	4
Southern & sub-Saharan Africa	1	6	4	2	13		2			2
South-East Europe and CIS	34	52	34	64	184	4	5	7	8	24
Developing countries, South-East Europe and CIS	**120**	**188**	**182**	**149**	**639**	**18**	**51**	**46**	**40**	**155**
Europe	40	48	51	62	201	110	104	128	110	452
North America	11	10	6	6	33	47	101	65	65	278
OECD, other	7	13	7	4	31	3	3	7	6	19
Developed countries	**58**	**71**	**64**	**72**	**265**	**160**	**208**	**200**	**181**	**749**
Total	**178**	**259**	**246**	**221**	**904**	**178**	**259**	**246**	**221**	**904**
Developing countries' share of total number of new projects (%)	**67.4**	**72.6**	**74.0**	**67.4**	**70.7**	**10.1**	**19.7**	**18.7**	**18.1**	**17.1**

Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

The UNCTAD survey of TNC hotels asked TNCs about their future investment plans and the highest percentage of expansion plans (over 50%) were in South, East and South-East Asia, as opposed to Latin America, where "only" 50% of the firms reported that they planned to increase their stock of hotels. It was notable, however, that every respondent answered that they planned to increase their portfolio of hotels, with no respondent planning to "decrease" or "make no change". On the basis of this evidence, it is expected that tourism-related FDI should increase worldwide.

Figure 2.6: TNC expansion plans for hotels during the period 2006-2011 *(Percentage of firms citing planned increase, by region)*



Source: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

Another way of viewing the regional breakdown is to assess what tourism projects are on offer for investment in each region. This assessment was undertaken on the Tourism ROI website, an intermediary that brokers tourism investment opportunities. The website currently has 131 tourism projects on offer worldwide of which:

- The majority are tourist accommodation property related, ie hotels, resorts, etc.
- 11% are based in developed countries and 89% in developing countries.
- Of the projects in developing countries:
  - 25% are southern Africa
  - 23% in central America
  - 16% in south and Eastern Europe
  - 11% in Asia

Primary Information - Interviews

The South African banks interviewed indicated that only a small share of their tourism investment to date has been in Mpumalanga (3-5%) and most banks expected it to be as low in the future.

Half of the banks would NOT choose Mpumalanga for tourism investment purposes due to the following reasons:

- The lack of leadership in the province
- The inability to convince investors
- The lack of a clear strategy
- No sustainability – low tourism numbers

Half of the banks WOULD choose Mpumalanga for tourism investment purposes for the following reasons:

- To achieve regional equity – even geographical spread
- Rural upliftment of communities is very important
- Transformation within its' tourism sector

- Mpumalanga's accessibility to Gauteng
- It's the gateway to the KNP
- It's en route to Mozambique

The large tourism operators interviewed indicated that 0% of their investment projects for the last 3 years were in Mpumalanga. One of the operators felt there was no further opportunity evident although others believe some opportunities do exist. All operators would consider opportunities in Mpumalanga if they are good projects.

2.1.4 Top Sources for FDI & Tourism Investment

Secondary Information - General FDI

96% of South Africa's FDI stock is sourced from developed economies and 85% is sourced from Europe. On an individual economy basis, the UK is by far the largest source (64%), followed by the USA (8,8%), Germany (7,3%), Netherlands (4,6%), Japan (2,2%), France (1,8%) and Switzerland (1,8%). All other individual countries represent less than 1% of South Africa's inward FDI stock.

Apart from the UK, USA and Germany, no other source country seems to provide **consistent** FDI to South Africa - FDI flows to South Africa by source market fluctuates significantly from year to year. In respect of the last 5 year period for which we could obtain FDI inflows by source country (2000 to 2004), the highest FDI inflow for that period originated from the UK, followed by Belgium (however it only had a significant inflow in 2000 and never again), Germany, USA, Netherlands, Switzerland, Spain and Sweden.

Based on this information, the UK, Germany, USA, Netherlands and Switzerland seems to be consistent strong sources of FDI for South Africa. Other good sources are Japan, France and Sweden, although inflows from Japan and France have been weak in recent years.

A CNEM/EDGE Institute survey examines foreign direct investment across more than one home country and economic sector and it confirmed the above source breakdown with 60% of their survey's investors into South Africa emanating from Europe, 20% from North America, 15% from Asia and the remaining 5% from the rest of the world.

Secondary Information - Tourism FDI

The largest source countries of outward FDI in tourism have long been the United States, the United Kingdom, France and Canada (see **Figure 2.3**). This is supported by **Figure 2.6** that shows that most of the world's large hotel groups are based in either the US or Western Europe.

Figure 2.7: The world's largest hotel groups (Ranked by number of rooms)

Global ranking	Group	Home country	Number of rooms	Number of hotels	Share of hotels outside home country [a] (%)	Number of host countries with hotels	Number of host developing countries with hotels	Number of host LDCs with hotels
1	Cendant Corp.	United States	553 771	6 624	6	34	29	-
2	Six Continents Hotels	United Kingdom	507 091	3 234	..	100	65	8
3	Hilton Hotels Corporation	United States	475 000	2 700	15[d]	82	48	3
4	Marriott International	United States	427 489	2 333	19	66	44	-
5	Accor	France	415 774	3 654	74	90	61	13
6	Choice Hotels International	United States	362 549	4 545	25	47	21	-
7	Best Western International	United States	312 207	4 109	43 [b]	79	49	1
8	Starwood Hotels & Resorts Worldwide	United States	225 737	751	34 [b]	78	55	4
9	Carlson Hospitality Worldwide	United States	135 429	795	43 [b,c]	66	42	2
10	Hyatt Hotels Corp./Hyatt International	United States	91 657	214	>40	39	27	-
11	Sol Meliá SA	Spain	85 515	347	49	30	17	-
12	TUI Group	Germany	75 397	284	>40	29	16	1
13	Envergure/Société du Louvre	France	69 077	940	6	6	-	-
14	Wyndham Hotels Group	United States	62 262	242	11	11	10	-

Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

Interestingly a new trend, which is gathering pace, is the rise of South-South investment in tourism. As in other sectors of the global economy, a number of TNCs from developing economies are becoming active on the world tourism scene. At present these TNCs are from economies such as Singapore, Hong Kong (China) and the United Arab Emirates; other source economies from the South include Cuba, Malaysia, Poland, South Africa and Mauritius. For many developing countries, especially the least developed, investors from the South may represent an extremely significant source of new investment, capital and expertise. And not only are they investing in these emerging destinations, they are also establishing a presence in some of the oldest and most established tourist destinations in the world, including London and New York.

According to the CNEM/EDGE survey, in the South African Trade, Tourism & Recreation ("**TTR**") sector, 75% of the investors into South Africa emanated from Europe, whilst the other 25% originated from North America.

Primary Information – Interviews

According to the South African banks interviewed, with 50% of the tourism investments, clients approach the banks directly:

- Through the networks & relationships they have built up in the tourism sector
- Through signing memorandums of understanding with provincial marketing agencies
- Through signing collaboration agreements with tourism & hospitality associations, such as, FEDHASA, SATSA, TBCSA etc.
- Through references of municipalities and personal contacts

The other 50% is sourced via:

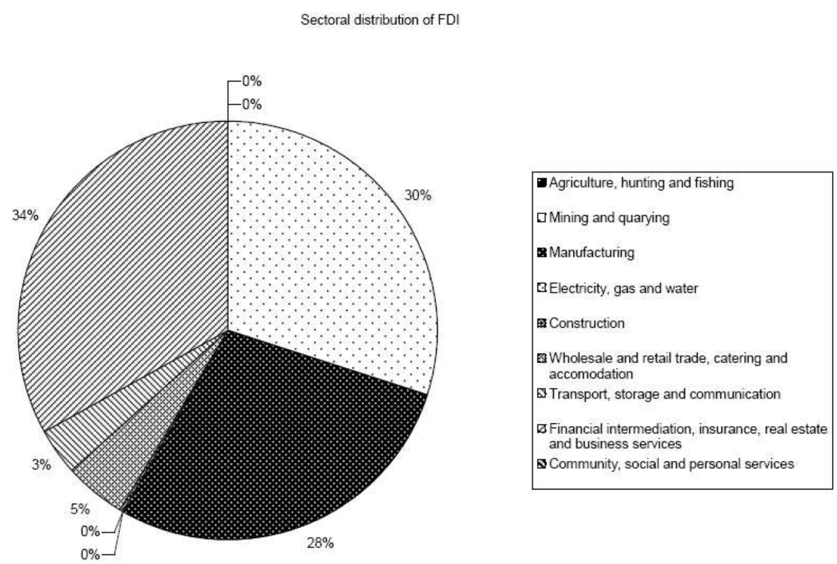
- Local & International tradeshows and investment conferences
- Extensive advertising e.g. – media articles
- Co-financing with other stakeholders

2.1.5 Sectors for FDI & Type of Products for Tourism Investment

Secondary Information - General FDI

Based on UNCTAD/SARB information FDI by economic sector data from 1990 to 2005 indicates that the *financial* sector is the South African economy's largest recipient of foreign investment (33%) (due to the Barclays/ABSA merger), followed by the *mining* (30%) and *manufacturing* sectors (28%). The TTR sector makes up about 5% of FDI.

Figure 2.8: Sectoral Distribution of FDI for South Africa



Source: SARB quarterly bulletins 1994-2005

Around 88% of Inward FDI stock in South Africa is equity related, with the remainder being loans.

Generally South African Inward FDI seems to be mostly in mergers and acquisitions (47%), with less greenfield investment (30%) and even a lower proportion of joint ventures (23%). Acquisitions seem to be prominent with medium and large investors, whilst greenfields investments are more prominent amongst small investors (fewer than 100 workers). Indeed, most Greenfield FDIs into South Africa have been very small: 71% of greenfield entries into South Africa have fewer than 100 workers and 50% of greenfields have a capital stock value at start-up of less than US$1 million.

Secondary Information - Tourism FDI

According to UNCTAD, FDI is most prevalent in the hotels, restaurants, second-home and passenger transport rental equipment (car rental) sub-sectors of tourism. As per the US tourism FDI information in **Figure 2.9**, the highest proportion of FDI activity was in Restaurants and bars, followed by tourist accommodation and car rental. FDI activity in all other tourism sub-sectors was significantly lower.

Figure 2.9: FDI is concentrated in a subset of tourism activities

TSA components	Frequency with which FDI appears to occur		
	Most frequent	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: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

Figure 2.10: United States' outward stock of FDI in tourism-related activities, 2004 ($ million)

Outward FDI stock in tourism-related activities	$ million	Share of outward tourism in FDI stock (%)
Restaurants and bars	12 110	31.5
Accommodation	10 217	26.7
Automotive rental and leasing	6 396	16.6
Water transportation (excludes petrol tankers)	2 718	7.1
Support activities to transportation	1 792	4.7
Rail transportation	1 654	4.3
Amusement, gambling and other recreation	1 568	4.1
Air transportation	1 387	3.6
Performing arts, spectator sports	539	1.4
Scenic and sightseeing transportation	-3	0
Travel arrangement and reservation services	46	0
Museums. Historical sites	0	0
Total tourism industry-related outward FDI stock	38 424	100
Total outward FDI stock (all industries)		**Share of tourism in total outward FDI stock (%)**
Total United States outward FDI stock in services (2004)	1 539 522	2.5
Total United States outward FDI stock (2004)	2 018 205	1.9

Source: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

Primary Information - Interviews

Most of the stakeholders believe that opportunities exist for development of large accommodation establishments (with extensive conferencing and other support facilities). The tourism operators indicated that establishments must be within a 3 to 5-star standards, with no specific preference indicated within that range. Some stakeholders also mentioned that infrastructure projects, particularly transport related would also attract investment.

2.1.6 Value per FDI & Tourism Investment

Very little information is available on the actual value of FDI deals. No evidence of deal value for greenfields project in tourism could be found in any of the UNCTAD studies. As per the below two tables, some information on the value of Merger and Acquisition deals were provided in UNCTAD reports, which indicate the following **average deal values** for hotel projects:

- 1987-2002:
  - All hotel deals: US$70 million
  - Developed country deals: US85 million
  - Developing country deals: US$38 million
- 2003-2005:
  - All hotel deals: US$61 million
  - Developed country deals: US70 million
  - Developing country deals: US$25 million

Interestingly the deal sizes had actually become smaller in latter years. If we assume a simplistic exchange rate conversion for the 2003 to 2005 period, the average deal value for developing countries would be around R200 million. It must be noted that these are not greenfields projects, for which we believe the average value may be significantly higher but mergers and acquisitions where the shareholding could only be a portion of the total value of the target business.

Figure 2.11: Cross-border M&A deals in hotels and motels, 1987–2002

Target	Number of deals	Value (US$ millions)
Total	**884** (100.0%)	**62,237** (100.0%)
Developed countries	637 (72.1%)	54,072 (86.9%)
Central and Eastern Europe	58 (6.6%)	924 (1.5%)
Developing countries	189 (21.4%)	7241 (11.6%)
South–South deals	79 (8.9%)	3835 (6.2%)

Source: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

Figure 2.12: Cross-border M&A deals in tourism, 2003-2005

Target country	Number of deals	Value ($ million)
Total	224	13 678.1
Developed countries	179	12 602.9
South-East Europe and the CIS	6	100.0
Developing countries	39	975.2
of which: South-South deals	22	745.1
M&As in tourism as share of total M&As (%)	1.4	1.0

Source: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

<u>Primary Information - Interviews</u>

- South African Banks:

– South African banks (retail and development) indicated investments into the tourism industry from R3 million to R1,7 billion over the last few years. Most expect investment levels to remain strong over the next few years leading up to 2010 and then expect it to slow down thereafter. Much of the current investment demand is fuelled by 2010 particularly relating to tourism infrastructure investment like stadia. Each individual bank expects to finance close to R1 billion rand in tourism investments in the next 3 years, again most of this will be fuelled by infrastructure and primarily by large catalyst projects).

- According to the South African banks tourism projects for which they have provided finance range in value from R3 million to R100 million. The retail banks prefer to fund substantial tourism projects, ie above R1 million, via business loans, while anything smaller is most often funded as a loan in the lender's personal capacity.

- The largest single project in the tourism industry financed by a local bank that was not infrastructure related was for a value of R700 million. Most tourism projects are however on a much lower scale – on average below R50 million.

- Future tourism investment project values are expected to range between R6 million and R100 million.

- The SA banks believe the minimum value for attracting foreign investors is R6 million, although some bank feels strongly it should be no lower than R30 million.

• Large Hotel Operators:

- Most operators have opened some new properties in the last 3 years, some up to as many as one a year.

- Most expect to open at least 2 hotels in the next 3 years whilst one expects to open 2-3 a year.

- Most projects are either financed by way of shareholder equity or bank loans.

- The average size of past hotel investments have ranged from R80 million to R240 million per project and future developments would be targeted at between R80 and R300 million per project.

- The minimum value for attracting foreign investors is R80 million.

• Other (intermediaries, investment agencies, government):

- The minimum value for attracting foreign investors is R10 million although some indicated that R20 million is more realistic, but most felt the larger the project value the better.

2.1.7 Type of Investor for FDI & Tourism Investment

<u>Secondary Information - General FDI</u>

According to the CNEM/EDGE Institute survey:

• the average firm investing in South Africa is small:

  - the medians are 90 workers and US$ 1.94 million capital stock (roughly R20 million)
  - Only 10% of the firms have a labour force above 1 000 workers.

• Only the primary and the TTR sectors have significant shares of large firms, but both contain few investors.

- Only 15% of the sample had no emerging market experience at all, while more than half were already in three or more emerging market regions.
- Over one-third were invested elsewhere in Africa before entry into South Africa.
- FDI investors into South Africa are generally aiming their investments at the local market (75%), although most have grown their regional and global market shares since commencement of the investment (from 19% at start to 27% at survey date).

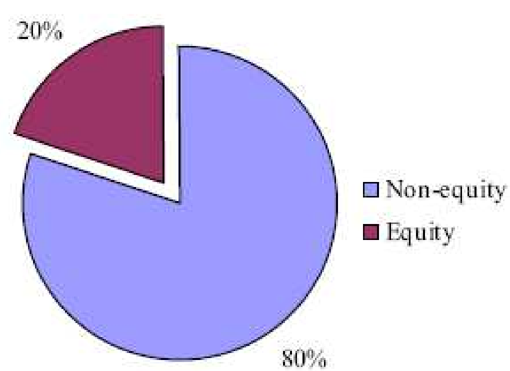
Secondary Information - Tourism FDI

According to the CNEM/EDGE Institute survey, in the TTR sector:

- 80% of the target market was domestic at start and this has in fact increased in the interim (to 82% at survey date).
- Joint ventures seem to feature more strongly with 50% of FDI, followed by 38% of FDI by way of acquisitions and only 13% by way of greenfields investments. However, as most small tourism investments into individual lodges and hotels may in fact be of a capital value that is even lower than the above US$1 million, many may not be identified in official FDI logs.

The UNCTAD survey of Tourism NTCs found that one reason that the level of FDI is lower than expected in the tourism sector (1-2% of total FDI inflows), is that although there may be a foreign brand name on a hotel, in the majority of cases this is not accompanied by equity capital. TNCs have been reducing their equity involvement in hotels in developed countries, and, increasingly, there is little reason to assume that in developing countries just because a well-known brand runs a hotel that it also owns it. Of the total number of TNC hotels located in developing countries, 80% are under non-equity arrangements such as management contracts, franchises or leases. Only in 20% of the cases do TNCs have an equity stake, of which approximately half are joint ventures and the other half wholly-owned. Another interesting new finding was that equity investment occurs more frequently in Least Developed Countries ("LDCs") than in developing countries in general, in part because of the lack of potential local partners.

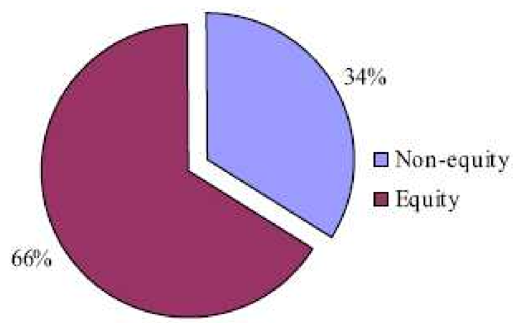
Figure 2.13: Modes of operation of hotels in developing and transition economies



Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

UNCTAD's study of Tourism TNCs also indicated that TNCs from developing countries are more likely to make equity investments in developing-country hotel operations than TNCs from developed countries (see **Figure 2.14**). This may be an important finding for countries that wish to attract equity capital in addition to non-financial assets, such as managerial expertise, brand name and marketing reach. This result may be significant for countries that wish to attract equity capital, in addition to the other non-financial assets of international hotel chains described above. Rather than focusing only on attracting the traditional hotel chains from the North, they may need to turn their attention also to the newly emerging chains and private investors from the South. This does not seem to be caused by group size or scale and, on the basis of the sample, it appears that TNCs from the South are different from TNCs from the North, be they large or small. This difference is especially marked when hotels are located in LDCs, where TNCs of developing countries contribute equity to 75% of hotels while developed-country TNCs have equity in only 22% of hotels. The survey shows a gradual rise in equity holdings as hotel ownership and location in developing and transition economies increases.

Figure 2.14: Modes of operation of hotel groups with headquarters in the South



Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

One practical problem discovered through the UNCTAD research is that there are a large number of foreigners residing in host countries in which they own and run hotels. While this may be an important source of investment capital for a developing country, strictly speaking it is not FDI.

Primary Information - Interviews

Few of the stakeholders interviewed could give an idea as to sources for tourism investment. The few that did provide a response indicated that it is quite diverse including:

- Banks
- Pension funds
- Asset managers
- Property companies
- Property developers
- Hotel Groups
- Large Tour operators

2.2 Investment Strategy Drivers/Barriers & Investment Location Selection Criteria

2.2.1 Secondary Information: General

Research into FDI worldwide and specifically the competitiveness of various countries to attract FDI identified the following determinants or criteria used by any investor in selecting one country above another for investment purposes:

- Market size
- Economic integration
- Political stability
- Fiscal incentives
- Trade openness
- Property rights
- Taxes
- Infrastructure quality
- Availability of skills
- Access to local finance
- Economic conditions
- Exchange rate
- Foreign interest rates

Of the above the most important criteria for developing economies and specifically South Africa have been identified as being:

- Availability of skills
- Trade openness
- Infrastructure quality
- Exchange rate volatility
- Foreign interest rates
- Market size

The UNCTAD World Investment Prospect survey for 2008 identified the following factors as important to companies for choosing locations for their FDI *(see Graph below)*:

- market size and growth (50% of answers overall)
- quality of the business environment, including the availability of skilled labour (8%)
- suppliers (6%)
- adequate infrastructure (7%)
- the legal environment and government effectiveness were also mentioned fairly frequently
- availability of cheap labour, although not a negligible factor on average (8% of responses), is only a major determinant for a few labour-intensive manufacturing activities such as garments production.

However, this picture is slightly different for the sub-Saharan African region where the most important factors are (in order of importance) *(see Graph below)*:

- rate of market growth
- access to international/regional markets
- size of market
- access to natural resources
- government effectiveness

Host region	Access to international /regional markets	Access to local capital markets (finance)	Access to natural resources	Availability of incentives	Availability of skilled labour and expertise	Availability of suppliers	Cheap labour	Following competitors	Government effectiveness	Quality of infrastructure	Rate of growth of market	Size of market
Developed												
North America	15	7	4	3	11	8	1	6	7	13	8	19
EU-15 and other European countries	15	4	5	3	14	8	-	3	9	14	8	18
New EU-12	18	1	2	5	7	5	14	4	3	4	26	13
Other developed countries	15	3	6	6	13	5	1	8	10	13	10	11
Developing												
North Africa	13	-	13	13	-	-	13	6	13	6	13	13
Sub-Saharan Africa	13	-	21	10	2	-	8	6	8	6	15	10
West Asia	24	3	8	5	4	4	3	-	6	5	26	14
South, East and South-East Asia	12	2	3	3	8	6	13	4	5	4	21	19
Latin America	14	2	11	2	7	6	11	1	5	5	19	16
South-East Europe and CIS	13	1	6	2	4	5	9	4	2	2	29	25
World average	14	3	5	3	8	6	8	4	6	7	18	18

According to the CNEM/EDGE Institute survey, the most important resources required by an investor in choosing a market include:

- Managerial capabilities / skills
- Technological know how (again could be skills related but also infrastructure related)
- Brand names in the market (ie market size and conditions)
- Business networks (trade openness and market size)
- Marketing capabilities (market size and skills)

Other less important resources are equity, distribution networks, machinery and equipment and licenses.

According to the CNEM/EDGE Institute survey, firms entering South Africa are by and large satisfied with their investment. The expectations were 'all or mostly' met for 46% of the sample (50% for TTR sector), and 'partially' met for 43% of the sample (38% for TTR sector). Only 11% of firms felt disappointed (13% for TTR sector).

2.2.2 Secondary Information: Tourism

Two UNCTAD studies identified Mauritius as a country that is perceived as successful in terms of tourism FDI (ie there is no shortage of investors wanting to invest in their tourism industry) – the reasons cited for this success include:

- Open and low tax regime
- Same level playing field for all
- Mauritius has a long tradition of private entrepreneurship
- Open business platform
- Investment protection
- Infrastructure facilities and well developed ICT sector
- Efficient investment support facilities - the government policy is to act as a facilitator to business, leaving production to private sector
- Control on Red tape and bureaucracy – in addition to the usual Investment Acts that most countries have Mauritius also has a Business Facilitation Act and Programme which promises that business can start operation in 3 days
- Investment climate improvement
- Targeted investment projects
- Political stability
- A tradition of hospitality
- Natural resources
- Human resources, etc

Generally drivers/barriers that are important for general FDI purposes in most instances also apply to the TTR sector. However, according to the CNEM/EDGE Institute survey, in the TTR sector licenses (important for investment in airlines, transport or tour operators) was listed as the most important requirement, followed by distribution networks, equity and marketing (all three with the same level of importance). As this is a service industry, the least important requirement for this sector was machinery and also business networks and branding. It is understood that investors do not expect the local market to provide the latter two resources, but rather that they would be supplying it to the South African market.

For the TTR sector it is not only the market size that is a determinant of FDI but also its relative competitiveness within the world. According to the 2008 Travel and Tourism Competitiveness Report, South Africa ranked 60th in 2008 with an overall score of 4,11 out of 7 (highest overall score is 5,63). The most competitive tourism countries are Switzerland, Austria, Germany, Australia and Spain (in that order). Tunisia (39th), Mauritius (41st) and Turkey (54th) are the only African countries ranking higher than South Africa, although many long distance tourism competitors such as Australia (4th), Brazil (49th), Chile (51st) and Argentina (58th) as well as developing economies such as Czech Republic (30th) and Slovenia (36th) ranked higher.

As indicated in Section 2.2.1, the creation of a positive and attractive business environment and infrastructure is key for FDI success. It is concerning therefore that it is this element (Business Environment & Infrastructure) in which South Africa scores the lowest (3,85) compared to scores above 4 for Regulatory Environment (4,31) and Human, Cultural & Natural Resources (4,18).

According to UNCTAD survey, the following barriers and drivers applies to FDI in the tourism sector:

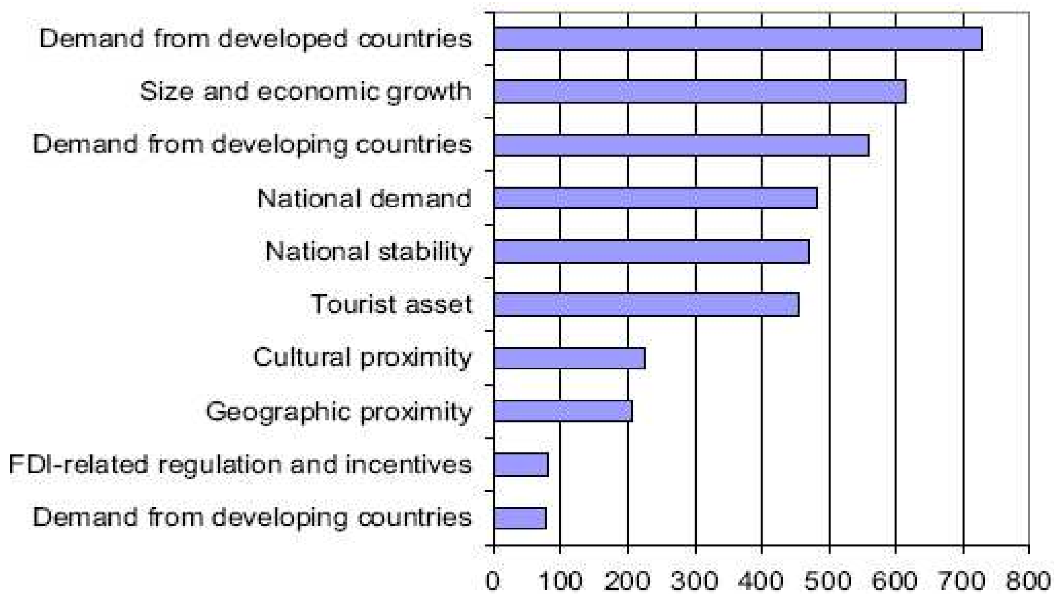
- Reasons for choice of location in a developing country (**Figure 2.15**):
  - The localization decisions of hotels depend on the extent of tourism demand for a specific destination, as well as its specific tourism-related assets (e.g. nature, culture). However the presence of a TNC hotel can also boost tourist demand. The interconnected relationship between investors and tourist arrivals can be difficult to disentangle, especially if attempted years after the process first began.

  - From the TNC perspective, responses to the UNCTAD survey indicated that demand from developed-country tourists is the single most important factor, although demand from developing countries is also increasingly important. During interviews, a number of TNC chief executives cited the growth of domestic demand for business and recreational travel in China and Africa, for example.

  - Interestingly, only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision.

  - However, respondents also said that economic size and growth rates were important reasons for their choice of location, and this could be indirectly affected by government policies and incentives for FDI.

Figure 2.15: Reasons for TNC hotel s' choice of location in a developing country (Frequency cited by respondent, times number of hotels)



Source: FDI in Tourism - The Development Dimension, *UNCTAD, 2007.*

- Apart from LDCs and new markets, the financial contribution of tourism-related TNCs is relatively small in most developing economies, especially because much of their involvement takes non-equity forms. Despite the expectations of some host governments, they are **not likely to assist in the development of infrastructure**. However, they can introduce a diverse range of new technologies and skills into an economy, including advanced management, environmental and financial systems. These improve the productivity and sustainability of the sector and economy and, potentially, lead to beneficial spillovers to other firms and sectors. Such spillovers are hard to quantify, but examples include the diffusion of knowledge and skills through staff movement to local firms, as well demonstration effects. Similarly, TNCs can help raise standards through advanced systems and quality control, though some have perpetuated low standards, inherent in some forms of mass tourism. TNCs can also help diversify the product in some destinations (e.g. from mass to differentiated tourism), which can lead to innovative responses from local firms. Having said this, local firms are not passive recipients, and in some cases examined in the UNCTAD report (e.g. in Kenya and Tunisia), they are as likely to innovate or set standards as foreign ones.

- Today, tourism has arguably fewer FDI restrictions in developing countries than many other economic activities and it is often actively promoted. This proactive stance takes the form of both "soft" policies, such as government support for trade fairs and maintenance of tourism Internet sites, and "hard" measures, which include providing incentives to foreign investors. However, there is surprisingly little information about the use of such mechanisms, and it is an area that would benefit from further research.

- The potential benefits to be gained from attracting global hotel chains will be limited if a host country does not have in place a wider policy framework to make the most of the opportunities (e.g. by encouraging the establishment of local firms capable of taking advantage of the transfer and diffusion of technology and expertise) and minimize any costs. To take full advantage of FDI as a catalyst and a complement to domestic investment, **a coherent and integrated policy framework is essential**. But this is not simple as tourism is a cross-cutting and interlinking activity, with a long value chain that involves the provision of services by many providers – private and public. The central message is at one level very simple: tourism-related FDI policy cannot be isolated from the wider policy framework of which it is a part. There is only limited benefit to be gained from attracting global hotel chains if a host country does not have in place the wider policies that are needed to make the most of the opportunities and minimize any costs from this kind of investment. To take full advantage of FDI as a catalyst and a complement to domestic investment, a coherent and integrated policy framework is therefore essential. Putting this message into practice, however, is less simple. The number and range of policies that need attention are large, far-reaching and diverse. They include, for example, environmental laws and regulations, vision in town planning and rules, general education and specific tourism-related educational policies, a transport policy, a labour policy, a wide range and level of financial institutions, health and safety standards, an agriculture policy and telecommunications. To give a concrete example of just one aspect, the current plans for further tourism development in Brazil depend heavily on doubling the number of international flights. At present, there are 600 incoming flights per week. If the aviation policy is not coherent with the tourism policy, there will be a bottleneck and the goals of the tourism policy will not be achieved (and vice versa).

- Designing policy is only part of the challenge - policies also need to be implemented. This requires **adequate human and financial resources** to be allocated at the national, regional and local levels. Policies relating to FDI in tourism may even extend, for example, to the budget and to training local law enforcement officers, an area that seems far removed from the topic of tourism-related FDI.

- While an integrated approach is undoubtedly needed, there is **no simple "one size-fits-all" ideal policy framework**, because every country is different, with differences in natural endowments for tourism, created assets, main sources of competition, sources and levels of investment (be it domestic or foreign), geopolitical history or institutions and, most importantly, wider national policy goals and objectives, of which tourism would be one of many potentially competing interests.

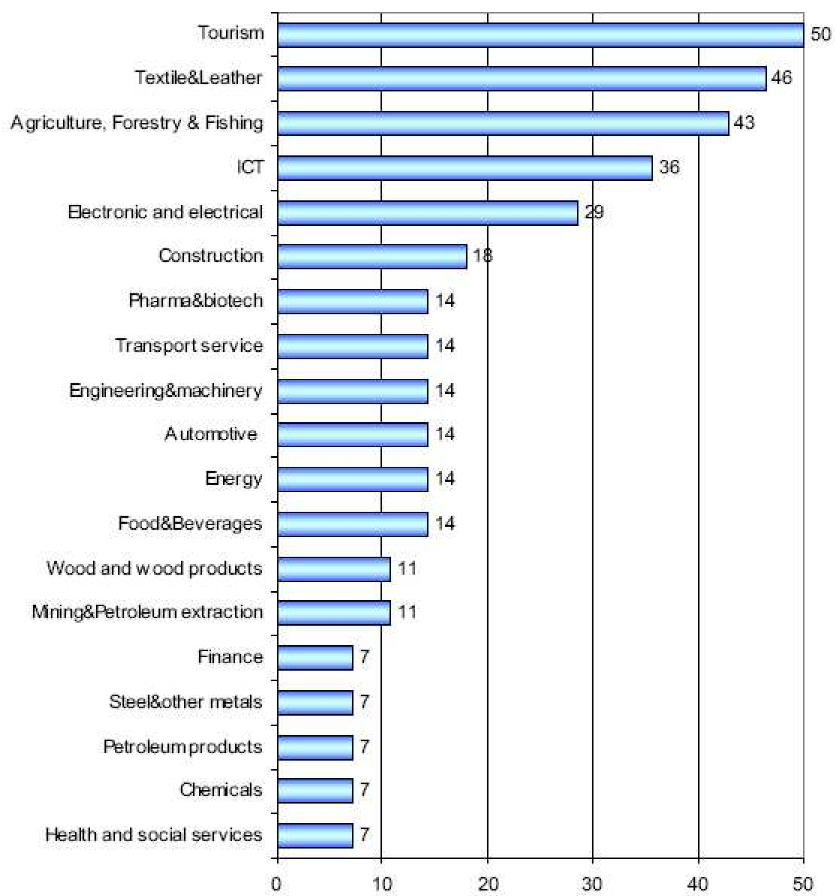
- Recent research on 50 developing countries in Asia, Africa, Europe and Latin America found that the **average level of restrictiveness to FDI in tourism was extremely low**. Based on an index that ranged from 0 (no restrictions) to 1 (de facto or actual prohibition of FDI), tourism ranked 0.21 on average. Within tourism itself, hotels and restaurants were more open to FDI than travel agencies and tour operations, with rankings of 0.21 and 0.24 respectively, although the difference between these two is small. The high degree of openness is unrelated to the fact that the countries are developing, rather than developed as a similar picture was observed in OECD countries, where - using a similar methodology - tourism and construction services were again found to be the most open of all the service industries. On the other hand, transport is still quite highly restricted in developing countries, in particular those that have state-owned airlines.

- Although most countries/areas have tourism acts and investment acts, most **do not have investment code or policy/act specifically for tourism** that can be easily integrated with the general investment or tourism acts. Most countries split the responsibility for investment development from investment promotion/facilitation implementation into different agencies, but very little integration between the two agencies is achieved. Many successful countries as FDI generators have a general Investment Promotion agency also selling tourism, which is efficient and effective as long as policies and structure are in place to integrate with other relevant sectors.

- Successful investment promotion goes beyond just "selling" the existing advantages of a country, it requires activities that will result in the creation of new advantages.

- **Competition for tourism investment is tough** - Out of 61 national investment promotion agencies ("**IPAs**") that responded fully, 50% were actively targeting investors in tourism, including in hotels and restaurants. This was the second most frequently targeted service activity after computer (IT) and related services.

Figure 2.16: Tourism, the most targeted sector by IPAs promoting FDI from developing and transition economies (%)



Source: FDI in Tourism - The Development Dimension, UNCTAD, 2007.

- Tourism makes extensive use of incentives to attract FDI, however, in several cases TNC executives said that they saw excessive promotional activities as a warning rather than an attraction. "If incentives are needed, we'd better not go", said the European head of one of the world's largest hotel chains. In addition, in some countries in which TNCs had hotels, the incentives had appeared attractive in theory but proved to be less so in practice. On the other hand, some interviewees mentioned cases where incentives such as tax holidays or discounted corporate taxes had been critical in hotels' location decisions. This slightly ambivalent picture vis-àvis the role of FDI incentives does not mean that governments do not have a role. What it does mean is that they **need to do more than simply offer financial or fiscal incentives to attract tourism-related FDI**. Often, policies that contribute to tourism-related infrastructure development may be more effective for attracting tourists and investment. Tourism-related FDI is likely to respond to higher tourist numbers, a possibility that resonates in UNCTAD's survey findings. In particular, hoteliers said that the most effective way a country can attract FDI in tourism is by providing strong economic growth, a recommendation that goes beyond the realm of tourism-related FDI policy per se, but which is highly pertinent.

Figure 2.17: Subsidies used to attract (or retain) investment in services (Number of WTO member countries)*

Service	Tax incentives	Direct grants	Preferential credit & guarantees	Equity	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO members (counting the EU as one)
Tourism	41(2)	12(4)	15(2)	2(-)	30(-)	11(1)	63(6)
Banking	13(2)	4(1)	6(1)	9(1)	10(-)	6(-)	33(4)
Maritime transport	10(4)	6(1)	3(1)	-	9(-)	6(3)	25(4)
Transport, general or unspecified	9(1)	8(4)	2(-)	-	5(-)	7(-)	24(4)
Telecoms	3(-)	10(3)	1(-)	-	5(-)	4(-)	18(3)
Other financial services	9(3)	1(1)	3(1)	2(-)	9(-)	-	17(2)
Software, ICT and information processing	9(2)	3(2)	1(-)	-	8(-)	2(-)	15(2)
Construction	11(1)	3(2)	2(-)	-	4(-)	-	15(2)
Air transport	7(-)	2(2)	1(-)	1(-)	4(-)	5(4)	14(4)
Rail transport	4(1)	6(1)	-	-	-	6(1)	13(3)
Energy	7(1)	2(1)	-	-	1(-)	7(1)	14(2)
Recreation, culture & sports	7(1)	4(3)	1(-)	-	5(1)	-	12(4)
Audiovisual services	5(1)	6(4)	-	-	3(-)	-	11(4)
Wholesale & retail trade, distribution	6(1)	1(1)	1(-)	-	6(-)	-	11(1)
Real estate	3(3)	1(1)	1(-)	-	1(-)	-	5(3)
Other & unspecified sectors	11(1)	4(2)	5(1)	1(1)	12(-)	6(-)	28(3)
No. of subsidy programmes	165(24)	74(33)	44(6)	15(2)	112(1)	60(10)	

Source: FDI in Tourism: The Development Dimension, 2007

- The more mature the industry, the higher is the level of confidence in domestic private suppliers and their capacity to meet the industry's demands. Consequently there will be greater linkages of Tourism FDI ("**TFDI**") with the local economy – as is the case in South Africa.

- Establishing an investment promotion agency to serve as a "one-stop shop" can help to simplify establishment procedures and facilitate investment undertakings, but this will not automatically ensure that tourism is promoted vis-à-vis other economic activities in which FDI is more prevalent.

- Restrictive and uncoordinated civil aviation policies can also be a barrier to FDI in tourism. There is a need to **provide international air access and move towards open skies policies**.

- **Improving tourism-related infrastructure** is essential (e.g. road networks, provision of electricity, water and waste removal facilities). This **is the role of government**, and it is extremely unlikely that the private sector will undertake the necessary investment. A clear policy on access to land is needed (e.g. period of lease should be attractive and long enough; there should be clear indications of how land can be acquired).

- A comprehensive tourism policy (e.g. tourism master plan) and a vision for the tourism sector that fits tourism within the wider development framework is important.

2.2.3 Primary Information – Interviews: Barriers/Drivers for Tourism Investment

The interviews with stakeholders identified the following barriers and drivers to tourism investment in South Africa and Mpumalanga.

Barriers	
South Africa	**Mpumalanga**
• Distance away from major markets • Being able to identify the right investment partners • Availability of equity capital from promoters – there might be good ideas, but no own funding to put into the project • Crime • Poor marketing of tourism investment • Low returns on investment • Incompatible interest rates (local vs global investment) • Cost of developing – cost of construction has increased significantly in the last 5 years • There is no clear information out there about the investment environment • Clarity on land issues, .ie unresolved land claims & access to good sites is becoming limited in urban areas • The sustainability of tourism projects – access to markets • Political uncertainty • Lack of finance due to credit crunch • Foreign hotel chains feel vulnerable in our market competing with our local companies which they feel have local knowledge and are thus better equipped to cater to their guests. • Tourism is considered a risky sector because of seasonality issues, very dependant on economy etc. • New destinations in Southern Africa are becoming popular and practical to travel to	• Air accessibility – low frequency of flights • High seasonality • Have a small tourism market • Lack of a strong domestic market • Over trading in certain products such as lodges • Overdevelopment in certain locations such as in the southern part of KNP • Malaria area • Institutional confusion • Unresolved land claims • The province does not have a strategy
Drivers	
• Offers value for money to certain markets given the exchange rate • Diversity of product & experience • The products offered are of a high quality • Good infrastructure • Is seen as the gateway into Africa especially for business travel • Strong growth rates even if relatively small • Relatively strong regulatory & legal environment • New market differentiation opportunities • Very well developed tourism industry by world standards	• KNP is an iconic product which attracts investment • Its proximity to Swaziland & Mozambique • It offers a unique cultural experience from the Shangaan, Swazi & Pedi people who live there • Its scenic beauty is endless • It has established itself historically in wildlife tourism • Proximity to the Gauteng market

2.3 Tourism Investment Promotion Delivery

2.3.1 General Investment Promotion Delivery in South Africa

It is important to note that in South Africa there is no single entity with responsibility for driving FDI into South Africa. Investment facilitation agencies have been established since 1994 nationally and in most of the nine provinces. These agencies administer a large suite of more than 35 investment incentive schemes to national and foreign investors on a non-discriminatory basis. The TRIMS agreements requires equal treatment between national and foreign investors (with respect to importing, exporting, and access to foreign exchange), as well as free repatriation of capital and dividends. Reinforcing these commitments, South Africa has also concluded over 30 bilateral investment treaties since 1994.

2.3.2 Tourism Investment Promotion Structures

Trade and Investment South Africa ("**TISA**") is a division of the Department of Trade and Industry (**the dti**) and is the main national body responsible for attracting foreign direct investment as well as developing and promoting local direct investment by:

- Identifying investment opportunities in South Africa
- Packaging investment opportunities
- Identifying potential investors
- Promoting investment opportunities
- Facilitating investment into and in South Africa
- Providing a dedicated aftercare service
- Providing general information on investing in South Africa and the domestic business environment
- Arranging inward and outward investment missions
- Facilitating funding and government support

TISA supports and interacts directly with the Provincial Investment Promotion Agencies ("**PIPAs**"), which include:

- Trade & Investment KwaZulu-Natal ("**TIKZN**")
- Trade & Investment Limpopo ("**TIL**")
- Eastern Cape Development Corporation ("**ECDC**")
- The official Trade and Investment Promotion Agency for the Western Cape Province ("**WESGRO**")
- Gauteng Economic Development Agency ("**GEDA**")
- Mpumalanga Economic Development Agency ("**MEGA**")
- Free State Development Corporation ("**FDC**")
- Invest North West
- Northern Cape Economic Development Agency ("**NCEDA**")

2.3.3 Assessment of Tourism Investment Structures/Programmes/Activities

<u>Assessment of PIPA Tourism Activities</u>

An assessment of the websites of the various PIPAS was undertaken with the following result:

- TISA's website mentions tourism as a priority sector for investment for South Africa and an indication of what incentives apply but does not provide any more specific information regarding opportunities or tourism specific investment contacts.

- TiKZN's website mentions tourism as a key sector and provides a broad indication of investment opportunities as well as tourism specific incentives.

- TIL's website lists tourism as a key sector and provides information on Spatial Development Initiative ("SDI") tourism investment opportunities.

- ECDC's website lists tourism as a key sector and provides a broad description of some tourism investment opportunities.

- Wesgro's website lists tourism as a key sector with tourism specific contact details but provides no indication of tourism investment opportunities.

- FDC's website does not indicate whether tourism is a priority sector and does not indicate any tourism specific investment opportunities.

- Invest North West's website lists tourism as a key sector and provides a broad indication of investment opportunities as well as incentives available to an investor in South Africa, generally. Although some tourism specific incentives are listed within these it is not clearly demarcated which of all the incentives apply to tourism.

- NCEDA's website lists tourism as a key sector and provides a broad indication of investment opportunities as well as a specific contact person for tourism investment projects.

- GEDA's website provides no indication that tourism is a key economic sector for the province and also does not list specific tourism opportunities. In the general description of the province as an investment destination it indicates that the province has a particular strength and interest in business tourism.

However, through the stakeholder interviews with the PIPAs it was determined that all 9 provinces consider tourism a key sector and all have at least one identified resource that deals specifically with this sector. However, often this 'tourism resource' has a dual representative function for another sector such as property or retail. Even if the resource is totally dedicated to tourism it is never more than 1 dedicated resource. If the PIPA indicates that it has a 'tourism desk' it usually consists of one dedicated resource that has access to other investment support within the agency, but not dedicated to tourism.

From what we could ascertain during the interviews, none of the PIPAs have dedicated and general 'glossy' hard copy <u>tourism</u> specific investment guides. In most instances general investment guides or tools for the province is provided to tourism investors with some specific additional tourism materials such as investment projects and incentives available printed separately.

All PIPA's state that they provide planning, promotion, facilitation and linkage activities for tourism investment, viz:

- Identification, prioritization, facilitation of planning and implementation of projects key projects with creation of spin-off / knock-on effects.

- Promote/market the province for investment purposes.

- Respond to general investment enquiries.

- Facilitate the investment process for all potential investors, ie ease the way in respect of EIAs, land claims, etc

- Advise potential investors on their business proposals.

- Facilitation for funding of projects.

- Facilitation of partnerships.

- Linkages of potential role-players to follow-up opportunities.

However, in reality not all really achieve the full range of investment support. The majority drive investment through their own identified key packaged tourism projects (ie planning) and ad-hoc response to investment enquiries (ie some facilitation), whilst the promotion of the province for investment purposes is done on a basis of all priority sectors and not only for tourism investment. As the PIPAs generally have limited dedicated tourism resources it is impossible for them to undertake the complete investment support role as is required in a one-stop-shop concept. As one-stop-shop they would need to handhold investors through the investment process and literally smooth the way and undertake the process on the investor's behalf. This is currently only done for their own packaged projects where the process is already researched and packaged.

Source countries indicated by the PIPAs as targets for tourism investment are UK, France, Germany and rest of Europe plus Middle East as a region but specifically UAE (although this has dried up as a source in the last few months) and Singapore.

Only two of the PIPAs (TiKZN and Wesgro) attend dedicated tourism related investment events such as HICA, HIFM (a hospitality investment conference connected to ITB in Germany) and MIPIM (property investment conference held in France which has a tourism sector focus).

<u>Primary Research - Interviews</u>

From the interviews undertaken with stakeholders the following was determined in respect of the tourism investment structures in South Africa:

- Value/benefits of Investment Promotion Agencies:
  - An avenue created for both investors and beneficiaries of tourism to come together
  - Information providing on everything an investor needs to know from local tourism knowledge, to what projects there are to invest in, as well as other necessary information ie legalities, foreign exchange, visas etc.
  - Packaging of projects for investors
  - Closer to the priorities and strategies of provincial government

- Setting of norms and standards

- There was some confusion among the banks interviewed as to who are the PIPAs in South Africa for tourism and these were often confused with the provincial tourism agencies such as Tourism KZN, Cape Town Routes Unlimited, Johannesburg Tourism Company and Eastern Cape Tourism Board. However, the two actual structures mentioned correctly and who were favoured strongly for being knowledgeable, organized and generally easy to work with were TiKZN and Wesgro.

- Several other stakeholders also mentioned TiKZN and Wesgro as being the most progressive in respect of tourism investment promotion of all the PIPAs in South Africa.

- Stakeholders interviewed for this study consider the following to be good mechanisms for reaching investors:
  - creating an enabling environment by providing accessible information to investors on investment opportunities
  - packaging projects for investors and offering projects at targeted investment conferences and road shows
  - tourism investment conferences (local and overseas)
  - networking with investors on a one-on-one basis (most hotel groups indicated that they do not like to attend conferences and prefer individual face-to-face meetings)
  - a long term presence and relationships with potential investors
  - a one stop shop where all the information is available and hand holding assistance is provided
  - Foreign economic representatives with networks in foreign markets
  - Inward buying missions (like Meetings Africa)
  - Outward selling missions – road shows either with investors in the country or going to outside markets
  - A more personal touch is considered a better alternative to just mass advertising for investment

Probably the most common mechanism mentioned by all stakeholders is investment conferences, however several did question whether these are not just useful for gathering information and improving networks, but rarely results in actual deals being made.

2.3.4 Tourism Investment Incentives

<u>Tourism Incentives Available in South Africa</u>

The national Department of Environmental Affairs and Tourism ("**DEAT**") commissioned a report in 2007 to assess the incentives available in the tourism industry to decide whether an alternative incentive is required to replace the Small & Medium Enterprise Development Programme ("**SMEDP**") grant that was coming to closure in that year. This study identified 13 broad incentive types available to the tourism industry (**Table 2.1** below provides a summary of these incentives).

The DEAT study identified that the majority of these incentives were not specific to the tourism industry, only the Tourism Enterprise Partnership ("**TEP**") incentives was tourism industry specific and that much of the incentives provided by Local Municipalities were not really incentives but rather marketing assistance. Although in theory municipalities could incentivise investors to develop in their location with rate reductions, low or no cost of municipal land, provision (subsidisation) of key bulk infrastructure (ie roads, water, sanitation), etc, in reality no real examples of this being provided could be found during the DEAT study research.

The dti introduced the Enterprise Investment Programme (summary of the programme provided below) in 2008 which is a dedicated tourism incentive.

The new dti Enterprise Investment Programme

The dti has introduced this targeted incentive programme to support the development of tourism enterprises that will stimulate job creation and encourage a geographic spread of tourism investment. Given the fact that tourism is highly concentrated in the metropolitan (metros) areas of Johannesburg, Cape Town and eThekwini, projects located within these metros are excluded from the programme.

It is, however, recognised that not all areas within the municipal boundaries of the three (3) metros are equally developed, and therefore projects located in marginalised areas within the metros will be considered under the programme. Marginalised areas are considered to be those areas with higher than the national average unemployment rate.

A grant of up to 30% towards qualifying investment costs for establishing and expanding existing operations in South Africa. The incentive is available to local- and foreign-owned enterprises and is provided for qualifying investment costs of furniture, equipment, vehicles, land and buildings of up to R200 million

The investment grant applicable is capped at a maximum of R30m, calculated in relation to the qualifying investment costs, as follows:

- investment projects of R5m and below may qualify for investment grants equal to 30% of their qualifying investment costs, payable over a three- (3)-year period.
- Investment projects of above R5m may qualify for an investment grant of between 15% and 30% of their qualifying investment costs, calculated on a regressive scale (as detailed in Section 10), and payable over a period of two (2) years. This investment grant cannot exceed R30m.

The effective date for receiving applications under this programme is 21 July 2008, for a period of six (6) years, ending in 2014.

The projects must create a minimum number of full-time employment opportunities which may include one (1) owner-operator, as stipulated in the table below:

Minimum Job Requirements Per Size Investment

Investment size	Minimum number of new jobs	Minimum job requirements for Black-owned enterprises investing below R5m
Below R5m	8 jobs	3 jobs
≥R5m – R10m	10 jobs	
≥R10m – R20m	12 jobs	
≥R20m – R30m	15 jobs	
≥R30m – R50m	20 jobs	
≥R50m – R75m	30 jobs	
≥R75m – R100m	50 jobs	
≥R100m – R150m	70 jobs	
≥R150m – R200m	85 jobs	

The project must be at least a level four (4) BB-BEE contributor, achieving a score of 65 or above on the Generic Scorecard in terms of the Codes of Good Practice for BB-BEE.2

Projects must apply for and receive approval before acquiring the qualifying investment assets.

Table 2.1: Incentives by type, size of enterprise targeted and level of tourism exclusivity

Programme / Scheme / Organisation	Type of Incentive	Size of enterprises who access incentives	Exclusive Focus on Tourism
SMEDP	Grant based and service offering (to new and expansion projects)	Generally small to medium	Caters for manufacturing, tourism, ICT, agro-processing, film and aquaculture
SEDA	Service offering	Start-up, small and medium	No
Gauteng Enterprise Propeller	Grant based and service offering	Small, medium and micro	No
Co-operatives Scheme	Grant based	Micro to small co-operatives	No
SAMAF	Loan risk based	Micro	No
BBSDP	Matching grant-based	Small to medium	No
CIP	Grant based	Large	Caters for tourism related projects in a non-exclusive manner
TEP	Competitiveness and trade facilitation	Small to medium	Yes
SRP	Grant based	Project based	No but has a 'Working for Tourism' focus area
Provincial Organisations and Local Government	Service offering	Primarily micro and small	No
Section 13bis(1) of the Income Tax Act	Tax-based	All sizes	No
Urban depreciation allowance	Tax-based	All sizes	No
Learnership allowances	Tax-based	All sizes	No

Sources: World Bank Study (2006), MEC Projects (2006) and primary research

Primary Information - Interviews

Stakeholders interviewed were divided on the issue of incentives. Some felt that certain incentives were needed, but these need to be looked at carefully to ensure it enhances return on investment and really attracts investors. Others on the other hand are of the opinion that incentives are not necessary and that a project must stand up on its own merit without artificial help if it is to survive in the long term.

The negatives about incentives mentioned are:

- They are very slow so banks can't rely on them for cash flow
- It stunts the ownership of the project
- Too many incentives are dangerous as the destination could become exploited and lose its value

In addition to the existing incentives that are accessible for tourism investment, the following types of incentives were suggested to be useful for tourism:

- Broader tax incentives, ie tax holidays
- Environmentally friendly incentives – to encourage investors to build green
- Access to land from municipalities

On several recent financial viability studies, Grant Thornton has noted that financial institutions has requested that the EIP grant be removed from the financial models and that the project needs to be bankable without this grant or it would not consider the finance application.

Secondary Information

According to the UNCTAD survey of tourism TNCs, interestingly, only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision. However, respondents also said that economic size and growth rates were also important reasons for their choice of location, and this could be indirectly affected by government policies and incentives for FDI.

The study further highlights that tourism makes extensive use of incentives to attract FDI, however, in several cases TNC executives said that they saw excessive promotional activities as a warning rather than an attraction. "If incentives are needed, we'd better not go", said the European head of one of the world's largest hotel chains. In addition, in some countries in which TNCs had hotels, the incentives had appeared attractive in theory but proved to be less so in practice. On the other hand, some interviewees mentioned cases where incentives such as tax holidays or discounted corporate taxes had been critical in hotels' locational decisions.

This slightly ambivalent picture vis-à-vis the role of FDI incentives does not mean that governments do not have a role. What it does mean is that they **need to do more than simply offer financial or fiscal incentives to attract tourism-related FDI**. Often, policies that contribute to tourism-related infrastructure development may be more effective for attracting tourists and investment. Tourism-related FDI is likely to respond to higher tourist numbers, a possibility that resonates in UNCTAD's survey findings. In particular, hoteliers said that the most effective way a country can attract FDI in tourism is by providing strong economic growth, a recommendation that goes beyond the realm of tourism-related FDI policy per se, but which is highly pertinent.

Figure 2.18: Subsidies used to attract (or retain) investment in services (Number of WTO member countries)*

Service	Tax incentives	Direct grants	Preferential credit & guarantees	Equity	Duty-free inputs & free zones	Other & unspecified measures	Number of WTO members (counting the EU as one)
Tourism	41(2)	12(4)	15(2)	2(-)	30(-)	11(1)	63(6)
Banking	13(2)	4(1)	6(1)	9(1)	10(-)	6(-)	33(4)
Maritime transport	10(4)	6(1)	3(1)	-	9(-)	6(3)	25(4)
Transport, general or unspecified	9(1)	8(4)	2(-)	-	5(-)	7(-)	24(4)
Telecoms	3(-)	10(3)	1(-)	-	5(-)	4(-)	18(3)
Other financial services	9(3)	1(1)	3(1)	2(-)	9(-)	-	17(2)
Software, ICT and information processing	9(2)	3(2)	1(-)	-	8(-)	2(-)	15(2)
Construction	11(1)	3(2)	2(-)	-	4(-)	-	15(2)
Air transport	7(-)	2(2)	1(-)	1(-)	4(-)	5(4)	14(4)
Rail transport	4(1)	6(1)	-	-	-	6(1)	13(3)
Energy	7(1)	2(1)	-	-	1(-)	7(1)	14(2)
Recreation, culture & sports	7(1)	4(3)	1(-)	-	5(1)	-	12(4)
Audiovisual services	5(1)	6(4)	-	-	3(-)	-	11(4)
Wholesale & retail trade, distribution	6(1)	1(1)	1(-)	-	6(-)	-	11(1)
Real estate	3(3)	1(1)	1(-)	-	1(-)	-	5(3)
Other & unspecified sectors	11(1)	4(2)	5(1)	1(1)	12(-)	6(-)	28(3)
No. of subsidy programmes	165(24)	74(33)	44(6)	15(2)	112(1)	60(10)	

Source: FDI in Tourism: The Development Dimension, 2007

2.4 The Mpumalanga Tourism Market & Product Offering

2.4.1 Mpumalanga Tourism Demand

Mpumapanga's share of the foreign tourist arrivals decreased from 14.1% in 2006 to 12.8% in 2007. Although full year figures are not as yet available for 2008, the SAT foreign tourism reports for Quarters 1 to 3 of 2008, shows Mpumalanga's share improved to 14%, moving it up from the 4th to the 3rd most visited province by foreign visitors.

Mpumalanga's share of the domestic market decreased, from 5,2% in 2005 to 4,8% in 2006. Although the SAT Domestic Tourism report for 2007 has not as yet been released, we understand from MTPA that the province's share of domestic trips has also improved.

Total Tourist Arrivals to Mpumalanga	2004	2005	2006	2007
Foreign arrivals	1 000 000	1 100 000	1 200 000	1 160 000
Domestic arrivals		1 900 000	1 800 000	

Source: Mpumalanga Tourism Growth Strategy 2008 and South African Tourism

Mpumalanga's share of total bednights spent by foreign tourists in South Africa was 6,5% in 2007, down from 7,0% in 2006. By making a simple comparison of arrivals versus bednights, it could be determined that around 4 bednights are sold to each tourist (if it is taken into consideration that some tourists are day visitors only then of course the average number of bednights per tourist would increase). This compares to a total length of stay by all foreign tourists in South Africa of 7,9 nights in 2007. Therefore those foreign tourists coming to Mpumalanga currently spend about half of their total trip in the province.

Mpumalanga Foreign Bednights Sold

2004	2005	2006	2007
4 265 646	4 105 491	4 481 410	4 455 673

Source: South African Tourism

The majority of foreign visitors to Mpumalanga visit the province for holiday or leisure purposes, followed closely by shopping purposes, the latter being primarily cross-border shopping from Mozambique and Swaziland.

Mpumalanga Reason for visit for Foreign Tourists:	2006
Holiday	41%
Shopping	34%
Business	9%
VFR	12%
Other	4%

Source: South African Tourism

The majority of South Africa's foreign arrivals emanate from Africa (85% in 2006 and up significantly from 73% in 2005) and particularly cross-border arrivals. Europe remains the strongest region for overseas tourism with a double digit share and within Europe, the UK and Germany is the most prominent. The strongest next region is the USA but with only a single digit share.

Origin of Foreign Arrivals:	2005	% of Total	2006	% of Total	2007	% of Total
Total	7 368 742		8 395 833		9 090 881	
Africa	5 373 667	72.9%	6 284 344	85.3%	6 866 376	76%
Zimbabwe	773 991	10.5%	980 571	13.3%	980 571	11%
Lesotho	1 657 119	22.5%	1 914 061	26.0%	2 170 074	24%
Mozambique	596 462	8.1%	917 308	12.4%	1 084 157	12%
Swaziland	909 966	12.3%	991 418	13.5%	1 039 233	11%
Malawi	106 674	1.4%	124 260	1.5%	147 246	2%
Nigeria	28 995	0.4%	35 022	0.4%	39 516	0%
Zambia	127 255	1.7%	159 792	1.9%	183 056	2%
Middle East	33 551	0.5%	36 724	0.5%	41 186	0%
North America	274 281	3.7%	303 675	4.1%	329 906	4%
USA	233 417	3.2%	254 757	3.5%	276 941	3%
Canada	40 818	0.6%	48 860	0.6%	52 879	1%
Central and South America	47 818	0.6%	54 421	6.5%	57 473	1%
Brazil	23 529	0.3%	29 888	3.5%	32 632	0%
Europe	1 308 634	17.8%	1 381 881	16.5%	1 413 563	16%
France	101 139	1.3%	106 088	1.3%	115 074	1%
UK	469 599	6.4%	488 032	6.6%	497 687	5%
Germany	249 504	3.4%	258 517	3.5%	254 934	3%
Italy	51 464	0.7%	53 605	0.6%	54 807	1%
Netherlands	116 244	0.2%	124 680	1.5%	129 022	1%
Sweden	35 619	0.5%	39 149	0.5%	38 110	0%

Origin of Foreign Arrivals:	2005	% of Total	2006	% of Total	2007	% of Total
Other Europe	19 165	0.1%	24 679	0.3%	25 414	0%
Australasia	95 818	1.3%	108 425	1.5%	115 226	1%
Asia	179 112	2.4%	193 578	2%	218 164	2%
Australia	77 238	1%	89 396	1%	95 571	1%
China (including Hong Kong)	44 228	0.6%	41 962	0%	47 378	1%
India	36 045	0.5%	44 337	1%	51 823	1%
Japan	27 284	0.4%	31 989	0%	31 855	0%
Other Asia and Australasia	22 453	0.3%	16 263	0%	17 938	0%

Source: South African Tourism

Although Mpumalanga's foreign arrival pattern follows that of South Africa as a whole in respect of the lion share being from Africa, then Europe, then the Americas followed lastly by Australasia, a far larger share of Mpumalanga's foreign arrivals emanate from Europe (25% compared to 16,5%), whilst Mpumalanga's African, American and Australasian proportions are lower than that for South Africa as a whole.

Origin of Foreign Arrivals to Mpumalanga

Continent	No. of visitors	Percentage	Growth rate 2005-2006
Africa & Middle East	766 567	65.2%	29.2%
Europe	288 721	24.6%	-23%
Americas	81 284	6.9%	0.9%
Asia & Australasia	38 844	3.3%	8.4%
Total	**1 175 416**	**100%**	**6.3%**

Source: South African Tourism

Mpumalanga's domestic tourism market primarily emanates from within the province and from Gauteng although it also has strong flows from Limpopo.

Origin of Domestic Tourists to Mpumalanga

Province	Percentage
Eastern Cape	2.5
Free State	1.8
Gauteng	27.8
KwaZulu-Natal	4.2
Mpumalanga	38.9
Northern Cape	0.4
Limpopo	17.1
North West	5.4
Western Cape	1.9
Total	**100%**

Source: South African Tourism

The KNP remains Mpumalanga's strongest tourism drawcard. The Panorama Route which includes Blyde River Canyon, Bourke's Luck Potholes and Gods Window is the second strongest drawcard and the third is the private reserves, mostly bordering the KNP. This shows that Mpumalanga's tourism demand and thus the tourism industry remains strongly focused in one location or region.

Mpumalanga Places Visited/activities undertaken: 2006

Landmark	*2006*
Kruger Park via Skukuza, Numbi, Malelane,Crocodile Bride	82.5%
Mpumalanga - private game reserves	31.4%
Blyde River Canyon/ God's Window	43.7%
Pilgrim's Rest	29.0%
Panorama	20.8%
Nelspruit Botanical Gardens	7.0%
Croc river Environment Park	1.5%
The Pinnacle	8.3%
Bourke's Luck Potholes	14.2%
Longtom Pass	4.6%
Dullstroom /fly fishing	5.0%
Flea/craft markets	20.4%

Source: South African Tourism

2.4.2 Mpumalanga's Tourism Supply

The table below shows that the average tourism accommodation establishment in Mpumalanga is small at an average of only 31 rooms across all types and 45 rooms for hotels. The average size per establishment across all hotels in South Africa is 60 rooms, which is also in global terms considered to be very small. It is essential in driving significant tourism invest that larger establishments are targeted that can make a significant impact on the supply (and resulting arrivals) that the Mpumalanga tourism market could attract.

	Hotel	B&B	Guest House	Lodge	Self-catering	Resort	Backpacker	Caravan Park/Camp site
Number of establishments	40	51	84	146	124	17	11	37
Number of rooms	1784	424	578	1167	1841	Not provided	407	894
Average size	45	8	7	8	15	-	37	24

Source: MTPA database & MTGS

In considering tourist accommodation establishments by tourist region in Mpumalanga it is evident that the majority are located within the Lowveld/Legogote and Panorama regions (half of all establishments), although the Wild Frontier also offers a significant share of the establishments. The information is not available from the MTPA database but it would be interesting for investment planning purposes to determine the sizing of establishments per region and therefore the impact on each region of additional large (above 100 rooms) establishments and the ability of each region to absorb large competition.

Tourism Region	Tourism product								
	Accommodation								
	Hotel	B&B	Guest House	Lodge	Self-catering	Resort	Backpacker	Caravan Park/Camp site	TOTAL
Cosmos Country	3	3	9	4	4	1		3	**27**
Cultural Heartland	5	8	12	13	9	2	1	3	**53**
Grass & Wetlands	2	7	15	8	11	1		4	**48**
Highlands Meander	4	5	10	22	28	3		6	**78**
The Panorama	10	3	9	35	33	5	5	8	**108**
Lowveld Legogote	10	17	19	34	15	4	5	7	**111**
Wild Frontier	6	8	10	30	24	1		6	**85**
TOTAL	**40**	**51**	**84**	**146**	**124**	**17**	**11**	**37**	**510**

Source: MTPA database

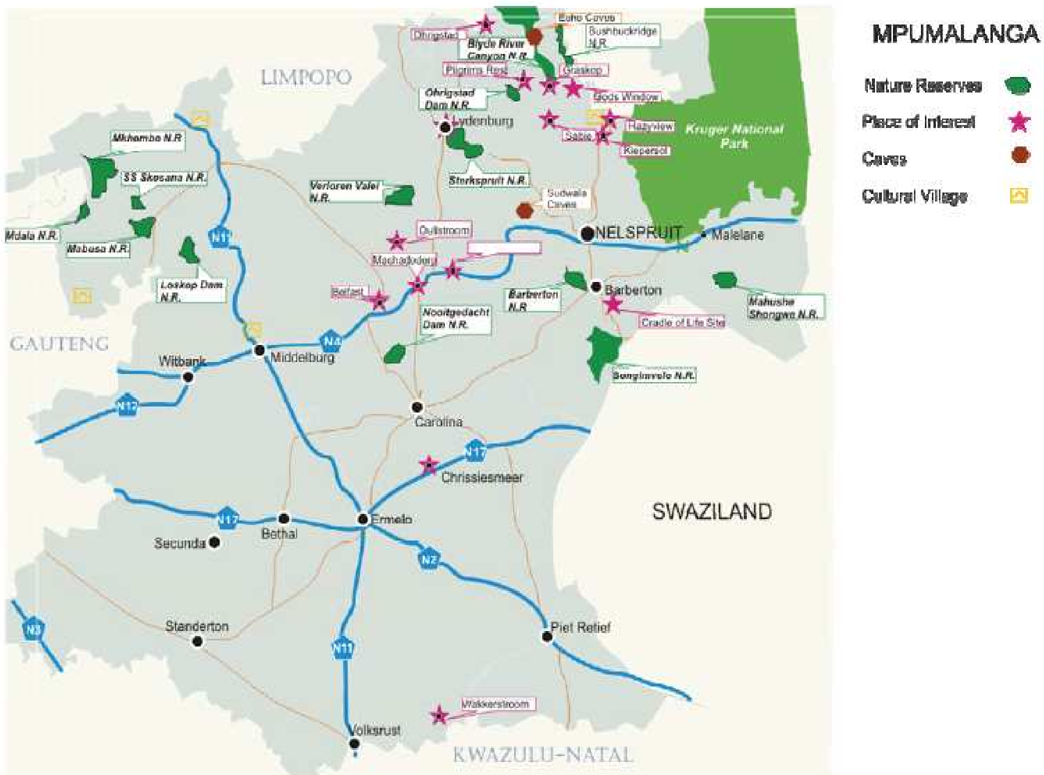
Although accommodation often comprises the biggest share of the tourists spend within a destination, the tourists are attracted initially to a destination by the type and range of experiences on offer and this experience is often packaged and distributed by tour operators. The table below shows that most tour operators (65%) are located in the Lowveld/Legogote and Panorama regions, with less than a handful in most other regions. The same breakdown applies to the availability of Information Offices.

Tourism Region	Tourism Product		
	Tour Operator	Information offices	TOTAL
Cosmos Country	2	1	**3**
Cultural Heartland	3	3	**6**
Grass & Wetlands	1	6	**7**
Highlands Meander	2	5	**7**
The Panorama	11	10	**21**
Lowveld Legogote	29	4	**33**
Wild Frontier	5	5	**10**
TOTAL	**53**	**34**	**87**

Source: MTPA database

Similar to accommodation and tour operations, if the known and developed Mpumalanga tourist attractions are depicted geographically, around 50% of the attractions are located within the Lowveld/Legogote and Panorama regions and the rest are spread throughout the other regions, with some regions having very few attractions.

Figure 2.19: Mpumalanga Major Tourism Attractions & Places of Interest



MPUMALANGA TOURISM GROWTH STRATEGY

2.4.3 Tourism Product Wanted/Needed According to MTGS Product Development Plan

<u>Suggested Marketing Plan:</u>

The MTGS suggests that in the short/medium term the MTPA should target the following markets:

Markets	Domestic	Regional	International
Areas	Gauteng	Mozambique/ Swaziland	UK, US, Germany, Netherlands
Products	• week-ends • events/festivals • special interest • activity/adventure • Mice • Heritage	• shopping • week-ends • events/festivals • medical	• wildlife • scenic beauty • mountains • heritage • golf • special interest

In the long run, with the development of recommended new main stream products such as the ICC and Theme / Amusement park, the target markets will be closely aligned with those of the country as a whole.

According to the MTGS, among the wide range of niche product segments that Mpumalanga could exploit, the following offer the best potential:

- wildlife safaris
- golf
- birding
- hiking/walking
- fly-fishing
- botanical
- special interest:
  - heritage tours
  - industrial tours
  - township tours
  - agricultural tours
- events/festivals
- sports
- adventure
- medical
- MICE (business tourism)
- Wellness
- self-drive tours

Suggested Tourism Product Strategy

Based on the above recommendations the MTGS specifies that the MTPA should develop and offer the following products:

Market Segment	Characteristics	Requirements	Development Potential Issues
A. Nature Tourism			
• wildlife safaris • birding • botanical • natural history	• high use of tourism plant • high spend • seasonal • moderate growth rate	• nature reserves/parks • guides & ground tour arrangements • range of accommodation – self catering to luxury lodges • good interpretation	• KNP well known and operational, but nearing carrying capacity limits • MTPA game and nature reserves have considerable potential • potential for development of Nelspruit Botanical Gardens • better road access infrastructure required • improved interpretation needed
B. Activity Tourism			
• fly-fishing • hiking • mountain biking • sailing/kayaking • horse riding	• moderate use of tourism plant • moderate spend • seasonal • moderate growth rate	• nature reserves/parks • marked trails • range of accommodation – cabin/huts to lodges/small hotels	• MTPA nature reserves have considerable potential • additional trekking and biking trails needs to be developed • trained guides required
C. Soft and Hard Adventure			
• climbing • rafting • 4 x 4 • abseiling	• moderate use of tourism plant • moderate spend • seasonal	• nature reserves/parks • mountains/rough terrain • rivers/lakes • good information	• MTPA nature reserves have considerable potential

Market Segment	Characteristics	Requirements	Development Potential Issues
		• range of accommodation – cabins/huts to lodge/small hotels	
D. Golf			
	• high use of tourism plant • high spend • seasonal • high growth	• 18 hole championship courses • hotels/villas/lodges • high quality facilities • quality good restaurants • entertainment	• number of sites with potential (e.g. Pilgrim's Rest) • must be real estate development – resort, villas • supply of water • seamless access to resorts
E. Eco-Resorts			
• mountain • wellness/spas	• high spend • high use of tourist plant • all year demand • high growth	• small scale hotels (approx. 30 to 50 rooms) • high quality facilities (infinity pool) • secluded settings • nature walks, trails, things-to-see-and-do • professional therapists, dieticians • medical support facilities	• number of potential locations available • small hotels and lodges of appropriate scale • range of things-to-see-and-do needs to be developed • trails developed • points of interest to be developed • wellness treatment by professionals • high quality clinical equipment
F. Residential/ (long stay)			
• villa/town houses, condos (ownership, rentals)	• retirees • holiday homes • long, frequent visits • high spend • Dec/April & holidays • high growth	• seamless access • reassurance about safety and services • things-to-do (golf, fishing etc) • tax incentives • regulatory framework • medical support facilities	• number of potential locations (White River, Sabie) • associated with golf estates
G. Sports			
• sports meets • events	• comprise 3 groupings participants, fans and passive spectators • high use of tourist plant • short 2 – 4 days • high growth	• good and appropriate sporting facilities • range of accommodation • things-to-see-and-do • good local food • entertainment/local ambiance	• stadium to be constructed in Nelspruit • Woolmer Cricket Academy to be established • lack of ground transport • limited supply of budget hotel and other appropriate accommodation
H. Shopping			
	• high spend • short stay • high use of tourism plant • limited growth potential	• range of accommodation • things-to-see-and-do • range of restaurants • entertainment • safety and security	• limited opportunities for future as retail complexes developed in Mozambique • potential is in identifying retail products not available in Mozambique and packaging with hotels stays
I. Conference & Incentive Meetings			
	• businesses/groups/clubs and associations • short 2 – 4 days • highly profitable • high use of tourist plant • large expanding market	• top quality meeting facilities • high standard accommodation • range of restaurants • entertainment • things-to-see-and-do • safety and security • spouse/partner/family programmes and attractions	• no large convention facilities • limited airlift to Province

Market Segment	Characteristics	Requirements	Development Potential Issues
J. Special Interest			
• culture/heritage • history • archaeology • townships	• moderate spend • high use of tourist plant • all year demand	• number of unique cultural, heritage, historical, archaeological sites • knowledgeable guides & ground tour arrangements • facility to 'experience' and learn culture	• interpretative centres and museums required
K. Festivals/Events			
• music • arts	• high spend • short stay • high use of tourist plant • all year demand	• unique festival and events • particular timing to avoid clashing with events in other provinces • things-to-see-and-do • good local food • entertainment/local ambiance • safety and security	• festivals need to be further developed (e.g. Potato Festival, MACFEST) • limited airlift to Province • limited supply of budget hotel and other accommodation • cultural performances need to be more widely promoted and developed
L. Go-as-you-please Touring			
• Self drive	• long stay • high use of tourism plant • high spend • seasonal • high growth	• range of scenic attractions • museums, interpretative centres • good road network • good sign posting • good local tourist information • range of quality accommodation • good quality restaurants	• need to open up new scenic routes • improved sign posting in places • road improvements required • touring guide/map to integrate region (cosmos, panorama etc) within Province
M. Leisure/Entertainment			
	• short-stay 2 – 4 days • high use of tourist plant • high spend • all year round	• major theme park resort, such as a Disney World • good access transport network • range of mid price accommodation • moderate climate	• large populations within 2 to 3 hours drive availability

2.4.4 Tourism Projects to be Developed According to MTGS Product Development Plan

The MTGS recommends the development of the following tourism "Flagship" projects:

#	Flagship Project	Description
1	Development of a world class Theme/Amusement Park Resort that will attract large numbers of domestic and international visitors to the Province, thereby halting and eventually reversing its declining share in both of these markets	Leisure spend will become an important and growing feature of the South African economy. Consumers will increasingly spending their leisure time and disposable income visiting theme parks, amusement parks or other leisure facilities. In addition, inbound tourism to South Africa is growing at record pace. In 2006, the leading theme park in South Africa (Sun City) had an attendance of some two million visitors, of which approximately one million overnight guests stayed at the resort's hotels. A significant proportion of the guests are regional and international visitors. A new world class theme park (such as Disney Amusement Park) in Mpumalanga is likely to be complementary to Sun City and other existing parks. The proposed project would play a very substantial role in enhancing the profile of Mpumalanga as a leisure destination and of the country as a whole. A major world class theme/amusement park and its associated hotels would draw very large numbers of domestic, regional and foreign tourists every year, create thousands of new jobs; grow the service sector of the provincial economy, and enhance South Africa's prestige in the global community.

#	Flagship Project	Description
		Based on up to two million admissions annually at full build out, of which around 60 percent would be local or domestic visitors and 40 percent regional (especially from neighbouring SADC countries). More than half would be overnight visitors staying at hotels and other forms of tourist accommodation, either within or adjacent to the theme park. It is proposed that this project should be located in the Witbank area (on the borders of Nkangala and Gert Sibande District Municipalities) which has the advantage of being a relatively short distance - one and a half hours driving time from the OR Tambo International Airport. The area is also well served by public transport (both rail and bus) which would make the Park accessible to previously disadvantaged communities. It is estimated that some 60 percent of the nation's population resides within 200km of this area. The theme park can also capitalize on the area's moderate climate and location in the Ndebele cultural heartland. The project would generate substantial economic benefits, tourism benefits, social benefits and fiscal benefits at national, provincial and district levels. The economic activity from this project (including an estimated 10,000 jobs upon full build out) would occur throughout the Province and be a catalyst for transforming Witbank into a more tourism oriented city. Furthermore, the Project would act as a stimulus for additional foreign direct investment in the tourism sector as well the broader economy. The tourism benefits would include the off-site spending by international and domestic visitors on off-site tourist accommodation; tours and other travel services provided by local travel agencies; and additional spending by international tourists on air passenger services provided by local airlines. Social benefits will arise from the Project's employee training, educational programmes, and other community development initiatives, while the fiscal benefits would derive from the tax revenues generated by the project.
2	Development of an International Convention Centre (with associated new hotel development) that will attract large numbers of conference and business visitors to the Province (many of whom will be induced to visit the Province's tourist attractions through the promotion of pre- and post-conference packages	At present, the Province lacks a major convention facility, comparable to the existing international convention centre's in Cape Town, Durban and Johannesburg, capable of handling large regional and international conventions and exhibitions. In Durban, the International Convention Centre' plenary hall can seat 1,800 delegates while Halls 1, 2 and 3 can be combined to create a venue which seats up to 5,000 delegates. The nearby Durban Exhibition Centre (DEC) is a world class multi-purpose exhibition, function and conference centre. Two large halls offer a combined space of 9600m m^2. The DEC also offers 20,000m^2 of plazas and gardens which are suitable for outdoor events and conference parking. Provision of such a facility (plus associated visitor accommodation) in the Province would generate substantial economic benefits for the provincial (and national) economy. For example, an economic impact assessment of the Cape Town International Convention Centre (CTICC) conducted in 2001 indicated that the Centre would provide a cumulative contribution to Gross Domestic Product (GDP) of R25 billion over ten years, and sustain 47,000 new direct and indirect jobs over the same period. Given that Nelspruit is the business centre of the Province, and the seat of the provincial government, with good road, rail and air access, it is recommended that the Mpumalanga ICC should be located in the greater Nelspruit area. The proposed ICC's location must be in reasonably close proximity to restaurants, entertainments etc. This project would also incorporate a conferencing service targeted at the business tourism incentives market. Capital costs for the project have previously been estimated at R150 million. The implementing agencies would be the Mpumalanga Economic Growth Agency (MEGA), with strategic support from MTPA; the Department for Economic Development and Planning (DEDP); Mbombela Local Municipality; and private sector construction companies and operators
3	Further development of Nelspruit as tourism hub through sports, shopping and medical tourism	The contribution of the sports stadium and Bob Woolmer Cricket Academy coupled with the ICC will establish Nelspruit as a tourism centre, which can be enhanced by the further development of shopping and medical tourism. In addition Nelspruit could become a centre for conservation and eco-tourism studies.
4	Flagship hotel and villa resort developments at Pilgrim's Rest, White River, Hazyview, Sabie, Barberton incorporating golf, spas/wellness, etc	Capitalising on booming demand for international and domestic real estate by investors, retirees and families wanting holiday homes, flagship integrated resorts (with golf, polo, wellness/spas, etc) should be developed at Dullstroom, Pilgrim's Rest, White River, Hazyview, Sabie, Barberton.

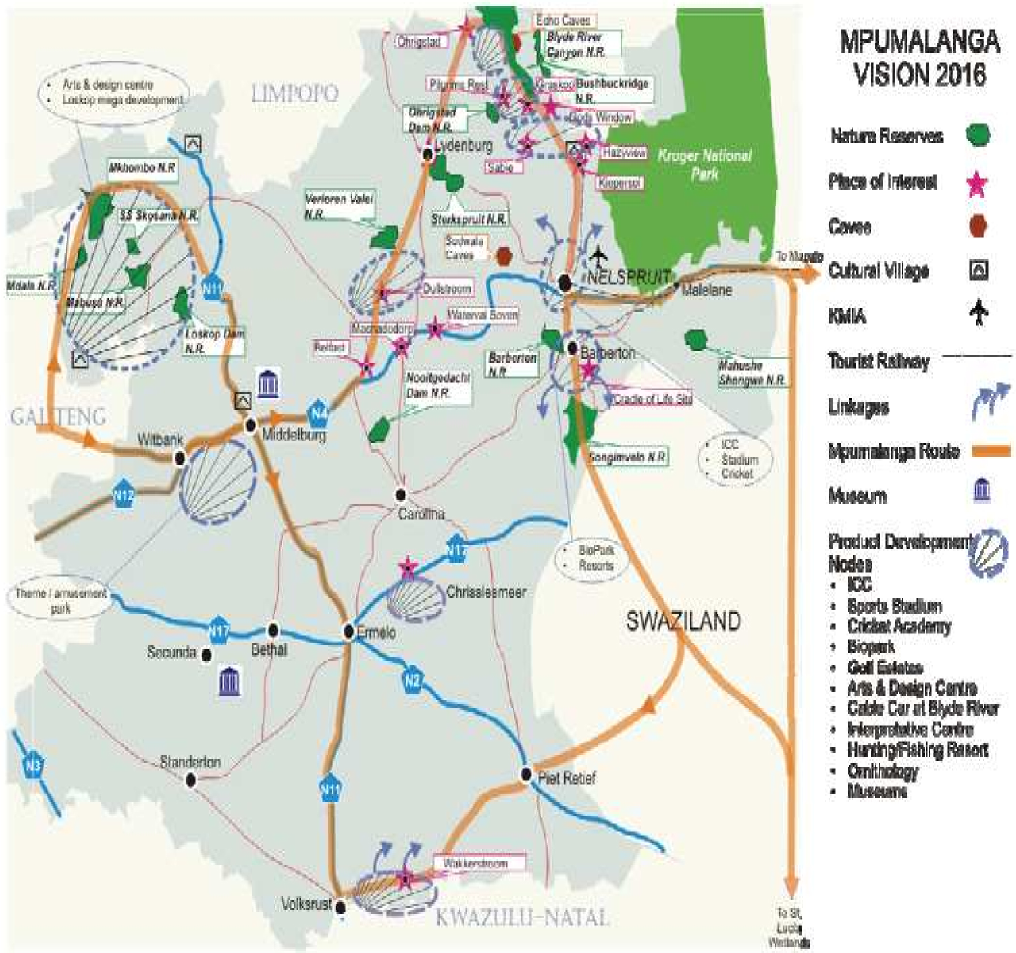
#	Flagship Project	Description
5	Commercialisation of MTPA parks and reserves	The MTPA parks and reserves represent a major opportunity to expand and diversify the Province's nature and leisure tourism product. However, the parks and reserves require major investment and improved management. This can be achieved through a commercialisation strategy which could attract private sector investment.
6	Enhancement of existing products	<u>Blyde River Cable Car and Visitor Heritage Centre</u> In order to transform the current Blyde River Canyon area into a major South African landmark tourist attraction that would attract increased numbers of domestic and foreign visitors, significant private sector investment is necessary to develop a cable car (modelled on that at Table Mountain) in the Blyde River Canyon providing two-way rides to visitors to/from the canyon and, secondly, the establishment of a Visitor Heritage Centre showcasing the region's natural, cultural and historical heritage (perhaps modelled along the lines of the University of Witwatersrand's Origins Centre). Potential environmental concerns would also need to be addressed. <u>Songimvelo Nature Reserve</u> With the implementation of the MTPA's commercialisation policy in respect of its parks and reserves, it is anticipated that private sector investment will be attracted to develop the reserve. <u>Bourke's Luck Tourism Centre</u> Under the Tourism component of the Heritage, Greening Mpumalanga and Tourism Flagship Programme (Programme Implementation Plan, Version 3), it is proposed to convert the former Bourke's Luck military base and hospital into a tourism centre, comprising a 120-bed lodge with tourist access to the potholes, together with provision of a number of tourism-related services and facilities (curio shops, a tourism training centre, bank services and various shops and businesses) and construction of hiking trails. <u>Pilgrim's Rest Historical Mining Town Rejuvenation</u> The national monument status of Pilgrim's Rest represents significant tourism potential. However, in its current form, this is not being sufficiently realised. The proposed project involves the transformation of the current product into a world class living museum with re-enactment of historical events, complete cast with period costumes, etc. The project could also incorporate the development of a tramline linking the lower and upper towns and a craft centre. Implementation would result in the retention of current, and growth of new, tourist volumes – both domestic and foreign. The project would also attract new investment in the accommodation sector. The estimated R4 million in capital investment could yield 800 or more direct jobs. The implementing agencies would be Thaba Chweu Local Municipality, Ehlanzeni District Municipality, MTPA, DCSR (Department of Culture, Sport and Recreation); private investors, with national DEAT in an oversight role. <u>Lowveld National Botanical Garden</u> Although the Botanical Garden in Nelspruit is one of the more significant gardens in South African, it needs to be made more appealing to the general public. Capitalising on Mpumalanga flora we recommend the organisation of an annual flower and garden show modelled to some extent on the world famous Chelsea Flower Show in London.
7	Biopark development at Barberton	The Barberton (or Makhonjwa) Mountainlands forms the core of a proposed World Heritage Site in which some of the oldest rocks and first life forms on earth are found. The plant species diversity is second only to the Cape Fynbos in the Western Cape. The area has over 2,100 different species while more than 400 bird species have been recorded, along with 24 different amphibians and reptiles. Given this biodiversity significance (which is highlighted in the Mpumalanga Biodiversity Conservation Plan, 2006), we recommend development of a BioPark. The proposed BioPark would showcase Mpumalanga and South Africa's biodiversity. It would offer an interactive experience with nature. The development concept, which would require a site of about 10 acres (4 hectares), would include: • interpretative room – video presentation on what the BioPark contains • exhibition areas with interlinking pathways to showcase South Africa's forests, plants, bird life, etc • restaurants and retail outlets • meeting rooms • parking

#	Flagship Project	Description
		The Barberton BioPark would complement both the existing Lowveld National Botanical Garden in Nelspruit and plans to upgrade the Songimvelo Game Reserve and link it to the adjacent Malolotja Nature Reserve in Swaziland as part of the Lubombo Transfrontier Initiative.
8	Ndebele Arts and Design Centre	There are many aspects of Mpumalanga's culture which, if adequately promoted, can be interesting attractions for visitors. At present, cultural tourism in the Province tends to focus on the on the culture of the Ndebele people who are famous for their vibrant house painting, bead work and crafts. The Province already boasts a number of Ndebele and other cultural villages. However, despite this rich heritage, usage of these products shows an underutilization by international tourists and particularly domestic tourists. The cultural product needs to become more sophisticated. The key challenge is to showcase it with dignity and authenticity. This applies equally to township tours. It is proposed that MTPA works closely with the Provincial Department of Culture, Sport and Recreation (DCSR) and local communities to draw up a development and marketing plan for a cultural design centre if necessary seeking external funding for this project. The Cultural Arts & Design Centre would house a number of Ndebele designers, painters etc who would create/design more sophisticated products (for example indigenous silk products, hand blown glassware) than the traditional bead work and handicrafts. The designs will reflect the Ndebele and other community's cultural heritage, but at the same time they would compete with main stream consumer products. To encourage designers, artists and skilled crafts people to locate and run their businesses from the Design Centre, incentives should be available – exemption from income taxes, low rents etc.
9	Further development of events based tourism	The Province has a number of festivals and events (MACFEST, Potato festival, Sasol Rally etc) which should be further developed by adding on fringe events to attract wider audiences. The emergence of new festivals/events should be encouraged.
10	Loskop Area Tourism destination consolidation	Under the Tourism Component of the Heritage, Greening Mpumalanga and Tourism Flagship Programme, it is proposed to consolidate all the different small parks (Loskop Dam Nature Reserve; Mabusa Nature Reserve (which includes the Zithabiseni Resort and Conference Centre); Mdala Nature Reserve; Mkhombo Nature Reserve; and S.S. Skosana Nature Reserve in the Nkangala district into a 'mega-tourism' destination aimed at capturing the Gauteng weekend market. This project (which is further endorsed here) would result in a more attractive and marketable tourist destination as compared with the smaller and more fragmented initiatives currently taking place. The project requires private sector investment to be initiated. There is need for development of a themed concept and a detailed feasibility study, including the identification of small scale projects that would be available to surrounding communities.
11	Luxury steam train from Sabie/Nelspruit/Barberton to Malelane and Maputo	Using the existing rail network, a luxury steam train journey from Sabie/Machadorp/Barberton to Maputo could be developed. Limited rolling stock would be involved, - perhaps two carriages and a dining car. As the return journey could be completed in a day, the product would be of interest to day-excursionists as well as overnighters in both directions. Associated with this would be the development of the Kruger – Malelane Junction. With remodelling the old station could become a centre for crafts of all kinds, along with café, gardens and retail outlets.
12	New accommodation development (including budget accommodation) at Nelspruit	There is need for additional tourist accommodation to cater not only for the anticipated influx of visitors for the 2010 FIFA World Cup but also for the expected growth in tourism to the Province following the adoption and implementation of this Strategy and Action Plan. Much of this will be provided as part of the major new projects proposed in the preceding paragraphs e.g. the Theme Park; the International Convention Centre; resort developments at Dullstroom, Pilgrim's Rest and other locations. However, there is need also for additional middle range and budget accommodation for the emerging domestic markets.
13	Industrial Museums	In order to capitalize on the region's importance as South Africa's main coal mining area, we recommend that at least two industrial

#	Flagship Project	Description
		museums/interpretative centres be established – one at Middelburg (based on coal mining) and one at Secunda (based on Sasol's fuel-from-coal plant and underground coal mining complex). These museums could be like the existing Kimberley Mine Museum, situated next to the Big Hole, the National Coal Mining Museum in England or the Atlas Coal Mine National Historic Site in Alberta, Canada. It is anticipated that the industrial museum at Secunda could be jointly developed by Sasol and the Gert Sibande District Municipality. Museums are important to local communities for a number of reasons. The economic benefits are an obvious reason. Less obvious, but equally important are the sense of identity and pride in local heritage that they evoke in the local community.
14	Casinos and other forms of entertainment	Contributing to the expansion of nightlife and entertainment in the Province, the Government plans to issue a fourth casino license.
15	Improve product standards	The tourism sector is essentially an export sector. To be successful, it is very important that the tourism product is 'export ready'. It is useful to consider the experience of other economic sectors such as manufacturing and agriculture to provide insight on the development of export ready product. In these sectors, products that do not meet international standards cannot be marketed. Some programmes to develop export ready product classify enterprises use a tiered system with Tier 1 being, for example, export ready, Tier 2 being near export ready, and Tier 3 requiring significant upgrading and investment. Export ready for the tourism sector includes not only product standards but also includes "requirements" for doing business with the international travel trade. This is important for participating international marketing programmes and packaging arrangements. Export ready status is not only concerned with the quality of the product. It is also concerned with the capacity of the operator to engage in international business, to take direct reservations from customers, to take credit cards, to have adequate insurance and the like. In today's global markets, these are essential requirements to do business.

It is understood that the above list of projects were determined by reviewing all reports in Mpumalanga or for Mpumalanga identifying tourism opportunities included MTPA studies and tourism plans for the local and district municipalities in Mpumalanga. In compiling this strategy a review of similar documentation was undertaken and also at the same time a review of the recommended tourism product strategy (listed in Section 2.4.3) as specified in the MTGS, but no additional projects that we believe have merit could be identified as tourism project opportunities.

The vision for the above flagship projects, is visualised pictorially below and shows that whilst many are still located within Mpumalanga's current core tourism nodes around the Panorama route, Nelspruit and the KNP, several others have also been identified in more outlying tourism regions.



MPUMALANGA TOURISM GROWTH STRATEGY

2.5 Status of Mpumalanga's Tourism Investment Promotion

2.5.1 Tourism Investment Structure

Understanding of the Current Structure in place iro Tourism Investment Promotion:

From reviewing the MTPA Act as well as the MTGS and MTPA Action Plans, there is no clarity as to who is responsible for the various roles in respect of tourism investment promotion.

The MTGS and the Strategic Plan developed out of that for the MTPA specifies actions for tourism investment promotion, but both MTPA and MEGA are listed as responsible entities with no allocation of specific roles.

In the MTGS a specific section was written by MTPA on 'Tourism Investment', however this does not relate at all to the entire tourism industry but only to the Parks which the MTPA owns.

Understanding of the Current MEGA Strategy & Activities as it Relates to Tourism Investment Promotion:

MEGA's overall strategic goals as per its 2008 strategy are:

- Attract foreign direct investment as a percentage of the GGP
- Develop key sectors through FDI
- Filter development to all the districts of the Province
- Create jobs
- Assist appropriate Provincial enterprises to become export ready
- Target export development in specific districts of the Province for specific sectors
- Diversify export products and export markets

MEGA's specific strategic objectives as per its 2008 strategy are:

- Economic goals
  - Investment as five percent of the GGP
  - R450 million investments to be facilitated
  - Nine investment projects to be facilitated
  - 1 400 new jobs created

- Sector or industry goals *(we assume this is for the year of 2008)*
  - One foreign direct investment attracted in the chemical sector
  - One foreign direct investment attracted in the stainless steel sector
  - Two foreign direct investment attracted in the agro- food processing sector
  - Two foreign direct investment attracted in the wood processing sector
  - **Two foreign direct investment attracted in the tourism infrastructure sector**
  - One foreign direct investment attracted in the service sector

- Geographic goals
  - One foreign direct investment attracted in Ehlanzeni District
  - One foreign direct investment attracted in Gert Sibande District
  - One foreign direct investment attracted in Nkangala District

  - Two local companies relocated in Ehlanzeni District of Mpumalanga
  - Two local companies relocated in Gert Sibande District of Mpumalanga
  - Two local companies relocated in Nkangala District of Mpumalanga

MEGA's key sectors to be targeted to achieve above goals are:

- Chemicals
- Stainless Steel
- Agro-processing
- Forestry: Wood Processing
- Tourism Infrastructure
- Services

MEGA's target markets for FDI are:

West:	East:
• USA • Canada • UK • Germany • Scandinavia • Europe	• Eastern Europe • China • India • Malaysia • Thailand • South Korea • Vietnam • Middle East • GCC Countries

MEGA's grid for sub-sectors to be targeted within the selected sectors of the Provincial economy, including countries to be targeted for investment, is provided below:

Category	Sub Sector	Industry	Country	Promotion Approach
Chemicals	Plastic Products	• Polyethylene • Polypropylene	US, UK, Germany, Malaysia, East Europe, India, China	Highly Targeted Forging relations with local companies/ industry associations
	Alternative Energy	• Bio Fuels	Scandinavia	
	Solvents	• Paint • Sealants • Waterproofing • - Lacquer	Germany, India, China, East Europe	Highly Targeted - Forging relations with local companies/ industry associations
Stainless Steel	Heavy users of SS	• Pipes and Tubes • Automotive Components • Tanks, casks, boxes, and containers. • Screws, bolts, nuts, fencing and expanded metal.	Korea; US (Illinois, Ohio, Indiana and Michigan); Germany, Malaysia, India and China	Awareness generation Targeted company presentations
Agro-Processing	Horticulture Food Processing	• Tropical / subtropical fruits	UK; US; Malaysia; Thailand; China; India; Vietnam	
Forestry	Wood Products	• Furniture and or components • Plywood • Doors	Malaysia; Thailand; Finland; Indonesia	Image /awareness Building - Annual visits
Tourism Infrastructure			USA; Europe (UK, Italy and Sweden); India	
Services	BPO's	• Call centres	Europe; India and the USA	

The following additional description was provided in the MEGA 2008 Strategy for the 'Tourism Infrastructure' target sector:

> "In addition to the internationally known Kruger National Park that attracts in the region of one million visitors annually there are approximately 70 game parks and reserves, which creates a regular flow of visitor traffic. In addition there are a number of tourist attracting proliferated throughout the Province. All this plus an increase in additional demand created by 2010 requires additional tourist beds in the Province. This therefore creates opportunity for foreign direct investment in the tourism infrastructure sector for hotels, lodges and similar accommodation facilities."

<u>MEGA Stakeholder Interview:</u>

From our interview with MEGA we identified that:

- There are no dedicated tourism investment promotion resources within MEGA. Investment promotion resources are categorised by investment target countries or regions (ie Middle East) rather than sector.
- The investment promotion resources have very limited knowledge of the tourism industry.
- No dedicated tourism investment promotion events (seminars/conferences) are undertaken or attended. Indaba was mentioned as an investment event that is attended but of course this is a trade exhibition and not an investment event.
- MEGA does not itself identify and package tourism investment projects but waits for the industry to bring it projects to sell. It feels that the projects are generally too small and not of a calibre that it can take to foreign trade missions. It is hard to compete with other sectors at such missions if the prospects in tourism are not attractive.
- MEGA has not dedicated tourism investment promotion material, but uses the generic material to also sell the province for tourism investment.
- At this stage the target countries for tourism investment is not clear not are the type of investment projects and opportunities.
- MEGA provides significant advice in respect of the tourism industry but it is not necessarily logged as it could be provided by a number of different people.
- Not all of the below projects (Section 2.5.2) have in fact been successfully sold – some are currently on hold.

2.5.2 Tourism Investment Projects Realised

Based on information provided by MTPA and MEGA, we understand that the following tourism investment projects were realised:

Project Name	Project Description	Value	Jobs	Location	District Municipality
		2007/8			
Gate Development MTA	Upmarket residential and golf estate	R850mil	500	Dullstroom	Nkangala
Pro Rolls	Restaurant	R1,9 mil			
Sivesetfu Lodge/ Inyanga Trading	Purchase and expansion of an lodge	R3,3 mil	10	Nelspruit	Ehlanzeni
Mthunzi Lodge	Extension of existing guest lodge and conference	R8 mil	15	Hazyview	Ehlanzeni
		2006/7			
Bella Bonni Guest House	Guest House	R1,5 mil	4	Witbank	Nkangala
WaAfrika Restaurant	Restaurant	R0,5 mil	6	Dullstroom	Nkangala
Mthunzi Lodge and Conference Facility	It's an Existing MEGA client. Expansion of an existing lodge and Conference facility in Hazyview. The expansion consist of 8 chalets of 4 bed rooms each	R5 mil	25	Hazyview	Ehlanzeni

2.5.3 Assessment of Tourism Investment Promotion Activities/Structure

On the dti/TISA website the reference for Mpumalanga's PIPA still refers to mii and if you click on the link it goes to a screen specifying that the address is incorrect or the sites is unavailable.

On the MEGA website there is no indication that it targets tourism as a priority sector and no tourism opportunities are listed.

In reviewing the 2008 MEGA strategy the information provided for the sector as well as the sources to be achieved and the methods to be undertaken is much more limited than for all of the other sectors.

Generally the stakeholders interviewed were not very flattering of MEGA's activities, programmes and performance in respect of other as well as tourism investment.

As per an UNCTAD survey of IPAs, competition for tourism investment is tough - out of 61 IPAs that responded fully, 50% were actively targeting investors in tourism, including in hotels and restaurants. This was the second most frequently targeted service activity after computer (IT) and related services. Thus in a increasingly more restricted finance market and a more competitive tourism economy worldwide, the performance of the investment agency selling tourism in Mpumalanga would need to be exceptional in order to penetrate successfully.

3. Part B – Mpumalanga Tourism Investment Promotion Strategy/Recommendations

3.1 Mpumalanga's Tourism Comparative Advantage

Comparative advantages for the Mpumalanga tourist industry as a whole have been specified as it is deemed that these also drive tourism investment.

Mpumalanga's Tourism Comparative Advantages
1. Most established and most well known part of KNP in Mpumalanga.
2. Close to Gauteng and easily accessible to both the largest and richest domestic tourist market in South Africa and also easily accessible to foreign tourists most of whom access South Africa via Gauteng.
3. Significant natural tourist assets which although not all well packaged for tourism experience, could be used to assist with tourism.
4. A long established tourism market, thus reasonable understanding of local residents of tourism products and its importance to the province.

3.2 SWOT for Mpumalanga Tourism Investment Promotion

The SWOT analysis prepared for the MTGS is provided below as the basis for the SWOT analysis for this assignment. Any elements within the MTGS analysis that is no longer valid is indicated by strikethrough, additional elements that have become valid since the MTGS analysis have been added in green and all elements that are considered to be of higher importance for the MTIPS have been indicated in bold font.

As can be seen a few changes have taken place in the market since the development of the MTGS. A large number of the elements have been identified as important for the MTIPS and will be incorporated in the strategy below.

Strengths	Weaknesses
1. KNP and Blyde River Canyon – flagship and world class natural assets	1. narrow base – few 'drivers' of demand, other than KNP and to a lesser extent Blyde River Canyon
2. wetlands with its diverse species of birdlife	2. inadequate investment in the tourism product
3. the biodiversity	**3. no anchor resorts**
4. the outstanding scenic beauty of Bulembu Mountains	4. no international conference centre (ICC)
5. nominated world heritage sites Barberton, Sudwala caves	5. failure to capitalise on niche markets
6. distinct Ndebele culture	**6. complicated, non functioning institutional relationships**
	7. fragmented approach to everything

Strengths

7. good road network to all areas
8. **international airport capable of accommodating large aircraft**
9. **diversity of attractions – golf, fishing, etc**
10. **diversity of interests – history, archaeology, etc**
11. number of good restaurants
12. good medical facilities shopping opportunities
13. **sports stadium (2010)**
14. Woolmer Cricket Academy (to be developed)

Weaknesses

- a. stakeholders do their 'own thing'
- b. no integration of the regional attractions
- c. no linkages with similar products in other
- d. destinations
- e. fragmented marketing

8. poor merchandising
   - a. web-site inadequate and poorly constructed
   - b. no touring guides/maps
9. **insufficient airlift and expensive airlift**
10. **limited quantity and quality of accommodation**
11. poor quality of service generally
12. diffused and weak image of Mpumalanga
13. poor road access to scenic areas, nature sites
14. no classification and grading of tourism operations
15. poor road signage in places
16. **poor performance by high profile new lodge concessions within the KNP**
17. **poor investment promotion performance in respect of tourism**
18. **bullish (unreasonable?) tourism growth and investment target**
19. **poor investment linkages within and outside Mpumalanga**
20. **continuing loss in tourist arrival market share**
21. **Unresolved land claims threatening property rights of investors**

Opportunities

1. **large and increasing affluent market in Gauteng for leisure holidays/short trips**
2. **MTPA game and nature reserves, whose potential are not as yet realised**
3. **proximity to major international airport hub – OR Tambo**
4. large and high spend market for conventions and business meetings
5. **large number of niche markets, international, regional and domestic**
6. ~~buoyant international and domestic demand for quality tourism real estate.~~
7. **2010 FIFA World Cup**
8. **increasing investment interest from other developing countries**
9. **developing countries more attractive for investment during world financial crisis**
10. **except for TiKZN and WESGRO, all other PIPAs weak in tourism investment promotion – opportunity to distinguish**

Threats

1. safety and security
2. **inadequate funding for tourism by government**
3. health concerns (malaria, HIV/AIDS)
4. **expectation of government for low revenue earning infrastructure and attraction orientated projects to be sustainable and of interest to private sector**
5. **global financial crisis and the decrease in investment funding/financing or the increase in the cost of finance**
6. **world financial crisis and the decline in foreign tourist arrivals**
7. **MTPA could be viewed as a competitor by investors due to ownership of parks**

3.3 The Strategic Framework

The strategic framework followed for the MTIPS is not based on complex theoretical strategic models but is very simple – firstly some basic principles are specified which forms the backbone of the strategy and then key strategic questions are answered to form the flesh or the plan of the strategy.

As this is essentially a sales strategy the strategic questions all have a sales orientation, viz:

1 What types of investment are to be attracted and where? (ie what to sell, where)

2 What value of investments is to be targeted? (ie how much to sell and for how much)

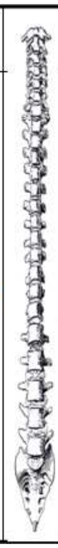
3 What types of investor are to be attracted? (ie who to sell to and from where)

4 When are investments to be targeted? (ie when to sell)

5 What activities to be undertaken to attract investors? (ie how to sell)

6 What structures/resources are required to undertake investment activities? (ie who will sell and with what)

Approach/Principles	Strategic Plan
1. Type of strategy – supply vs demand?	1. what to sell?
2. Complexity of strategy	2. who to sell to & from where?
3. Definition of FDI & Investment	3. how to sell?
4. Minimum size of deal/project to target?	4. how much to sell & for how much?
5. Pull or push strategy	5. when to sell?
	6. who will sell & with what?



3.4 Strategic Approach/Principles

<u>1. Type of Strategy – Supply vs Demand</u>

This strategy will conform strictly with the principle of market driven tourism investment as specified in the MTGS. This will mean that even if a push strategy is applied (see below), the investment projects will need to be what the tourist wants and will buy. A market driven strategy requires that the investment entity approaches the promotion of an investment as if it was representing the market (ie the private sector) and this often requires very simple and practical measures rather than complex and expensive measures.

Approach Recommendation 1:

Market Driven Investment Promotion Strategy – What the market (tourist/investor) wants Mpumalanga will offer.

2. Complexity of Strategy

To tie in with the above approach, the starting point for the MTIPS will be – "Keep it simple and practical". This should ensure an easily understood and user friendly system for both Government and the private sector (investor) as well as hopefully a cost effective system, which we understand from the budgets indicated in the MTGS that there is limited budget available for investment promotion. We could give it an easily remembered name like "The MTIP (Mpumalanga Tourism Investment Promotion) TIPS".

Approach Recommendation 2:

Keep it simple and practical – provide the MTIP TIPS.

3. The definition of Tourism FDI for the purposes of this study?

- The UNCTAD definition of FDI is: "FDI occurs when an investor resident in one country (the source country) acquires ownership in and a significant influence over the management of an enterprise or productive asset in another country (the host). This may involve creating a new enterprise (greenfield investment) or changing the ownership of an existing enterprise (via a merger and or acquisition). This definition is usually taken to mean a minimum of a 10% equity stake.

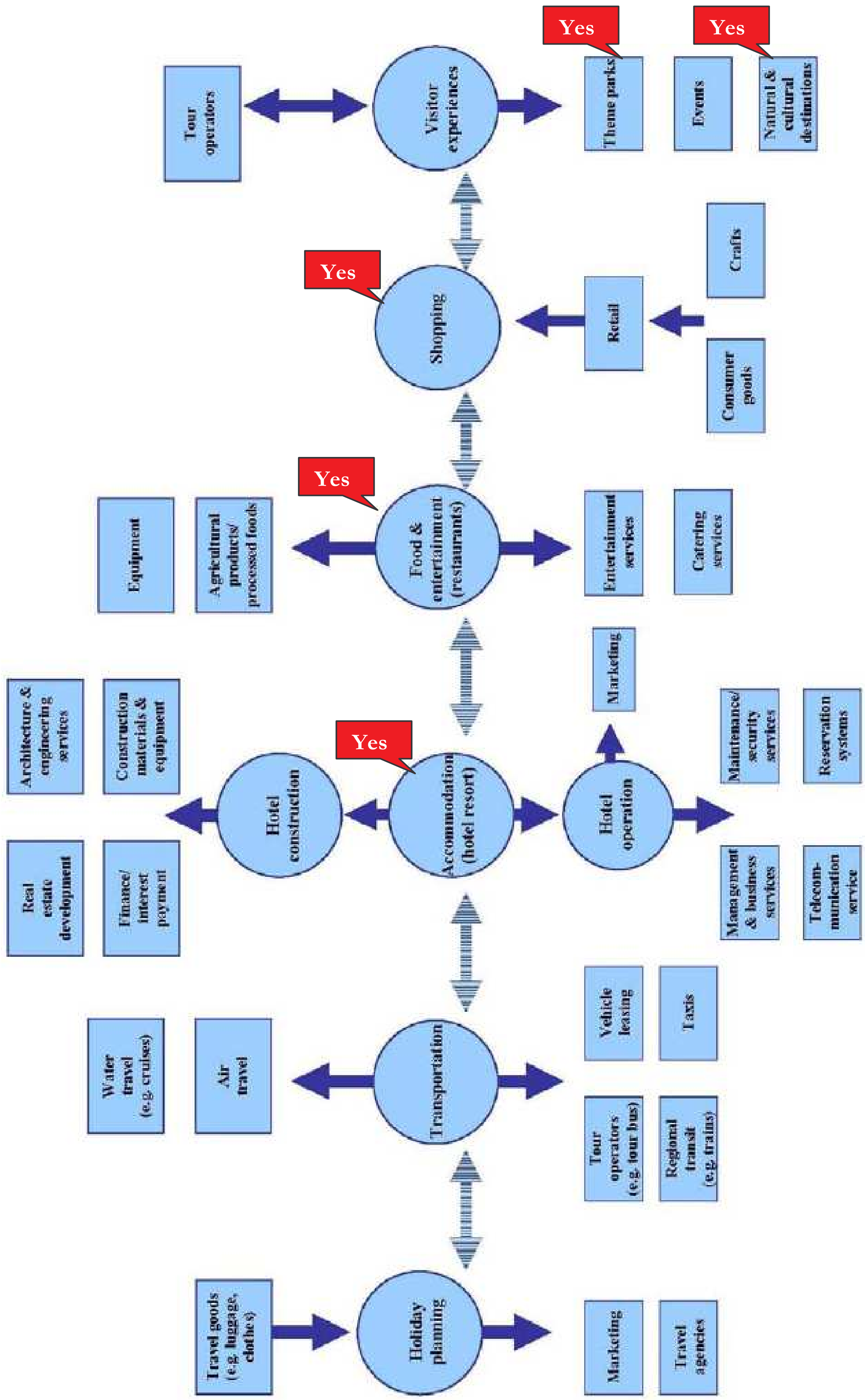
- As identified in Part 2 of this study, this definition does not always cover the various modes of investment that is common in the tourism industry, for example hotel groups entering a country via management contracts with no property ownership (but who are most often the drivers of hotel projects) would be excluded in the above definition. UNCTAD also clearly acknowledges that foreigners purchasing and running hotels in the host country is not viewed as FDI. In our view both these exclusions are not just important but vital forms of investment which should never be ignored – for example one of the key tourism markets identified in the MTGS is retirees and the second home market – many of these retirees would prefer to run their second homes as revenue generating investment properties such as lodges and guesthouses and should small projects be included in the FDI approach (see below). Of course, including all modes of investment in the definition, does not mean all modes need to be specifically targeted, core investment mode targets can be established for which specific activities/programmes are developed whilst the other modes can simply be accepted and encouraged - "keep it simple and practical".

- Similar to mode of investment, all types of investments (hotels, restaurants, casinos, attractions, shopping, entertainment, tour operations, etc) should be encouraged. However, it is suggested that for the purpose of investment promotion, only investments related to bricks and mortar (property) be included as a core investment type target for which activities are undertaken and programmes are developed (as per the tourism sector value chain provided on the next page, this would pertain to the accommodation; food, restaurant and entertainment; and shopping sub-sectors). As per the UNCTAD surveys discussed in Part 2 of this report, this is the norm in tourism investment promotion throughout the world.

- How foreign is "foreign direct investment"? We suggest that foreign in the case of Mpumalanga and in the case of investment should be any investor not resident in Mpumalanga. We further suggest that local investors (from within Mpumalanga) also be targeted for further projects in the province.

Approach Recommendation 3:

All (criteria fit) modes of investment are encouraged/accepted (not just pure FDI) from all investor sources (not just from foreign soil, ie a different country) and all types of investments. However, core investment modes, types, sources will be identified for targeting activities. In respect of investment types only those of a property orientation are to be included.



Yes = *included in MTIPS type of investment*

4. The minimum size of investment to be targeted or the split between small and large projects to target

- Just as all types of investments and investors are to be encouraged, also all sizes of investments should be encouraged. However, for targeted investment activities, a decision should be made of the minimum value of an investment to include. When formal push strategies are employed the cost of undertaking these activities are not conducive to small investments of around R1 million and less.

- What is small/large in respect of tourism investment?

  - The PPP Tourism Toolkit process has identified R10 million as the cap for small tourism investments and any investment above this value is considered large cap.

  - However, given current building costs even a small but luxury establishment could easily exceed the small cap definition. With an average building cost per basic luxury room of R1,5 million multiplied by 10 rooms gives an investment value of R15 million - thus, even though it is a small project, it does not fit into the small cap value definition above.

  - Given that projects at all grades are required to satisfy the market need, lower building costs could be assumed, but even at the lowest official cost for a basic room the cap is still only down to a third of the R10 million specification – average building cost per basic room of R0,3 million multiplied by 10 rooms = R3 million.

  - In Mpumalanga terms a "large" establishment would be anything larger than 100 rooms (average size of current accommodation establishments in Mpumalanga is 31 rooms). At the luxury level a 100 room hotel investment would be around R150 million, whilst at a limited service level, a 100 room hotel investment would be around R30 million. Therefore a R10 million cap is too low for small cap and far too low for large cap.

  - Also, our research of tourism projects offered for investment globally shows that many of the projects are over R500 million and also a large number over a R1 billion. Although Mpumalanga may not have many tourism projects at this scale it needs to consider that it will be competing for investors that are used to or may want to invest at this scale and offering significantly lower valued projects could make the destination seem lightweight.

Approach Recommendation 4:

- **Size split (by value):**
  - **40% very large; 40% large; 20% small**
  - **This means that 40% of all resources and activities (effort) of the MTIPS will be targeted at each very large and large investments and 20% at small investments**
- **Value caps:**
  - **Small cap – R3 million to R20 million**
  - **Large cap – R20 million to R200 million**
  - **Very large – R200 million +**

5. Using an investment push or pull strategy or combination of both?

- A 'push' FDI strategy relies on the formal pre-packaging of tourism investments by the host country and then "pushing" these projects onto the investment market, ie implementing a pro-active approach to the market, where the investment entity takes the projects to the market.

- The 'pull' FDI strategy relies mainly on creating an attractive enough environment so that investors are attracted to that market and the investor then identify their own projects for investment, ie implementing a re-active approach where the market comes to you.

- It is not clear from the review of international tourism FDI secondary research, whether a push or pull strategy is most successful. According to UNCTAD, the majority of developing countries apply a combination of both. The extent of using one more than the other depends primarily on the maturity of the host tourism sector, the availability of a significant domestic market as well as the general economic conditions (for these reasons developed countries mostly apply pull strategies iro tourism FDI).

- Although Mpumalanga as a province may not have a significant domestic tourism market, South Africa as a whole would fulfil this requirement and similarly also for the general economy size requirements. Although Mpumalanga's tourism sectors is one of the more established tourism industries of all the 9 provinces, it may reflect maturity in age but unfortunately as it has only developed in very specific areas and with a narrow range of products, it is not deemed mature in product development terms. However, much of the product development required may be more government than private sector investment related, ie the improvement and expansion of natural and cultural assets into attractions and tourism products, the development of events and the improvement of core tourism infrastructure (ie ICC and airlift capacity). As per Section 3.3.3 below, these are not considered suitable projects for private sector investors, but infrastructure investment projects for the funding directly by government or for which government could pay private sector to fund, build and operate.

- It could be deduced therefore that a combination of a push and pull investment strategy would need to be applicable, with perhaps a heavier leaning towards a push strategy in earlier years of the MTIPS moving to a pull strategy in the latter years of MTIPS (assuming that with specific investment efforts the province will mature quickly in respect of tourism investment). Also it can be assumed that a pull strategy would be more likely for strictly private sector investments and a heavier leaning towards a push strategy for government related investments to be marketed to private sector.

Approach Recommendation 5:

Combination of push and pull strategies:

- **1st 3 years of MTIPS:**
    - **Push – 60% of effort/activities/resources (should be primarily 'very large' and 'large' cap projects)**

- Pull – 40% of effort/activities/resources (all caps as per the size specifications)

- Thereafter:
  - Push – 25% of effort/activities/resources (should be primarily 'very large' and 'large' cap projects)
  - Pull – 75% of effort/activities/resources (all caps as per the size specifications)

3.5 Strategic Questions/Plan

3.5.1 Types of Investments to be Targeted/Investment Opportunities

What to sell, where?

<u>Where to sell?</u>

It was planned to undertake a supply and demand gap analysis based on the Mpumalanga Product Audit undertaken in 2008/9 by KPMG (for supply) and the latest SAT foreign and domestic tourism reports for Mpumalanga. Unfortunately the KPMG study is not as yet finalised and they have yet to undertake the GIS analysis of tourism product. Also the latest domestic SAT report has not as yet been released and the foreign reports are only available up to the 3rd quarter of 2008 with little detail shown for Mpumalanga except overall arrivals. It is understood that both the new foreign and domestic SAT reports are showing an improvement in Mpumalanga's share of total tourist trips and therefore it is important to provide the most positive figures in order to attract investment. We suggest therefore that this supply and demand gap analysis still be undertaken by the Client once the underlying data becomes available. In order to do so we provide an area investment attractiveness assessment framework below that could be applied at the time the information becomes available and at any time into the future.

For the below example assessment we have used the tourism area definitions for Mpumalanga, but we suggest that each area (or if the district and municipal boundaries want to be used) need to be broken down into smaller areas that can easily be assessed for investment attractiveness and to determine real investment focus areas within the province.

The Tourism Area Investment Attractiveness Assessment Framework uses the following criteria to score an area and based on the total score each area would fall into one of 5 attractiveness categories:

- Criteria:

1. current supply size (ie extent & variety of available tourism product)

2. current tourism demand levels
3. recent investment activity
4. access to primary tourist markets
5. likely size of future investment projects (large better than small)
6. potential demand levels
7. infrastructure availability (removal of hindrances to investment)
8. extent of packaging/intervention required to attract investment
9. governmental (provincial, district & local) support for tourism

- Scoring:
  - 5 = excellent
  - 4 = very good
  - 3 = good
  - 2 = average
  - 1 = poor
- Investment Attractiveness Categories:
  1. 80+% = prime investment areas (hot areas; significant investment opportunities)
  2. 60-79% = up and coming areas (warm areas; many investment opportunities);
  3. 50-60% = long term investment focus areas requiring some intervention (luke-warm areas; average investment opportunities)
  4. 30-50% = long term investment focus areas required significant intervention (cool areas; limited investment opportunities)
  5. 0-29% = impossible to sell areas (cold areas; no investment opportunities)

Area Investment Attractiveness Assessment

Criteria	Highlands Meander	The Panorama	Lowveld Legogote	Wild Frontier	Grass & Wetlands	Cosmos Country	Cultural Heartland
1. Current supply	4	5	5	2	3	1	2
2. Current demand	4	5	5	2	2	1	2
3. Current investment activity	3	4	4	2	2	1	2
4. Access to market	4	3	4	2	2	4	5
5. Size of future projects	4	4	5	3	2	2	4
6. Potential demand	4	5	5	3	2	2	4
7. Infrastructure	4	4	4	2	2	3	3
8. Packaging / intervention required	4	4	4	2	2	2	3
9. Government support	3	3	3	3	4	2	4
TOTAL SCORE	**34**	**37**	**39**	**21**	**21**	**18**	**29**
%	**75.6%**	**82.2%**	**86.7%**	**46.7%**	**46.7%**	**40.0%**	**64.4%**
Category	**Warm**	**Hot**	**Hot**	**Cool**	**Cool**	**Cool**	**Warm**
Push/Pull?	Both	Primarily Pull	Primarily Pull	Push	Push	Push	Both

It is interesting to note that:

- none of the tourism areas are deemed cold (ie with absolutely no opportunities)
- 3 areas are considered cool and have a few investment opportunities that need to be carefully picked and would require significant intervention and are most likely to be driven with a long term focus
- 2 areas are considered warm, with many investment opportunities and limited intervention required
- 2 areas are considered hot with significant investment opportunities and limited intervention required.

<u>What to sell?</u>

All "flagship" and other project opportunities already identified for investment as well as of course any future projects for investment, should be tested for appropriateness for inclusion in investment activities and if so for investment readiness. The criteria for both tests must be transparent and realistic.

Selection Criteria:

- **Project Investment Appropriateness Test:**
  - **Attractiveness for private sector (ie is it a project that usually would be developed by private sector or a government orientated project that private sector could build, fund and operate if paid by government**
  - **Within size cap specifications**
  - **Required within Mpumalanga's product strategy, ie what tourists want**
  - **Has a property orientation**
- **Project Investment Readiness Test:**
  - **Level of 'packaging' required (ie need to develop feasibilities/business plans or already in place)**
  - **Product it will respond to has an already establishment market or is in the process of being established**
  - **Likely and significant investor market**

Investment Appropriateness Test of Existing Identified Project Opportunities

#	Flagship Project	Attractive for Private Sector	Within Size Cap Specifications	Within Product Strategy	Property Orientation
1	Development of a world class Theme/Amusement Park Resort	Yes	Yes	Yes	Yes
2	Development of an International Convention Centre	Yes – although government infrastructure project & government would pay 'unitary charge'	Yes	Yes	Yes
3	Further development of Nelspruit as tourism hub through sports, shopping and medical tourism	Yes	Yes	Yes	Yes, as long as facilities and not services (ie sports centre not sports training or tour operating)
4	Flagship hotel and villa resort developments at Pilgrim's Rest, White River, Hazyview, Sabie, Barberton incorporating golf, spas/wellness, etc	Yes	Yes	Yes	Yes
5	Commercialisation of MTPA parks and reserves	Yes – although government infrastructure project & government would pay 'unitary charge'	Yes, if larger projects, for example not a 5 tent lodge	Yes	Yes
6	Enhancement of existing products: a. Blyde River Cable Car and Visitor Heritage Centre b. Songimvelo Nature Reserve	a. Yes – if facility orientated and government paid some fee b. Yes c. Yes – if facility orientated and	a. Yes b. Yes c. Yes d. Perhaps, depends on size e. Yes	a. Yes b. Yes c. Yes d. Yes e. Yes	a. Yes b. Yes c. Yes d. Yes e. No

Investment Appropriateness Test of Existing Identified Project Opportunities

#	Flagship Project	Attractive for Private Sector	Within Size Cap Specifications	Within Product Strategy	Property Orientation
	c. Bourke's Luck Tourism Centre d. Pilgrim's Rest Historical Mining Town Rejuvenation e. Lowveld National Botanical Garden	government paid some fee d. Yes if facility orientated e. No			
7	Biopark development at Barberton	Yes – although government infrastructure project & government would pay 'unitary charge'	Yes	Yes	Yes
8	Ndebele Arts and Design Centre	Yes – although government infrastructure project & government would pay 'unitary charge'	Yes	Yes	Yes
9	Further development of events based tourism	No	Yes, if large events	Yes	No
10	Loskop Area Tourism Destination Consolidation	Yes – although government led through reserves and identification & packaging of greater development required	Yes	Yes	Yes
11	Luxury steam train from Sabie/Nelspruit/Barberton to Malelane and Maputo	Perhaps	Yes	Yes	No
12	New accommodation development (including budget accommodation) at Nelspruit	Yes	Yes, if not too small	Yes	Yes
13	Industrial Museums	Perhaps (limited) – although government infrastructure project & government would pay 'unitary charge'	Yes	Yes	Yes
14	Casinos and other forms of entertainment	Yes	Yes, if not too small	Yes	Yes
15	Improve product standards	Not a FDI project	n/a	n/a	n/a

Based on the above investment appropriateness test, 4 projects would be discarded from the list. The table below expands on the investment readiness of the remaining projects.

Investment Readiness Test of Existing Identified Opportunities

#	Flagship Project	Level of Packaging Required	Responding Product Market Ready	Likely/Significant Investor Market
1	Development of a world class Theme/Amusement Park Resort	Significant	No - Mpumalanga not known for this type of entertainment	No
2	Development of an International Convention Centre	Currently in packaging / negotiation process – bidder in place	n/a	n/a
3	Further development of Nelspruit as tourism hub through sports, shopping and medical tourism	Significant – need to identify and package projects	To limited extent – no marketing iro sport and medical, some marketing in respect of shopping	Perhaps, depending on size and feasibility of projects
4	Flagship hotel and villa resort developments at Pilgrim's Rest, White River, Hazyview, Sabie, Barberton incorporating golf, spas/wellness, etc	Some, many projects already being packaged by private sector or revive old projects	Yes	Yes
5	Commercialisation of MTPA parks and reserves	Significant	Yes	Yes, dependent on packages offered
6	Enhancement of existing products: a. Blyde River Cable Car and Visitor Heritage Centre b. Songimvelo Nature Reserve c. Bourke's Luck Tourism Centre d. Pilgrim's Rest Historical Mining Town Rejuvenation	a. Some – feasibilities already done require updating b. Significant – basic infrastructure improvements need to be done before put out to market c. Some – feasibilities already done require updating d. Some	a. Yes b. Yes c. Yes d. Yes & No – Yes already have day visitor market not staying in area; No – attraction requires significant improvement and enhancement of experience	a. Some b. Some c. Some d. Yes
7	Biopark development at Barberton	Significant	Yes	No
8	Ndebele Arts and Design Centre	Significant	Yes	No
10	Loskop Area Tourism Centre	Significant	Yes	Yes, if broken into smaller projects
12	New accommodation development (including budget accommodation) at Nelspruit	Limited	Yes	Yes
14	Casinos and other forms of entertainment	Some	Yes, depending on area	Depends on type of facility

If scoring is applied to each of the above criteria, then the projects' investment readiness will look as follows:

Investment Readiness Test of Existing Identified Opportunities

#	Flagship Project	Level of Packaging Required	Responding Product Market Ready	Likely/Significant Investor Market	TOTAL
		5=None; 3=Some; 1=Significant	5=Ready; 3=Some Readiness; 1=Not ready	5=Significant; 3=Average; 1=Limited	Total Possible Score = 15
1	Development of a world class Theme/Amusement Park Resort	1	1	1	3
3	Further development of Nelspruit as tourism hub through sports, shopping and medical tourism	1	2	4	7
4	Flagship hotel and villa resort developments at Pilgrim's Rest, White River, Hazyview, Sabie, Barberton incorporating golf, spas/wellness, etc	2	5	5	12
5	Commercialisation of MTPA parks and reserves	1	5	4	10
6	Enhancement of existing products: a. Blyde River Cable Car and Visitor Heritage Centre b. Songimvelo Nature Reserve c. Bourke's Luck Tourism Centre d. Pilgrim's Rest Historical Mining Town Rejuvenation	a. 3 b. 1 c. 3 d. 3	a. 5 b. 5 c. 5 d. 3	a. 3 b. 3 c. 3 d. 5	a. 11 b. 9 c. 11 d. 11
7	Biopark development at Barberton	1	5	1	7
8	Ndebele Arts and Design Centre	1	5	1	7
10	Loskop Area Tourism Destination Consolidation	2	5	4	11
12	New accommodation development (including budget accommodation) at Nelspruit	4	5	5	14
14	Casinos and other forms of entertainment	3	4	3	10

It is suggested that projects have to score at least 60% to be included for investment promotion activities. Of course projects could be rescored within an appropriate time-frame (minimum 6 months) should any circumstances have changed, ie market readiness improved or level of packaging required less.

Based on the above scoring, the following 9 projects should proceed as investment opportunities:

Flagship Project	Push or Pull Strategy Orientated
• Flagship hotel and villa resort developments at Pilgrim's Rest, White River, Hazyview, Sabie, Barberton incorporating golf, spas/wellness, etc	Push & Pull
• Commercialisation of MTPA parks and reserves	Push
• Enhancement of existing products: ▪ Blyde River Cable Car and Visitor Heritage Centre ▪ Songimvelo Nature Reserve ▪ Bourke's Luck Tourism Centre ▪ Pilgrim's Rest Historical Mining Town Rejuvenation	Push
• Loskop Area Tourism Destination Consolidation	Initially Push then Pull
• New accommodation development (including budget accommodation) at Nelspruit	Pull
• Casinos and other forms of entertainment	Pull

5 of the above projects would fall into the push activity category, whilst 3 are within the pull category and 2 are both push and pull type projects.

3.5.2 Types/Sources of investors

Who to sell to & from where?

As per Strategic Approach Recommendation 3, all investment types and of course all investment sources should be encouraged, however primary target sources are necessary as budgets cannot be spread everywhere. The primary target sources for MTIPS are listed below. These are the broad targets as investment sources for MTIPS and specific source targets should be identified for each push project (not necessary for pull targets as once the project is known the investor is already in place and the source cannot be influenced) and it is highly likely and acceptable that these source targets may include some that are not within the broad source target list.

In keeping with the Strategic Approach Recommendations 1 (keep it simple/practical) and 3 (encourage all investors), it is the philosophy of this strategy to 'not ignore or overlook the obvious' when it comes to investor source targeting. There are some easy gains to be made in investor targeting close to home (within Mpumalanga and South Africa) that is often ignored. Achieving quick inroads could assist in developing vibrancy and a 'perception of success' in investment promotion, ie making investors think they will have to get in fast or lose. Also all sales techniques advocate that quick gains early in any sales process will bolster the confidence of sales persons and motivate them in future selling, ie once you get going it seems to sell itself.

Another component of the philosophy for this strategy as it concerns investor source targeting, is not to focus solely on the equity investor, but to use the intermediaries as investor sources, who will be the instigators of projects and will themselves in most instances bring the investor on board.

MTIPS Investor Sources by Type & Origin

#	Type	Origin
1.	Wealthy tourists already attracted to Mpumalanga	SA Mozambique USA UK Germany Rest of Western Europe
2.	Businesses and Residents not already in Mpumalanga	South Africa
3.	Large private companies based in Mpumalanga, ie Sasol, mining houses, Eskom	South Africa
4.	Existing investors currently targeting other provinces but not Mpumalanga, ie several hotel groups are looking for expansion opportunities and are investigating and have already decided to invest throughout the country/region. Please note that it is not suggested to ambush the already decided investments and steer these to Mpumalanga, but rather to attract the same investors for additional projects in Mpumalanga	SA Southern Africa UK USA/Canada Germany France Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE
5.	Tourism investors already invested in Mpumalanga	Mpumalanga
6.	Tourism Operators, particularly hotel groups, restaurant and entertainment groups, etc already invested elsewhere in SA and region but not Mpumalanga	SA Southern Africa UK USA/Canada Germany France Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE
7.	Tourism Operators, particularly hotel groups, restaurant and entertainment groups, etc not invested in SA or region	Southern Africa UK USA/Canada Germany France Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE
8.	Developers and contractors (ie Group 5, Africon, Stocks & Stocks, etc) already developing in Mpumalanga	Mpumalanga
9.	Developers and contractors (ie Group 5, Africon, Stocks & Stocks, etc) already invested elsewhere in SA and region but not Mpumalanga	South Africa Southern Africa
10.	Equity investors and financiers (ie private individuals, investment banks, insurance funds, property funds, etc) already invested elsewhere in SA and region but not Mpumalanga	SA UK USA/Canada Germany France Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE
11.	Equity investors and financiers (ie private individuals, investment banks, insurance funds, property funds, etc) not invested in SA or region	UK USA/Canada Germany France Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE

MTIPS Prioritisation of Investor Sources

High Priority		Medium Priority		Watching Brief	
Type	*Origin*	*Type*	*Origin*	*Type*	*Origin*
1. Wealthy tourists already attracted to Mpumalanga	SA Mozambique	1. Wealthy tourists already attracted to Mpumalanga	UK Germany Rest of Western Europe	1. Wealthy tourists already attracted to Mpumalanga	USA
		2. Businesses and Residents not already in Mpumalanga	SA		
		3. Large private companies based in Mpumalanga, ie Sasol, mining houses, Eskom	SA		
4. Existing investors currently targeting other provinces but not Mpumalanga	SA Southern Africa UK USA/Canada France Germany India	4. Existing investors currently targeting other provinces but not Mpumalanga	Rest of Western Europe Asia – Thailand, China, Singapore, Malaysia Middle East – UAE		
5. Tourism investors already invested in Mpumalanga	Mpumalanga				
6. Tourism Operators already invested elsewhere in SA and region but not Mpumalanga	SA Southern Africa UK USA/Canada France Germany India	6. Tourism Operators already invested elsewhere in SA and region but not Mpumalanga	Asia – Thailand, China, Singapore, Malaysia Middle East – UAE		
		7. Tourism Operators, particularly hotel groups not invested in SA or region	Southern Africa UK USA/Canada France Germany India	7. Tourism Operators, particularly hotel groups not invested in SA or region	Asia – Thailand, China, Singapore, Malaysia Middle East – UAE
8. Developers & contractors already developing in Mpumalanga	Mpumalanga				
		9. Developers & Contractors already invested elsewhere in SA and region but not Mpumalanga	South Africa Southern Africa		
10. Equity investors & financiers already	SA UK USA/Canada Germany	10. Equity investors & financiers already	Asia – India, Thailand, China, Singapore, Malaysia		

MTIPS Prioritisation of Investor Sources

High Priority		Medium Priority		Watching Brief	
Type	*Origin*	*Type*	*Origin*	*Type*	*Origin*
invested elsewhere in SA and region but not Mpumalang a	France	invested elsewhere in SA and region but not Mpumalanga	Middle East – UAE		
		11. Equity investors & financiers not invested in SA or region	UK USA/Canada Germany France	11. Equity investors & financiers not invested in SA or region	Asia – India, Thailand, China, Singapore, Malaysia Middle East – UAE

3.5.3 What services to offer and activities to be undertaken to attract investors?

How to sell?

The 'how to sell' question is answered through firstly deciding on the range of investment services to offer and then the activities to be undertaken within these services.

Investment Promotion Services:

The full range of investment promotion services would include:

- Plan: The research and identification of investment focus areas, the identification of investment projects within these areas and the packaging of investment projects (feasibility assessment/business case) to take to the investment market.
- Promote: The promotion of the province as an investment destination, of specific areas in the province as investment destinations and the promotion of specific packaged investment projects.
- Facilitate: The hand-holding of investors through the entire investment process whether pre-packed investment projects or projects mooted by private sector parties. Particularly this relates to assistance in dealing with specific issues hindering the investment process or with connecting interested and affected parties.
- Link: A policy or lobbying service in creating an attractive environment for investment, ie removing investment blockages, ensuring infrastructure is in place for investment, etc.

Depending on the budget and resources available either the full range of investment promotion services could be offered or only a selection. The extent to which each service is provided usually depends on the maturity of the area as an investment destination as well as the available budget:

- Usually new entrants into the investment promotion arena mostly focus on the project planning and promotion services (ie taking the destination to the market), whereas mature destinations will focus primarily on the facilitation and linkages services (market comes to the destination). In the case of Mpumalanga this should mean more planning and promotion type of activities, however would the budget/resources be available?

- Planning and promotion activities are very resource intensive (people and money), whilst facilitation and linkages services are less money intensive although could still require sizable people resources. Given that the budget for the MTIPS implementation is likely to be a limiting factor it would make sense to concentrate on the services where the budget requirements are lower, however the maturity of the destination for tourism investment may not allow for such a concentration.

Keeping in mind the range of services required as well as the dichotomy between investment destination maturity and budget availability, the service allocation breakdown for MTIPS is recommended as follows:

MTIPS Service Allocation

Service	**% of Resources Deployed/Overall Effort**	
	1st 3 Years ***(More push)***	**Thereafter** ***(More Pull)***
Plan	30%	10%
Promote	40%	30%
Facilitate	20%	50%
Link	10%	10%

Activities:

Activities can be specified by service and also by whether it is specific to either a Push or Pull strategy (although some straddle both):

Service	**Activities**	**Extent to which activity is undertaken**	**Strategic direction**		
			Pull	**Push**	**Both**
Planning	1. Identification of push projects (likely to mainly government infrastructure projects, ie parks, attractions, airports, ICCs as well as community driven projects and some private sector projects that need to be pushed to support a target product). Identify leads (projects) by tracking estate agency activity iro sale of large properties/farms and also planning and zoning applications.	1. Extensive in 1st 3 years, thereafter limited		√	
	2. Selection of appropriate projects based on the criteria specified above	2. Extensive - always		√	
	3. Feasibility/business plan development of push projects or review of studies/plans already done	3. Extensive in 1st 3 years, thereafter limited		√	
	4. Packaging of projects which could include	4. Extensive in 1st 3 years, thereafter		√	

Service	Activities	Extent to which activity is undertaken	Strategic direction: Pull	Push	Both
	incentives specific to that project, ie a rates reduction from local municipality, access to government markets, free government land, etc	limited			
Promotion	5. Marketing of projects for investment by hosting own investment conferences or taking the push projects to investment missions or conferences organised by external entities or directly to specific investors	5. Extensive in 1st 3 years, thereafter limited		√	
	6. Selection of appropriate private sector projects for listing on database (identify leads/projects by tracking estate agency activity iro sale of large properties/farms and also planning and zoning applications	6. Extensive, Ongoing	√		
	7. Marketing of destination as an investment location:				
	a. On own website {investment page(s)}	7. a Extensive			√
	b. On investment related websites	7.b Limited	√		
	c. Through dedicated investment conferences organised by Mpumalanga	7.c Limited	√		
	d. By attending investment conferences organised by external entities	7.d Limited			√
	e. Editorial (PR) in investment and general relevant tourism magazines	7.e Extensive	√		
	f. Developing a dedicated tourism investment brochure (hand-out)	7.f Extensive			√
	g. Developing an "Invest in Mpumalanga" guide	7.g Limited			√
	h. Advertising in investment magazines	7.h Limited	√		
	i. Hosting own tourism investment awards	7.i Limited	√		
	j. Encouraging tourism investment projects to enter investment awards programmes organised by other entities	7.j Limited	√		
	k. Piggy back on any relevant MEGA marketing initiatives for the provinces as a whole (all sectors)	7.k Extensive			√
	l. Familiarisation trips of investors to the province	7.l Limited			√
	8. Undertake face-to-face sales awareness meetings with core investors or intermediaries, ie banks (ie roadshow)	8. Extensive			√
	9. Database activities:				
	• Either purchase a basis database from investment intermediaries (such as Omega) or develop a database from scratch using the investor type and source targets specified in Section	9. Extensive			√

Service	Activities	Extent to which activity is undertaken	Strategic direction		
			Pull	Push	Both
	3.3.5. The database should not just be a listing of contact details for investors, but also include interests and preferences of investors (which will only be obtained over time) and information on how they became aware of the potential investments (to track marketing tool effectiveness). • Maintain the database, by inputting data on investors that have shown interest in Mpumalanga, either generally as an investment destination or in specific projects. It is important that information is obtained on all enquires received in order to populate the database. These queries could just be general or could be from attendance or holding at investment promotion events.				√
Facilitation	10. Facilitation activities, ie assist push and pull strategy interested investors in dealing with general enquires as well as specific issues such as EIAs, land claims or linkages with appropriate parties on behalf of investors. **a.** Database of whom to contact for a variety of relevant issues **b.** Database of issues and outcomes, ie precedents	10. Limited in 1st 3 years, then extensive thereafter			√
Linkage	11. Integration with and linkage to activities with the rest of the tourism industry and other appropriate industries/entities, this could be within Mpumalanga, with National levels as well as with other provinces. For instance should investment corridors be identified that span provinces, ie like past SDI and current TFCA programmes that are regional, national and often cross-provincial..	11. Average throughout	√		
Monitor	12. Each year it should be assessed how many projects of each size cap and push/pull category has been sold. It should be stressed that a strict annual quota system is not recommended as it is too restrictive, rather targets should be reached/reachable within the total 7 year period. As per Strategic Recommendation 1, the philosophy remains to encourage all suitable investment and if in one year more small cap projects and less large cap project have been sold and the next year vice versa, it should be acceptable as long as the overall target is still reachable. If by year 4 the small cap project quota for the entire period has been filled, but the large cap quota is still far off, then the selection process and activities would need to be reviewed in order to determine where the problem lies. Large cap projects will be absolutely necessary to reach the bullish targets set.				√
	13. A review should be undertaken of the investor database at least every 2 years to ensure it is an up-to-date and effective CRM tool for investment sales.				√

3.5.4 Value of investments to be targeted?

How much to sell
& for how much?

The question as to the minimum and maximum project values investment should be targeted, has been answered in *Strategic Approach Recommendation 4*.

In order to answer the question on 'How Much to Sell" a calculation was undertaken of how many projects would be required and the equivalent total value in order to achieve the GDP tourism contribution target specified in the MTGS for 2016 of R9 billion. This calculation is provided in Annexure A and indicates that:

- Around 100 investment projects would need to be sold until 2016 equating to between 12 and 18 per annum from 2010 onwards (we assume that MTIPS will only be fully implemented by early 2010 and thus results could only be expected then):
  - By cap size:
    - small cap - 82 for period or 10-13 per annum
    - large cap - 16 for period or 2-3 per annum
    - very large cap - 7 for period or 1 per annum
  - If push strategies are to be used for either large or very large cap project or at least at the highest scale of the small cap level, as specified above, then:
    - Push strategy projects – 27 for period or 3-4 per annum
    - Pull strategy projects - 78 for period or 10 per annum
- Which equates to a total estimated investment value to be reached of R5,4 billion over the period or roughly between R480 to R900 million per annum **(given that MEGA's strategy currently specifies an investment target of R450 million over all economic sectors, this target for only tourism is extremely bullish)**:
  - By cap size:
    - small cap – R0,7 billion for period or R100 million per annum
    - large cap - R2,4 billion for period or R340 million per annum
    - very large cap - R2,4 billion for period or R340 million per annum
  - If push strategies are to be either large or very large or at least at the highest scale of the small cap, as specified above, then:

- R3,9 billion will be required from push strategy projects or R550 million per annum (25% of number of projects but 70% of value)

- R1,6 billion will be required from pull strategy projects or R220 million per annum (75% of number of projects but 30% of value)

It is highly unlikely that the current project opportunities discussed above would equate to this investment target for the total period to 2016, therefore either a significant additional number of projects would need to be sourced or the target would need to adjusted downwards as perhaps it could be deemed too bullish.

3.5.5 When are investments to be targeted?

When to sell?

The calculation in Annexure A, provides a suggested spread of the targeted investment over an 7 year period. The target set in the MTGS was for the period 2007 to 2016. Of course 2007 and 2008 has already past with only a minimum of investment 'sales" as we understand, and we believe that it would take most of 2009 to develop and implement the MTIPS activities, therefore actual results can only be expected from 2010 which leaves an actual investment period of 7 years for this MTIPS.

It has been assumed that 2010 will be slightly slower in reaching sales targets (ie 10% of targets), whilst a linear spread has been assumed for following years (15% of target each year).

3.5.6 Structures/Resources Required for MTIP

Who will sell and with what?

<u>Institutional Structure – Who will sell?</u>

The institutional structure could take one of the following forms:

- Option 1: All functions undertaken within MEGA

- Option 2: All functions undertaken by MTPA

- Option 3: All functions undertaken by another to be developed dedicated entity

- Option 4: Some functions undertaken by MEGA and some by MTPA

In keeping with the principle of keeping the strategy simple and practical, Option 3 would not be feasibility as it would take considerable time to set up and will require changes to existing acts and policies. It is thus disregarded.

Although MEGA currently has the responsibility for most of the tourism investment promotion activities, in order to achieve both pull and push strategies and all specified services, MEGA may not be the appropriate entity. From MEGA's strategy and our interview for this study, it is evident that they only fulfil parts of and not all tourism investment services (ie it may promote packaged projects but it does not identify and package these tourism projects). At this stage MEGA is reliant for MTPA or other entities (government and private sector) to bring it tourism investment projects to sell. However, MEGA has a budget, resources and processes in place that is also to be applied to the tourism sector and of course its tourism budget and resources would not be reallocated to another agency should it be decided to implement the MTIPS outside of MEGA.

On the other hand under a pull strategy the creation of an environment conducive to tourism investment (ie the tourism investment linkage role/service) is very important. As per UNCTAD, to take full advantage of FDI as a catalyst and a complement to domestic investment, a coherent FDI strategy that is integrated with other tourism (and even relevant non-tourism) strategies, is essential. This would be difficult for a MEGA to undertake as this is certainly the role of MTPA for the sector as a whole and it has staff that understands and is experience in tourism and that already interacts within and outside of the industry in respect of issues relevant to investment promotion linkages.

Another concerning dimension in appropriate institutional structuring of the MTIP function, is that MTPA is both a government agency and a tourism owner and operator (of the Provincial Parks). In a push strategy, many MTPA parks investment projects will need to be packaged and pushed onto the market and will compete directly for investment with private sector projects as well as other government infrastructure project of which MTPA is not the 'owner'. In this case it would be preferable that MEGA be the agency handling the push strategy, but as discussed above it is not best placed to undertake the linkage function, which is MTPA's mandated function.

From the above it is clear that neither MTPA nor MEGA have the ability (in its current structure and capacity) to undertake the full range of tourism investment services on its own, however, each are better placed than the other to undertake specific services. We could thus conclude that Options 1 and 2 are also not practical and that Option 4 (a joint MEGA/MTPA function) therefore remains the most practical and viable solution.

With Option 4 recommended, we suggest the following allocation of services or functions:

Service	Push or Pull Strategy Orientated	Responsibility
Plan	Primarily push	MTPA
Promote	Push and Pull	MEGA
Facilitate	Primarily Pull	MEGA
Link	Pull	MTPA

We suggest that a firm agreement be drawn up between MEGA and MTPA as to the allocations of roles and responsibilities and the communication/linkages required between the two agencies to achieve a cohesive and successful implementation of the strategy. In addition these two entities should have regular (quarterly) operational interaction on activities undertaken/to be undertaken, leads generated and milestones reached. We also recommend that the MEGA tourism related staff undergo significant tourism training (provided by MTPA) to ensure that they understand the industry, how it works and what are the issues.

With what - Resources & Budget?

Should the investment levels be accepted that is specified above, then the resources as per the table below would be required.

Responsible Organisation	Service	Resource/Budget Description	Resources Required
MTPA	Plan; Link	• Although the actual linkage activities could be carried out by MTPA staff members that already have responsibility for specific investment related issues, we recommend that 1 person within MTPA be allocated the role of an Investment Promotion Linkage Coordinator, to ensure that the activities are allocated and that the outcomes are achieved and monitored. • This function should be housed within the MTPA's Development unit. Although the Planning (ie collating area assessments and project feasibility studies) for specific push projects could be outsourced, given the extent of projects envisaged over the next 7 years, it would require at least 1-2 dedicated persons within MTPA's Development Unit to coordinate the function and the projects. Should all planning be undertaken by MTPA staff, then at least 5 dedicated planning resources would be required. However, even if the planning function is not outsourced, it would be impossible to have the full spectrum of skills required for the feasibility function (engineering, quantity surveying, town planning, financial modelling, legal, etc) within the MTPA team and some elements would still need to be outsourced.	Outsourced: • 1 Linkage Coordinator (not dedicated) • 2 Planning Coordinators (dedicated) Not Outsourced: • 1 Linkage Coordinator (not dedicated) • 8 Planners (dedicated) and 1 Unit head.
MEGA	Promote; Facilitate	• The facilitation function cannot be outsourced, however, it can be anticipated that the extent of the facilitation role will differ based on whether a pull or push strategy is used, ie it is anticipated that the first 3 years would be primarily a push strategy and that significant planning of projects would take place which would need to be promoted and that limited facilitation of non-packed projects will be needed, whilst in the latter 3 years a pull strategy will be used where more facilitation would be required and less project specific promotion. • The promotion activities required will be more project specific in the first 3 years of the strategy and more general destination orientated in the latter 3 years.	• 1st 3 years: ○ Outsourced: ▪ 1 facilitator (dedicated) ▪ 2 promotion coordinators (dedicated) ○ Not outsourced: ▪ 1 facilitator (dedicated) ▪ 5 promotion coordinators (dedicated) • Thereafter: ○ Outsourced: ▪ 3 facilitators (dedicated) ▪ 1 promotion coordinators (dedicated) ○ Not outsourced: ▪ 3 facilitators

Responsible Organisation	Service	Resource/Budget Description	Resources Required
			(dedicated) ▪ 2 promotion coordinators (dedicated)

Should the investment levels be accepted that is specified above, then the following budget (based on the assumptions below) would be required.

Cost/Entity	*Assumption Notes*
MTPA:	
Link:	
Salary cost	50% of R30k per month (ie half a salary)
Other expenses	R10k per month
Plan:	
Salary cost	R30k per month salaries for coordinators; 2 if outsourced. R40k per month for planners; 8 if not outsourced.Unit head if not outsourced, R65k per month
Other expenses	Office costs, travel costs, etc = R100k per month if not outsourced; R10k per month if outsourced
Consulting fees	Average of R2m per project for large and very large projects - assuming some on PPP process; R500k for "large" small cap projects; investment planning to start immediately in order to enter market (ie open) from 2010 to 2016; all 24 very large and large projects done by 2012, ie 8 each year from 2010; Outsourced = 100% of consulting fees; Not outsourced = 60% of consulting fees (still need to bring in quantity surveyors, engineers, legal experts etc even if do not outsource feasibility assessment)

MEGA:	
Facilitate:	
Salary cost	During push strategy years - 1 dedicated tourism facilitator; R30k per month. During pull strategy years - 3 dedicated tourism one stop shop facilitators; R30k per month
Other expenses	During push strategy years - R5k per resource per month. During pull strategy years R10k per resource per month.
Promote:	
Salary cost	During push strategy years - if outsourced 1 coordinator; if not outsourced 5 dedicated promotors; Salary at R40k per month. During pull strategy years - if outsourced 1 coordinator; if not outsourced 2 dedicated promotors
Other expenses	If outsourced or not general destination promotion costs R250k per annum; If not oursourced project promotion disbursement costs of R30k per project
Consulting fees	If outsourced R1million per large and very large project and R200k per small project; if not outsourced then 20% of outsourced cost

Mpumalanga Tourism Investment Promotion Budget

	2010	2011	2012	2013	2014	2015	2016
Inflation	6%	6%	5%	5%	5%	5%	5%
Outsourced:	R 35 817 400	R 37 787 357	R 18 921 301	R 4 969 513	R 5 217 988	R 5 478 888	R 5 752 832
MTPA	R 20 818 400	R 21 963 412	R 2 306 158	R 2 421 466	R 2 542 539	R 2 669 666	R 2 803 150
MEGA	R 14 999 000	R 15 823 945	R 16 615 142	R 2 548 047	R 2 675 449	R 2 809 221	R 2 949 682
Not Outsourced:	R 23 871 200	R 25 184 116	R 26 443 322	R 5 138 482	R 5 395 406	R 5 665 177	R 5 948 436
MTPA	R 18 253 200	R 19 257 126	R 20 219 982	R 2 123 098	R 2 229 253	R 2 340 716	R 2 457 751
MEGA	R 5 618 000	R 5 926 990	R 6 223 340	R 3 015 384	R 3 166 153	R 3 324 461	R 3 490 684

Total Budget over 7 years:	
Outsourced	R 113 945 279
Not outsourced	R 97 646 139

Budget as % of Total Investment Value:	
Outsourced	2.10%
Not outsourced	1.80%

Although the budget required may seem significant, it is not out of line given the investment value (benefit) it is to generate (R5,4 billion over the 7 year period). The investment promotion budget as a percentage of the total investment value is only 2% and in our view well worth the cost. Event if the budget to investment equation increases to 5%, it would still be regarded an excellent cost/benefit relationship.

The budget if outsourced is significantly higher than if not outsourced. This is to be expected as the risks (for quality and completion) fall onto the outsourced party and this transfer of risk comes at a cost.

Incentives:

At this stage we do not suggest that any additional incentives, other than that already available on a national basis be provided at a Provincial level in Mpumalanga. Discussions should be had with local municipalities, however, with regards to any incentives they could provide for specific projects within their jurisdiction. Please note that these should not be a blanket incentive provided to all projects, but be ad-hoc and project specific. The MTIP desk staff should have written information readily available on all incentives available in the tourism industry and should be able to explain these in detail to any potential investor. This information should also of course be posted on the MTIPS website.

3.6 Broad Marketing Plan for MTIPS

As per Section 3.5.2 – How to sell.

3.7 Economic Benefit of MTIPS

The projected economic benefits of MTIPS, should the investment targets be realised, are detailed in Annexures A and B and summarised as follows:

- Generating investment over the 7 year period of R5,4 billion (ie capital value of projects).
- Developing 107 new tourism projects; if all projects are accommodation related it will equate to 8 300 additional beds or roughly 4 000 additional rooms.
- The targeted new capital investment will result in an additional R1,9 billion direct contribution to GDP by 2016.
- The targeted new capital investment will result in a direct expenditure of R1,5 billion by 2016.
- The targeted new capital investment will support 6 000 direct job opportunities by 2016.

Grant Thornton

Strategic Solutions

www.gt.co.za