

South African Tourism Industry Empowerment and Transformation Annual Review 2002

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Abbreviations and Acronyms

ACSA	Airports Company of South Africa
ASATA	Association of South African Travel Agents
B&B	Bed and Breakfast
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
CSDF	Corporate SMME Development Forum
CSI	Corporate Social Investment
CSR	Corporate Social Responsibility
DBSA	Development Bank of Southern Africa
DEAT	Department of Environmental Affairs and Tourism
DTI	Department of Trade and Industry
EE	Employment Equity
ESOPS	Employee Share Option Schemes
FEDHASA	Federated Hospitality Association of South Africa
FTTSA	Fair Trade in Tourism South Africa
GDP	Gross Domestic Product
HDI	Historically Disadvantaged Individual
HR	Human Resources
IATA	International Association of Travel Agents
IDC	Industrial Development Corporation
IT	Information Technology
ITMAS	International Tourism Marketing Aid Scheme
JSE	JSE Securities Exchange South Africa
PRO	Public Relations Officer
SAA	South African Airways
SATOUR	South African Tourism Organisation (now South African
Tourism)	
SATSA	Southern Africa Tourism Services Association
SMEDP	Small Medium Enterprise Development Programme
SMMEs	Small Medium and Micro Enterprises
SMS	Short Message Service
SPV	Special Purpose Vehicle
TBCSA	Tourism Business Council of South Africa
TEP	Tourism Enterprise Programme
TGCSA	Tourism Grading Council of South Africa
THETA	Tourism, Hospitality and Sport Sector Education and Training
Authority	
TOMSA	Tourism Marketing South Africa

Introduction

On June 29 2001, following an extensive process of research and consultation, the Tourism Business Council of South Africa (TBCSA) adopted a [Charter of Empowerment and Transformation in the Tourism Industry \(see Appendix II\)](#). [One of the key commitments made by the Charter's signatories was](#) "to participate honestly and openly in an industry-wide reporting and information sharing process." [This Review, the first milestone in that process,](#) aims to assess the current state of black economic empowerment (BEE) within tourism and to develop a base for future benchmarking reviews. One of the key recommendations of the report is the development of clear, widely publicised indicators that will enable empowerment to be properly quantified and monitored.

One of the points that will be highlighted throughout this report is that BEE, far from being a government-imposed cost on reluctant businesses, offers clear benefits to those who are able to develop and implement a clear, business-driven empowerment vision. These benefits, as will be explored below, can include improved relations with stakeholders and new market opportunities.

Tourism in South Africa

Tourism is one of the biggest contributors to global economic and employment growth, in both developed and developing economies. The World Travel and Tourism Council has predicted that by 2011 the industry will contribute 11% of global gross domestic product (GDP) and account for 9% of total employment, or over 260m jobs worldwide.¹ Although the World Trade Centre attack of September 11 2001 caused a serious short-term drop in global tourism demand – especially for those countries that were heavily reliant on US outbound travel – the World Tourism Organisation expects the industry to recover to pre-crisis levels by the third or fourth quarter of 2002. Africa was the region least affected by the crisis, experiencing a drop of just 3.5% in international tourist arrivals compared to 6.2% for Europe, 24% for the Americas and 30.2% for the Middle East.²

South Africa remains a leading long-haul tourist destination on the continent, and has seen some growth despite its dependence on the UK, Germany and the USA markets. Foreign arrivals in February 2002 were up 19.5% compared to February 2001,³ an impressive performance given the worldwide tourism slump. The growth in visitors from Europe in particular was encouraging, with an increase of 22.7% in arrivals in February 2002 compared with February 2001, indicating that South Africa is now perceived as a safer destination.⁴

Tourism has been identified as one of the key growth sectors for the South African economy. A 2001 study by the Department of Environmental Affairs

¹ World Travel and Tourism Council, Press Release: *World Travel and Tourism Council Forecast Places Tourism among Leading Economic and Employment Generators*, 8 May 2001.

² World Tourism Organisation, Press Release: *Tourism recovery already underway*, 16 March 2002.

³ Statistics South Africa, *Tourism and Migration, February 2002*, 22 May 2002, p.2.

⁴ Interview with Cheryl Carolus, *Bua Magazine*, December/January 2002, p. 5.

and Tourism (DEAT) indicates that for every overseas tourist that visited South Africa in 2000, a value of about R66 400 was generated for the National Gross Domestic Product (GDP). Also, according to the same DEAT research, it is estimated that on average, one new employment opportunity is created for every eight additional overseas visitors to South Africa.⁵

According to DEAT, “tourism development in South Africa is expected to play an increasingly significant role in the national (and regional) economy in terms of its contribution to national production, government revenue, foreign exchange earnings, employment creation and entrepreneurship development.”⁶ It is envisaged that many of the small, medium and micro enterprises benefiting from the growth of tourism in South Africa will be black owned businesses.

The South African tourism industry is still relatively young and has only really begun to blossom in the decade since the end of apartheid. This presents particular constraints and challenges, notably a shallow skills pool and an underdeveloped black domestic tourism culture, in addition to the heavily racially skewed industry structure that is the legacy of apartheid. So long as these racially based inequalities remain, the industry’s sustainability and growth potential are threatened. **The drive towards black economic empowerment and normalisation of the South Africa economy is thus informed as much by sound business principles as by moral and political imperatives.**

Methodology

This Annual Review, the first of what will become a regular series, is an integral part of the reviewing and reporting process committed to by industry members who signed or otherwise supported the 2001 [Charter of Empowerment and Transformation in the Tourism Industry](#). **The Annual Review’s intention is to identify what progress has been made and to report back to all stakeholders in the industry, to encourage industry empowerment efforts, and to promote partnership with government in the industry’s growth and development.**

Little similar research has been done so far and empowerment in the South African tourism industry is in general still in its early stages, with little or no quantitative data available. This report therefore also serves as an initial benchmarking exercise on which future reports can build. It emphasises detailed qualitative information, gathered during 24 interviews with industry leaders, lasting about an hour each. The interviews were supplemented with desk research. Interviewees included representatives from the private sector, government, funding bodies and industry associations. Small businesses

⁵ This is the prevailing wisdom. See “Satour link with business transforms tourism in SA”, *Business Times*, 14 February 1999. However, according to a DEAT source this may be as high as the creation of one job opportunity per overseas visitor: Draft Discussion Document, “A Preliminary Tourism Investment Mobilisation Strategy for South Africa: 2001-2011”, [2001], p. 3 and 4.

⁶ DEAT, “A Preliminary Tourism Investment Mobilisation Strategy for South Africa”, p.5.

were not directly surveyed on this occasion, but questions about small business development were put to associations, as well as other participants.

Structure of Report

Part I sketches the context for this report, discussing the background to BEE in South Africa and the tourism industry specifically, as well as reviewing international developments in responsible tourism that have a bearing on the local industry.

Part II, the main body of the document, is a review of progress on the key BEE issues: ownership, affirmative procurement and business development, internal transformation (management and skills development), community development and market development. We also review the roles of government and tourism associations, as well as the funding mechanisms available for tourism initiatives. The discussion sets out the major themes and trends evidenced in the interviews and highlights successes and constraints.

The report concludes by highlighting the key BEE and tourism trends and suggesting directions for future action.

Part I: Background to Empowerment in the Tourism Industry

Black economic empowerment (BEE) is the umbrella term applied to a wide variety of measures undertaken by South African businesses and government bodies to redress the deep economic inequalities that are the legacy of the country's apartheid past. For decades black South Africans – by which is meant those of African, coloured and Indian descent – were systematically deprived of opportunities to access land, education, skilled employment and opportunities for wealth creation. It is widely recognised that the enduring inequalities created by this history will not be eradicated without equally systematic interventions on a variety of levels. Many of these interventions can be classed as BEE, which is variously defined. Most definitions, however, include a few essential elements:

1. The purpose of BEE is to integrate black South Africans (or “historically disadvantaged individuals”) into the mainstream of the economy.
2. This integration requires:
 - a. Ownership
 - b. Management
 - c. Controlof wealth and productive assets by black South Africans.
3. Empowerment requires the development of a black entrepreneurial class.

There is a very wide range of means to achieve these ends, ranging from simple transfer of share ownership into black hands, through employment equity and affirmative action measures and training and skills development initiatives, to measures designed to support new business development. **While much public discussion remains stuck on issues of ownership, the true empowerment picture is much broader; this is recognised by the TBCSA's *Charter of Empowerment and Transformation in the Tourism Industry* and in this report, which deals with a wide range of empowerment measures.**

In this the TBCSA follows the lead established by the BEE Commission, which argued strongly in its 2001 report for a broader definition of empowerment:

“BEE must incorporate comprehensive strategies, which are aimed at increasing access to productive assets whilst simultaneously ensuring the productivity of those assets. BEE should therefore seek to promote new opportunities for and increase the levels of participation of black people in the ownership, management and control of economic activities. Strategies should support individual entrepreneurs as well as social and collective capital.

According to this approach, BEE should be viewed within the broad scope of empowerment processes including, amongst others: job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower black women, skills and

management development, education, meaningful ownership, and access to finance for households and for the purpose of conducting business. BEE must be a people-centred strategy, in word and in deed. BEE must impact on the lives of those purposefully and systematically excluded from the economy.”⁷

Overview of TBCSA Charter

The TBCSA’s *Charter of Empowerment and Transformation in the Tourism Industry* recognises that the industry remains largely white-owned, with significant disparities in access to opportunities and benefits. These inequalities are antithetical to the flowering of a tourism and tourist-friendly culture. The charter thus acknowledges the need to ensure that the opportunities and benefits of the industry are extended to all historically disadvantaged South Africans, not just as a social responsibility but also because normalisation of the SA industry is an essential ingredient of increased global competitiveness.

The *Charter* takes a broad view in which ownership is just one of four routes to increasing the participation of historically disadvantaged South Africans in tourism. The other empowerment strategies are: business development, opportunities for management and community development. The charter’s signatories made two key undertakings:

1. To commit themselves to developing initiatives to achieve empowerment at every level.
2. To participate in a regular, industry-wide reporting and information sharing process to assess progress.

Tourism Industry Context and Challenges

The tourism industry was named as an example of positive BEE progress in President Thabo Mbeki’s 2002 State of the Nation address: “As is happening in the tourism industry, progress will depend on active government leadership and co-operation from various sectors of the business community itself.”⁸ This statement is predicated on the awareness of a range of drivers influencing the transformation of the tourism industry.

A 1999 study of SA tourism by the Cluster Consortium noted that there were seven key BEE drivers, ranged along a continuum from the predominantly social to the predominantly commercial:

1. *Social responsibility*;
2. *Social stability* – promoting a stable, crime-free, and tourist-friendly environment;

⁷ BEE Commission, *BEE Commission Final Report*, Skotaville Press, 2001, p.2.

⁸ Thabo Mbeki, *State of the Nation Address*, 8 February 2002.

3. *Stakeholder support* – improving or maintaining the quality of relationships with government, labour unions, local communities and others in the sector;
4. *Government incentives* such as preferential procurement, access to contracts and concessions, licensing requirements and legal obligations (e.g. employment equity and skills development);
5. *Cost cutting and efficiency* – this applies particularly where there are opportunities for outsourcing, or spinning off SMMEs;
6. *Product and market development* – creating “African” products and experiences, targeting socially aware markets and developing the domestic market; and
7. *Quality of service* – this includes skills development.

The Cluster Consortium study, which has not received as much attention as it merits, noted that “in general, the most sustainable and successful of empowerment outcomes will be the product of a balance of focused social and commercial considerations .”⁹ In fact, **most of those interviewed for the current survey showed a sophisticated understanding of the complex interaction between these empowerment drivers, noting that the tourism sector is uniquely dependent on the support and success of local communities where it operates.** In addition, the very nature of the tourism product that many visitors to South Africa demand – an “African experience” of high quality – creates strong commercial incentives for empowerment at all levels of the industry, particularly in the areas of employment, skills training, product development and partnerships with small and emerging businesses.

One interviewee noted that “seen in its proper context empowerment is a huge opportunity for the industry; within a short time horizon, however, it can look like a threat”. This points to the need to make it very clear exactly what business benefits BEE can offer and what value it can add to a company.

The tourism industry encompasses a range of products, including: outbound travel, inbound travel, domestic tourism products and the hotel and hospitality industry. The resulting complexity of the industry – which includes local and international private companies of all sizes as well as a variety of supporting organisations, funding agencies, government departments and state-owned enterprises – makes for a similar complexity of empowerment initiatives. Because of this, it is difficult to make comparisons between companies in the sector or to assess the sector’s progress over time. It is hoped that this report will establish benchmarks to make such comparisons easier in the future.

Global Tourism Trends

The tourism industry in South Africa is not alone in facing calls to address questions of inequality, poverty and social justice. **Across a wide range of industry sectors and around the world, companies are paying increasing attention to the nature of their engagement with the social, political and**

⁹ The Cluster Consortium, *Strategy in Action*, 1999, p. 112.

natural environments in which they do business. A recent Ford Foundation study¹⁰ argued that there were three general drivers for companies to increase what the study called their “corporate engagement”:

1. External pressures from governments or advocacy groups;
2. Expression of the company’s core values; and
3. To support or enhance a long-term business strategy.

A particular company might be motivated by any one or more of these drivers, which tend to interact with each other and change in importance over time as a company’s level of engagement matures. In some cases companies might begin by responding to outside pressure, for example, and then discover business strategic benefits that change their rationale over time. **Black economic empowerment in South Africa can easily be viewed as a specialised sort of corporate engagement under this model. In general, companies increase their corporate engagement in response to a mixture of threats and opportunities.**

In the tourism industry, organisations such as the International Centre for Responsible Tourism, TearFund and Pro-Poor Tourism are leading the way in making both tourists and tourism operators aware of the linkages between tourism, poverty and social and economic development. Already it is clear that tourists in developed economies such as the United Kingdom – from which 24% of all South Africa’s inbound tourists come – actively consider ethical issues when choosing holidays, destinations and operators. A recent Tearfund research study¹¹ found that 52% of British tourists – 7% more than in a similar survey two years before – would be more likely to book a holiday with a tour company that had a written code guaranteeing good working conditions, protection of the environment and support for local charities in tourist destinations. 65% of those surveyed said they wanted travel agents and tour operators to inform them on how they could best support the local economy, preserve the environment and behave responsibly in their holiday destinations. In 1999, 59% of holiday makers polled by Tearfund said they would be willing to pay an average of 5% more for their holidays if the money went to the preservation of local environments, good wages and working conditions for workers, or a local charity.

Consumer demand for “responsible tourism” products thus presents a clear opportunity to companies that are able to deliver. There are also risks for those who are not. Pro-Poor Tourism points out in a recent briefing¹² that conflicts and violence can arise when local communities feel they are not benefiting sufficiently or fairly from tourism: “beyond the enclave, tourism is dependent on the tolerance of local communities.” On the other hand, well-motivated local staff and local guides are likely to provide better service to customers.

¹⁰ J. Weiser and S. Zadek, *Conversations with Disbelievers: Persuading Companies to Address Social Challenges*, Ford Foundation, November 2000.

¹¹ TearFund, *Worlds Apart: A call to responsible tourism*, January 2002.

¹² D. Roe, H. Goodwin and C. Ashley, *The Tourism Industry and Poverty Reduction: A Business Primer*, Pro-Poor Tourism Briefing No. 2, March 2002, p. 2.

Tearfund believes that as increasing numbers of people travel from the developed world to developing countries for their holidays, ethical tourism will become an increasingly big issue – and companies who respond to this demand will have a competitive edge. The pressure is already being felt in the local industry – more than one company surveyed for this report said international guests were curious about and interested in issues of transformation in South Africa.

Responsible Tourism Developments In South Africa

- These global pressures are already being clearly felt in South Africa. Two initiatives are prominent; DEAT's development of responsible tourism policy and Fair Trade in Tourism South Africa.

The 1996 White Paper on Development and Promotion of Tourism in South Africa committed the government to a policy of responsible tourism development, arguing that “responsible tourism is not a luxury for South Africa. It is an absolute necessity if South Africa is to emerge as a successful international competitor.”¹³ This has now been followed by the development of guidelines and a manual for responsible tourism development, launched at the Tourism Indaba in Durban in May 2002.

The guidelines are organised around the “triple bottom line” principle of accounting for social and environmental as well as financial responsibility. They are not compulsory, but instead encourage marketing, trade and professional associations and regional groups to develop Codes of Conduct, to monitor their implementation and to report annually on progress.

Recognising the complexity of the industry, the national guidelines offer a very substantial range of choices to entrepreneurs wishing to make their businesses more responsible, and encourage businesses to “look for commercial advantage in selecting economic, social and environment initiatives.” The guidelines recognise that responsible tourism policies offer businesses an opportunity to develop unique selling propositions. Industry should note that “compliance with all relevant national legislation and regulations and the principle that the ‘polluter pays’ is assumed. Responsibility, and the market advantage that goes with it, is about doing more than the minimum.”¹⁴

The second initiative, Fair Trade in Tourism South Africa (FTTSA), has been established as part of an international network promoting the principles of fair trade in tourism. The organisation's principles include:

- Income from tourism operations should be fairly shared between participants according to their input.
- Participants should be involved in decisions that concern them.

¹³ DEAT, *White Paper on the Development and Promotion of Tourism in South Africa*, 1996.

¹⁴ DEAT, “Background to the National Responsible Tourism Guidelines”, 20 March 2002, p. 3.

- Encouraging respect, by both hosts and visitors, for human rights, culture and environment. This encompasses fair labour practices, gender equity, HIV/AIDS awareness and reliable delivery of quality services.
- Accountability of tourism activities – including clear definition of ownership, equal access to information for all participants and transparent sharing of costs and benefits.
- Sustainable tourism.

In both the government and private sector initiatives the driver towards responsible tourism is ensuring that the South African tourism industry is globally competitive.

Towards BEE in South African Tourism

1. Far from being unique, the social and businesses drivers of BEE in the SA tourism industry that were identified by the Cluster Consortium are closely aligned with global pressures towards corporate engagement and responsible tourism. **Local industry participants who are meeting the challenges of empowerment are also well positioned to take advantage of the opportunities offered by these global trends.**

Part II: Progress Review of Empowerment in the Tourism Industry

The TBCSA's *Charter of Empowerment and Transformation in the Tourism Industry* identifies five routes to increasing the participation of historically disadvantaged South Africans in tourism. Changing the ownership of enterprises is one widely recognised element of an overall empowerment vision, but there are four other, equally important elements:

- Affirmative procurement;
- Small business development;
- Internal transformation including employment equity initiatives and management opportunities, and
- Community development.

Part II of this report reviews progress in each of these areas in turn, before moving on to consider market development, the roles of government and industry associations, and the availability and nature of funding for empowerment activities.

Ownership

One of the most obvious ways **to measure the extent of black economic empowerment in a company is by its level of black ownership, and indeed this is one of the commonest measures of empowerment used in South Africa today** – although, as will be discussed later in this section, it is of limited value considered in isolation and should be supplemented by other BEE measures.

Defining Black Ownership

The Black Economic Empowerment Commission has proposed the following definitions based on measures of black ownership:

- A "black company" is one that is 50,1% owned and managed by black people.
- A "black empowered company" is one that is at least 25,1% owned and managed by black people.
- A "black influenced company" is one that is 5-25% owned and managed by black people.
- An "engendered company" is one with at least 30% representation of black women within the black equity and management portion.

By these measures very few South African tourism companies can be regarded as black or black empowered. In fact, **ownership turns out to be far more complex and difficult to measure than these definitions would suggest.**

Categories of Ownership

From the 17 private and state-owned companies (as opposed to supporting organisations or government bodies) surveyed for this report, five distinct categories of ownership emerged:

1. 100% foreign-owned companies;
2. Wholly owned subsidiaries of public listed companies, either on the JSE or an offshore exchange;
3. Companies independently listed on the JSE;
4. Companies privately owned by mainly South African interests; and
5. Companies wholly or partly owned by the government or state-owned enterprises.

In each of these categories there are distinct issues to be taken into account when measuring black ownership and constraints on increasing that ownership.

In the case of **100% foreign-owned companies**, there is little incentive for the foreign owners to give up any of their equity, barring government intervention – which would carry a high risk of disinvestment, or at least reduced investment. Where new investments are being contemplated there is an opportunity to encourage joint ventures with local empowerment partners – but, as one interviewee pointed out, some international groups may have had negative experiences with local joint venture partners in other developing-world markets, and hence be wary of similar ventures here. **The business case for taking on a local empowerment partner will need to be strong, and the partner itself will require both an excellent track record and the means to finance its involvement.** So far there are relatively few empowerment companies able to meet these conditions.

Wholly-owned subsidiaries of public listed companies, independently listed companies and privately owned companies face similar constraints on any attempt to increase black ownership: the shareholders need to be convinced of the business case for any transfer of their equity to a third party. In the case of South African shareholders the case is easier to make, since they are more likely than foreign shareholders to understand the need for and context of empowerment, and more likely to respond positively to government pressure (as in the case of BEE requirements for the gaming industry). Nevertheless, **prospective empowerment partners need the means to finance their investments – and, as noted above, there are relatively few who are both in a strong financial position and have an interest in the tourism industry.**

Even where the government or a state-owned enterprise is the majority shareholder, with a strong commitment to increasing black ownership, achieving this aim is easier said than done. The Airports Company of South Africa is a case in point: in 1998, when the first stage of the company's privatisation was completed with the sale of 20% to Aeroporti di Roma, a further 20% was set aside for empowerment groups: 10% for the National Empowerment Fund and 10% for other empowerment investors. Of this, only

4.22% has actually been transferred during the past four years – the remainder has been warehoused by government, largely because none of the prospective empowerment investors had the financial wherewithal in 1998 to complete the transaction (the Asian markets crisis and subsequent high South African interest rates were a major factor). This was despite the fact that the shares were to be offered at a discount of 10% to the price paid by Aeroporti di Roma – a financial concession few in the private sector will be able to match.

Success Stories

Despite these constraints, there are several examples of successful initiatives to transfer ownership of tourism companies to black South Africans:

1. **Avis** has entered into a successful long-term joint venture with a black entrepreneur, Elizabeth Tryon, to develop Sizwe Car Rental. Avis has provided ongoing skills transfer and funding for growth, training and market development. The company has built up over six years to the point that it has a fleet of 350 vehicles for hire and is profitable, with an asset value of R2.5bn. The empowerment partner currently owns 40% of the business and Avis 60%. Efforts to further increase the empowerment shareholding, however, have been frustrated by the size of the capital injection required (see section on constraints below).
2. In January 2001 **Protea Hospitality Corporation**, the holding company of Protea Hotels, sold 18% of its shares to a consortium of black companies that includes Basebenzi Investments (the investment vehicle of the Federated Allied Workers' Union), Hoyohoyo Hotels and Resorts, Popcru Investment Holdings, Siphumelele Investments and two private shareholders. Protea is a non-listed company so further details are unavailable, but indications are that all the shareholders are happy with the deal so far.
3. **The Don Group** has been black-owned and managed since the current chairman and CEO Thabiso Tlelai bought a controlling stake in the company for R1 in 2000. The initially debt-ridden group has been substantially restructured through the sale of 13 hotel properties to Ellwain Investments for R105m (Marc Wainer and Sidney Ellerine are minority shareholders in and non-executive directors of the group), with nine hotels being managed under a leaseback agreement. The group, noted for its operational excellence, showed a headline profit of R643,000 for the half-year to December 2001, compared to a loss of R2,7m the previous year.
4. **Tsogo Sun**, which operates casinos in Nelspruit, Witbank and Montecasino (Johannesburg), is 50% owned by Southern Sun and 50% by Tsogo Investment Holdings, a group of black investors including Fabcos, the National Council of Trade Unions and the SA Clothing and Textile Workers Union. The empowerment purchase was funded via a R300m loan and was recently estimated to be worth

R600m. An attempt was made to swap the empowerment group's share of Tsogo Sun for 24% of Southern Sun itself, with an option on a further 6%. Southern Sun, which is currently owned by South African Breweries, would then have been independently listed on the JSE. The deal never happened, however, largely because of the difficulty of reconciling the interests of the large number of stakeholders involved – not only the current owners, but also regulatory bodies such as the Competition Commission and the National Gambling Board.

In general, as BusinessMap pointed out in a recent review of empowerment in tourism, “empowerment players are mostly active in the potentially lucrative gaming sector”¹⁵, not only because it is financially attractive (unlike some other segments of the tourism industry, as will be discussed below), but also because the state, through licensing requirements for gaming, has been able to exert pressure for empowerment.

Employee Share Ownership

One vehicle for increased ownership that receives perhaps insufficient attention is the transfer of shares to employees and management via employee share ownership schemes (ESOPS). Of the companies surveyed, only four had functioning ESOPS:

1. **ACSA** has set aside 9% of its total shares for allocation to employees, some through the ESOPS and some through a management incentive scheme.
2. **AVIS** has run a share option scheme since it first listed in 1967, with each employee having a minimum of 2,000 shares (worth in the region of R14,000 to R16,000 at current value). The share allowance for employees has increased over the years, although there is no specific empowerment emphasis in their allocation.
3. **City Lodge Hotels** launched an Employees Share Trust in 1995, in terms of which all employees who have been with the company for a year or more become shareholders.
4. **Tourvest** and its related companies all have ESOPS in place.

Two other companies have ESOPS under development or redevelopment. In both cases interviewees noted that unions were either “not interested” or had actively discouraged staff from taking up shares – this is a point that could be explored in future reviews. It was also noted that in the case of listed companies, reserving shares for employees could have a negative effect on the share price under certain market conditions and that this was a further complicating factor – especially since a drop in the price of shares issued can work against the purpose of ESOPS by undermining employees' financial security.

¹⁵ BusinessMap, *Spotlight on empowerment in tourism*, 13 July 2001.

Three companies had no ESOPS, in two cases because they were wholly-owned subsidiaries of other companies and in one because the company is privately owned. No information was available in five cases.

Where shares have been set aside or a scheme is being put into place, anything between 3% - 10% of shares is set aside for employees.

Constraints on increased black ownership in tourism

One unanticipated constraint to increased black ownership in the tourism industry, mentioned by several interviewees, was a perception that the tourism market was “not attractive to black companies.” In one case this was believed to be because the financial sustainability of ecotourism ventures is not sufficiently proven; in another union investment funds – among the most important vehicles for broad-based empowerment – were perceived to be reluctant to invest in the leisure industry, perhaps because of a potential conflict of interest (many workers in the tourism and leisure industries are unionised).

As in other sectors, however, **access to finance remains the single biggest constraint on increased black ownership in the tourism industry, which is in many cases highly capital-intensive.** The resources required to acquire ownership in a hotel or transport group, for example, are considerable. This is all the more difficult since the Special Purpose Vehicle (SPV) funding structures that financed many empowerment deals in the late 1990s have fallen into disfavour. SPVs were complex arrangements by which financial institutions put up the money for the acquisition of shares by empowerment groups, on the premise that increases in the price of the shares acquired would enable the empowerment groups to meet their financing obligations. The post-1998 JSE slump, and associated lack of liquidity in many empowerment shares, exposed the weakness of many of these deals, leaving empowerment investors with onerous commitments and little to show for them.

The Tsebo Outsourcing Group (formerly known as Fedics), which owns Air Chefs, provides one example of the difficulties many companies faced. An empowerment consortium bought a 33.3% stake in the company in 1997, with a view to acquiring a controlling interest in the future. The company was listed on the JSE later that year, with the empowerment shareholding increasing gradually to 60% by April 1999. The empowerment shareholder, however, was getting no value from its investment even while it faced continued commitments to its SPV funding vehicle. In March 2000 shareholders and management decided to delist the company, buy out minority shareholders and refinance the company, leaving it less dependent on the vagaries of the stock market. The company is now 50,1% owned by empowerment interests, including Nozala Investments, Siphumelele Investments and management, with the remainder held by private equity company Ethos.

One interviewee suggested that the significance of an empowerment stake should not be measured only in terms of percentage shareholding, but should also be related to the capital and cost structure of the business concerned. In highly capital-intensive companies such as hotel or travel operators a 10% shareholding, it was suggested, might be as significant in terms of benefits conferred and obligations incurred as a 60% stake in a consulting or IT company. It would not be in the best interests of an empowerment shareholder to allocate scarce financial resources to increasing its shareholding when constant capital injections to a business are required to finance its growth. (It should be noted, however, that innovative alternatives to debt-financed acquisition of shareholdings are being developed. For example, some companies in other sectors are beginning to implement mechanisms which quantify the value added by an empowerment partner and translate this into earnings, which can then be converted to equity.)

Even in less capital-intensive segments of the industry, the financial barriers to entry can be considerable. ASATA pointed out, for example, that would-be travel agents must **put up substantial financial guarantees** before they can be licensed by the International Association of Travel Agents (IATA). For many small agents this means bonding their own houses, putting black South Africans who were denied past opportunities to own property at a disadvantage. The problem is exacerbated by the fact that **the retail travel industry operates on extremely small margins of one to two percent, making it unattractive to many black entrepreneurs.**

Beyond ownership: the importance of other measures

These factors support the view of the BusinessMap Foundation that **“the use of shareholding as the key measure of the empowered status of a large company is potentially both deceptive and of questionable strategic value”**¹⁶ – **deceptive because black South Africans don’t necessarily derive the expected economic benefit, and of questionable strategic value because it focuses attention on shareholding and deal-making, rather than capacity-building, governance, and the transformation of the business.**

It is thus important to include other measures of empowerment – as this report does – while recognising that in the long run increased ownership of tourism companies by black South Africans will remain a crucial and indispensable element of empowerment.

¹⁶ BusinessMap, *Empowerment 2002: The State Steps In*, April 2002, p. 25.

Affirmative Procurement and Business Development

Small business development and affirmative procurement have the potential to account for a large proportion of BEE activity in the tourism sector, and are especially significant for those companies whose current shareholding structures place constraints on their ability to increase black ownership.

“Affirmative procurement”, understood in its broadest sense, entails a commitment to procure goods and services as far as possible from black-owned businesses, especially small businesses – or, failing that, from businesses which have empowerment programmes in place or which procure from black-owned business in their turn (this is sometimes known as “second-tier” affirmative procurement).

Of 16 organisations interviewed which purchased goods and services from outside suppliers on any kind of large scale (industry associations and supporting bodies were not counted), nine had formal affirmative procurement policies in place and measured the amount of business awarded to black companies, with targets of up to 75% of total procurement. These included state-owned enterprises and government departments. The remaining seven, all private sector companies, all demonstrated an awareness of the need for affirmative procurement and said they made conscious efforts to procure from black companies where possible, even though no formal policy was in place. One of these companies had developed a supplier profile form and was in the process of compiling a procurement manual. **Not one company surveyed said it had no interest in or plans to introduce affirmative procurement.**

This picture suggests that tourism is by and large following the same development pattern as most other sectors. Affirmative procurement policies tend to be initiated by government departments and state-owned enterprises, but then gradually spread through the private sector, driven by the buying power of the larger players and the commitments of companies with a strong empowerment focus.

Difficulties in measurement

More formal measurement of the extent of affirmative procurement in the industry remains difficult, for several reasons:

1. **Some organisations do not yet specifically monitor or measure the amount of business awarded to black companies.** The difficulties of doing this should not be underestimated, particularly for smaller companies which do not have dedicated procurement departments. In most cases measuring affirmative procurement entails establishing new information systems, modifying existing ones or reorganising the company’s procurement function.
2. **It is not widely agreed exactly what should count as a “black-owned business”, nor a “small black-owned business.”** Definitions

tend to vary across industry sectors and according to the nature of the business concerned. This complicates the task of measurement and can make comparisons between companies impossible.

3. Even where definitions have been established and measurement systems are in place, **there are alternative measurement models which can have a dramatic effect on the level of affirmative procurement reported**. Two examples will suffice to make the point:
 - a. At **SAA**, **affirmative procurement is reported as a percentage of discretionary operating expenditure** (i.e. excluding items such as wages and salaries, electricity, jet fuel, finance charges etc). For the year 2001/2002, SAA reported that 68% of total discretionary spending went to black suppliers. SAA's definition of "black supplier" is complex but requires a minimum of 35% black ownership in the case of listed companies and 50% black ownership in the case of unlisted companies, in addition to control of the supplier company by black shareholders.
 - b. At the **Airports Company of South Africa**, the amount reported as **affirmative procurement is weighted according to the percentage black shareholding of the supplier**. For example, where a contract is awarded to a company with 60% black shareholding, only 60% of the total contract value is regarded as affirmative procurement. Similarly, even if a company has only a 10% black shareholding, 10% of the value of a contract awarded to that company is regarded as affirmative procurement. On this basis ACSA was able to report that for the year ended March 31 2002, 50% of consultancy contracts, 23% of retail concessions and 37% of other procurement was awarded to black businesses.

Again, the differences between these reporting models make any comparisons between the two companies meaningless.

4. It should also be noted that **reported affirmative procurement will be affected by how "discretionary spending" is defined**, and that this is likely to vary considerably between companies – at SAA, for example, less than 10% of total operating expenditure is regarded as discretionary.

Benefits, costs and constraints

Despite these problems of measurement and comparison, in general those interviewed were keenly aware not only of the need for affirmative procurement but also of the benefits it could bring. These included:

- Reduced costs where goods and services could be sourced from local communities;

- Improved relationships with local communities, employees and unions, and government;
- Improved access for tourists to “African” experiences and products (e.g. crafts);
- Eligibility for government contracts; and
- Improved ability to attract and retain customers who are themselves concerned to report progress on empowerment initiatives.

One respondent mentioned that incorporating affirmative procurement requirements into tenders had not caused a decline in the quality of tenders received, but instead had stimulated innovative responses including new joint ventures. Similar comments were made by others, highlighting the extent to which **affirmative procurement pressures are increasingly being exerted horizontally between industry members, rather than vertically as a result of government initiatives.**

It was also acknowledged that affirmative procurement could impose costs, albeit ones that many interviewees – particularly state-owned enterprises and large corporates – were able and willing to bear in the short term. These included:

- The threat of job losses where affirmative procurement is combined with outsourcing, and associated staff resistance;
- Higher costs due to decreased ability to leverage discounts or realise economies of scale in bulk procurement;
- Higher costs associated with the need to monitor performance and provide capacity-building and support to small businesses; and
- Where this support was not provided, the danger of contract failure due to non-performance.

South African National Parks, which recently concessioned some of its operations to black-owned enterprises in a high-profile empowerment exercise, has encountered a problem that has previously bedevilled empowerment efforts in sectors such as broadcasting. Because few black businesses on their own possess the skills and financial resources required to take on a park concession (or a radio or TV station licence), **concessions tend to be awarded to broad-based consortia which sometimes prove to be unstable.** This highlights issues of sustainability which are likely to be resolved only in the medium to long term, as the pool of skilled, experienced and financially well-established black tourism operators grows.

There are also other constraints, notably that many companies spend heavily on big-ticket items such as construction projects, specialised engineering and technology products, vehicles and infrastructure. There are few black-owned companies in South Africa that can supply these items at present, and many of them can only be sourced overseas. The same applies to some high-quality items for the luxury hotel trade.

One leading hotel chain said it was trying to insist on a 20% BEE shareholding for all its suppliers, but that this was often difficult to achieve –

and that especially in more public deals there was “lots of smoke and mirrors” and the true picture was sometimes difficult to establish. **The problem of “fronting” has been highlighted in several sectors but will remain difficult to solve so long as the demand for empowerment suppliers exceeds the supply.** Monitoring is also expensive – Telkom, for example, has an entire department checking the empowerment credentials of would-be suppliers – and may be beyond the scope of smaller firms.

Many of those surveyed also indicated that they were not willing to compromise on quality in order to reach affirmative procurement targets. Indeed, in some cases – particularly in the hotel industry -- not outsourcing services can be a point of pride, providing guarantees of committed and personal service.

Finally, **for state-owned enterprises the Preferential Procurement Policy Framework Act of 2000 has had a paradoxical effect, effectively hamstringing empowerment efforts in some cases.** The Act has made empowerment a numerical exercise in terms of which contracts are allocated 90% on price (80% in the case of smaller contracts) and one respondent noted that “most black-owned enterprises can’t compete on price alone. This has led to a real stagnation in affirmative procurement.”

While this Act does not affect those in the private sector and is in any case being reconsidered, it is worth noting as a classic case of unintended consequences. **In general affirmative procurement appears to require creative responses to complex challenges, and any attempt to define it too rigidly is likely to prove counter-productive.**

Overcoming Constraints: Small Business Development and Support

There are many large, well-established and successful black tourism businesses which require no additional assistance or support to bid for and win contracts, and these probably account for a large proportion of total affirmative procurement spend.

Much of the attention and effort around affirmative procurement, however, is focused on small and emerging businesses, which government policy has identified as potentially major contributors to economic growth and job creation.

Dealing with small businesses presents three broad challenges: firstly, locating businesses that are able to provide goods and services of an acceptable quality; secondly, providing medium-term support and capacity-building to those small businesses that require it; and thirdly, communicating with small businesses which have neither e-mail nor Internet connectivity nor a reliable contact telephone number. **Black SMMEs, especially community-based small businesses, may lose business opportunities due to lack of**

access to information about tourism related tenders, events, products or initiatives.¹⁷

Some of the companies surveyed made no special efforts to seek out small black suppliers, noting that “they tend to come to us because they’re hungry for business;” others expressed frustration that black SMMEs able to provide products of adequate quality were often difficult to locate; and some had developed their own supplier databases. In general, even where black-owned businesses do exist that might be able to supply a need (this is not always the case, particularly in areas such as marketing and training), industry-wide information is difficult to come by. Some interviewees expressed a desire for a database of accredited black suppliers, maintained either by government or by an industry supporting organisation such as the TBCSA.

There are question marks, however, over the usefulness of generic supplier databases. They tend to be difficult and expensive to establish and maintain, especially given the rapid turnover of small businesses. In addition, the **Tourism Enterprise Programme (TEP) points out that it is more useful to respond to an actual demand than to establish a generic supply that matches anticipated demand.** In a diverse sector such as tourism, additional facilitation is likely to be required to match specialised requirements with appropriate suppliers.

Where small suppliers have been located, they often need additional support. This is not the core business of tourism companies, and although some of the larger corporates do attempt to provide small business support services, these are costly and not always successful. **Organisations such as the Corporate SMME Development Forum (CSDF) and TEP can play a valuable role here, not only in facilitating linkages between large companies and small suppliers, but also in providing the back-up support services that can help to ensure successful supplier relationships.** One of the companies surveyed is an affiliate member of the CSDF. None of the others mentioned specific relationships with either CSDF or TEP, although the TEP (which has been in existence for just under two years) said most companies were open to assistance and a few had approached it for help in implementing specific contracts.

The TEP in particular, because of its focus on the tourism industry, is able to offer a valuable service in bridging the gap between large, mostly white-owned tourism businesses and smaller, mostly black-owned emerging businesses. As the TEP points out, “neither side of this potential relationship has the time or skills to bridge this gap” without additional assistance. Forms of assistance provided by the TEP include:

- Helping large tourism companies analyse their spend to identify areas where they can involve small businesses in outsourcing and procurement;

¹⁷ The current trend by both government and industry associations is to use e-mail and the Internet as a primary means of communicating with geographically dispersed stakeholders. This is supplemented by press releases in the print media.

- Helping them develop policies and programmes for affirmative procurement;
- Locating small businesses to link with;
- Identifying and developing these small businesses to result in a mutually beneficial relationship with the big companies. The TEP works with specialist service providers, themselves black-owned wherever possible, to make this a reality.

Both the CSDF and TEP concentrate on assisting existing small businesses, rather than creating new ones. This highlights a gap identified by some respondents, who said black suppliers simply did not exist for some requirements, and suggested a need for industry members to collaborate in establishing new businesses for this purpose.

Internal Transformation: Management and Skills Development

Regardless of black ownership and linkages with black-owned enterprises, a commitment to black economic empowerment also requires internal transformation, embracing areas such as employment equity and skills development. **This is probably the area in which the greatest empowerment progress has been made, partly because transformation in many cases began pre-1994 and partly because government has established clear requirements in terms of the Employment Equity Act, the Skills Development Act and its associated sector education and training authorities.** Because these Acts create requirements for standardised reporting, internal transformation is the easiest area of empowerment in which to measure and compare progress.

Employment Equity

In terms of the Employment Equity (EE) Act of 1998 all companies with more than 50 employees are required to have EE plans and to submit bi-annual progress reports to the Department of Labour. Companies with more than 150 employees must report annually.

Most firms surveyed had established EE plans and targets. Formal EE reports to the Department of Labour on employment equity were received from three companies, with one providing alternative data.

	Permanent employees	Black¹⁸ permanent employees	%	Managers	Black managers	%
Luxury hotel	126	59	47%	25	6	24%

¹⁸ As noted earlier, this report defines “black South Africans” as those of African, coloured and Indian descent. This is in line with the Department of Labour’s standard EE report forms, but during the research it was noted that companies occasionally referred to black, coloured and Indian categories separately. While this practice was not consistent, it highlights an area of confusion and uncertainty – especially for companies which have large foreign shareholdings – that should be addressed.

BEE Hotel group	205	171	83%	5	4	80%
Travel services group	1108	483	44%	69	5	7%
Car rental and fleet management group	808	375	46%	129	20	16%

While this sample is too small to draw any conclusions from, it does suggest a high level of diversity in the industry and is consistent with comments made during interviews that highlighted areas of difficulty in transforming employment profiles. These included:

- **South Africa’s pool of tourism skills is shallow and the demand is high**, particularly at senior levels. Ongoing skills development is needed to redress this.
- Some respondents noted that **transformation was taking place more rapidly in human resources and marketing** than in finance and legal divisions. In addition, some reported difficulty in recruiting black line managers, particularly for hotels.
- Related to this, some interviewees felt that **the tourism industry was not widely viewed among black South Africans as a desirable place to work**, and that careers in the industry needed to be marketed more effectively. One suggestion was to introduce “open days” for learners and their parents to visit hotels, tour operators, etc and learn about careers in tourism.
- A few companies had recently been through **periods of restructuring** that involved some retrenchments, and this negatively affected their ability to transform employment profiles.
- Managerial staff tends to be small, with the result that there are **few openings at senior management level and few opportunities to promote employment equity**. Skilled black managers in the tourism industry are also able to demand very high salaries, more than can be afforded by some smaller companies.

Skills development and training

With the availability of skills highlighted as one of the key constraints to achieving greater employment equity, most organisations surveyed placed a high value on training. Most had developed formal Workplace Skills Plans for submission to the Tourism, Hospitality and Sport Sector Education and Training Authority (THETA) and planned to institute THETA-accredited training programmes. The remainder all had in-house training and development programmes. These tended mostly (although not exclusively) to be smaller companies, which reported some constraints in implementing THETA-accredited training plans:

- Some had specialised training needs which could be best met by internal training;

- In smaller companies it is sometimes difficult to spare people from their duties for the amount of time required by formal learnerships;
- THETA processes and procedures are complex and compliance with all requirements can be “an administrative nightmare”, particularly for companies which cannot afford to hire an HR specialist with sole responsibility for training and development programmes.

Most organisations surveyed also had fast-tracking or executive trainee programmes to identify and develop potential black managers, and several reported great success:

1. **ACSA** has an executive development programme, offering two years of high-level training to existing managers who are candidates for executive positions. There is a complementary accelerated development programme for potential managers who receive a combination of technical and academic training. Ten people recently graduated from this programme. The current CEO of Johannesburg Zoo is a graduate of this programme who began her career as a PRO at Johannesburg International Airport.
2. In 2002 **Conservation Corporation Africa** put in place a strategy to fast-track candidates for lodge management and a number of black camp managers are already in place. The tree camp at Londolozi, a premier SA destination for foreign tourists, is currently run by a black woman who started as a scullery worker and has recently managed the company’s field training programme.
3. The current manager of the Business Centre at the **Mount Nelson Hotel** joined the hotel in 1995 as a porter and driver. He later successfully applied for a position as Night Auditor where he received additional front office training, and was then selected for an executive trainee leadership programme in 2001, following which he was promoted to his current position.

By and large respondents relied heavily on internal recruitment for senior positions, and executive trainee programmes were viewed as a good way to maintain the supply of suitable candidates for promotion, while at the same time acting as a retention mechanism for talented and experienced staff.

Community Development

Tourism businesses are uniquely dependent on the goodwill and stability of the communities in which they operate. In this sector more than most, therefore, the business case for investment in community development is easily demonstrable. In the view of DEAT:

“Tourism is dependent upon the social, cultural and natural environment within which it occurs, and its success is dependent upon the environment that it operates within. Good relationships with neighbours and with the

historically disadvantaged make good business sense. These relationships need to be based on trust, empowerment, co-operation and partnerships.”¹⁹

Most of those interviewed for this review demonstrated a high level of awareness of the need for active involvement in community development and corporate social responsibility (CSI) initiatives. On the whole CSI is viewed as a general social obligation rather than a component of an overall BEE strategy. Both CSI and BEE are however aligned in addressing the need for structural change in the South African tourism industry. There is a strong argument for counting any measures that act to reduce poverty and inequality, or enhance the environment, as a component of a comprehensive empowerment and transformation programme.

The survey revealed a great diversity of CSI programmes that explicitly tie community upliftment to business benefits. In many cases affirmative procurement also takes on a community development angle, especially where it is focused on procurement from local suppliers. Examples include:

1. In Cape Town, the **Mount Nelson Hotel** has been an active participant in the development of a City Improvement District designed to remedy problems of crime and inner-city degradation. The initiative has been a great success, with a substantial reduction in crime levels, increased business confidence and an improved environment for tourists, residents, workers and businesses in the city centre.
2. **Conservation Corporation Africa** has a long history of involvement with communities, which it sees as the foundation of its business. Its Phinda reserve in KwaZulu-Natal, developed on rehabilitated farmland, has an extensive and long-running community upliftment project which has included local labour to construct its lodges, the provision of community services such as clinics, schools and libraries, and small business development in the form of Phinda Community Charcoal. A Rural Investment Fund initiated around the Phinda projects has now been constituted as the African Foundation.
3. **South African National Parks**, through the Poverty Relief Fund, has undertaken several projects that involve local communities in initiatives to enhance tourism or improve the environment, thereby creating jobs and enhancing skills. Most of the projects involve building or upgrading park infrastructure such as roads, rest camps, fences, staff accommodation and entrance gates. The projects will directly benefit communities in remote rural areas such as the Northern Cape (Richtersveld, Kgalagadi and Augrabies Falls), Northern Province and Mpumalanga (Vhembe/Dongola and Kruger), the Free State (Golden Gate), Eastern Cape (Addo) and Western Cape (Agulhas and Wilderness).

¹⁹ DEAT, *National Responsible Tourism Guidelines for South Africa*, 13 May 2002, p. 5.

4. In the **Sun International** stable, the GrandWest Casino in Cape Town allocates about 1.5% of its profit before taxation, as determined by the terms and conditions of securing the casino license bid, to carefully chosen community projects. In the North-West Province, communities around Sun City benefit from a hydroponic farming project and a sewing centre that recycles sheets into pillowcases.
5. **ACSA** has dealt with theft of perimeter fencing at Cape Town International Airport by mobilising communities in adjacent informal settlements and paying them to guard the fences. A similar initiative has employed individuals from informal settlements to clean the main road between the airport and the city.
6. **Don Suite Hotels** has helped to establish and run the Alexandra Hospitality Training Centre, which targets unemployed township youths and introduces them to the tourism industry. Around 200 young people have graduated from the project, which guarantees employment to those who complete it, with Don Suite Hotels alone employing 20% of graduates.

Several companies, particularly larger ones, also **engage in more broad-spectrum CSI activity** – that is, initiatives which do not directly benefit the tourism industry but which are nonetheless viewed as part of a general social responsibility. For example:

1. **Avis** has a 35-year history of support for the World Wildlife Fund Southern Africa and sponsors the Endangered Species Protection Unit, in addition to supporting a community HIV/AIDS programme.
2. **Don Suite Hotels** provides accommodation for HIV/AIDS infected babies and their mothers.

Finally, **there are some initiatives through which tourism operators, while not themselves making direct CSI contributions, encourage their clients to contribute to charities or community development initiatives.** For example the Mount Nelson Hotel, a member of the African Collection Orient-Express hotels group, collects contributions from guests to the Hotels Housing Trust, which supports the Homeless People's Federation's u'Tshani Fund. The Fund makes group loans to community housing savings schemes such as the Victoria Mxenge Housing Savings Scheme, and has enabled around 4,000 people in Cape Town, and around 6,000 in the rest of South Africa, to build their own homes.

Market Development

As noted in a recent discussion document from the Department of Environmental Affairs and Tourism,²⁰ and also by several interviewees, South Africa's tourism sector cannot rely on foreign tourists alone. According to

²⁰ DEAT, "A Preliminary Tourism Investment Mobilisation Strategy for South Africa".

DEAT research, international tourists are currently estimated to account for around 20% of total visitor volumes, and, as a result, the industry is heavily dependent on the continued growth of domestic tourism. This is all the more so in a developing-world destination that is vulnerable to security fears sparked by regional or global insecurity (although perceptions of South Africa's safety appear to have improved post-September 11, this pattern will not necessarily hold). As the DEAT report points out, "Typically local and regional tourists are not nearly as sensitive to a degree of socio-political upheaval, and are generally far better informed as to the real safety and security situation in South Africa."

The continued growth of domestic tourism, however, will increasingly require the development of new products that target black South Africans and those with lower incomes. The tourism market among black South Africans is currently underdeveloped – “negligible”, in the words of one interviewee. Growing this market is likely to require a realignment of attitudes that will parallel and complement other empowerment initiatives. This is an aspect of empowerment, however, that is not yet widely recognised or addressed.

Our research shows that the “eurocentrism” of the local industry, in the words of one interviewee, may be due in part to a lack of reliable and accurate information and statistics. The DEAT suggested, for example, that there was some evidence that the spend per visitor to South Africa from the African continent (notably from Nigeria and Angola) was higher than British tourists – but clear data on these spending patterns is not available and so this inbound segment of the tourist market is perhaps inadequately serviced. Nevertheless, more quantifiable data on domestic tourism is emerging and should go some way in providing insights for the development of local tourism products aimed at the black traveller. Research sponsored by DEAT and South African Tourism on domestic tourism between April 2000 to May 2001 indicates that South Africans spent an average of R438 per trip – with leisure and business travellers spending R1,413 on average per trip. Furthermore, one-day trips accounted for one-seventh of domestic tourism spend.²¹

There was also a suggestion that the local industry is not always creative enough in recognising and responding to the black domestic market that does exist. One example given to support this view was the Durban beachfront: the interviewee commented that during the winter Ocean Action events, when most visitors were white or Indian, beachfront shops and restaurants were open both day and night but the beachfront was far less active in December when most visitors were African.

The biggest constraint to developing a greater range of products for domestic tourists, particularly for luxury destinations and operators, is the limited spending power of many domestic consumers. For example,

²¹ South African Tourism, Press Release: “New survey unlocks true value of domestic tourism”, 18 September 2001 and South African Tourism, Press Release: “South African Domestic Tourism Survey: Marketing the Provinces”, 18 September 2001.

an attempt to design an affordable weekend package by a leading travel group failed after the realisation that R50 per person for a weekend, suggested as the ideal, was an unattainable target. Some initiatives are nevertheless taking place, for example at South African National Parks which is re-evaluating its pricing structures to build in more affordable products for lower-income tourists. These might include day visit centres and picnic areas, a system to allow multiple visits to one or more parks (such as the Cape Peninsula's Go Green card) and preferential pricing. South African National Parks has also recognised the need to market the benefits of the country's parks to black and lower-income South Africans, countering perceptions that these destinations are only for the rich or foreign tourists.

The Role of Government

Government influence as legislator and regulator

The state's role as a key BEE driver has been most prominent in heavily regulated sectors such as mining, energy and broadcasting, where operating licences are required and the state can use its leverage to fast-track changes in industry ownership and procurement practice. In the energy sector, for example, a 1998 White Paper, a government task team and a Liquid Fuels Summit in 2000 were followed by the publication of a Charter, negotiated with the industry, that set a 10-year target for 25% of the liquid fuels industry to be in the hands of historically disadvantaged South Africans. This was followed by the conclusion of a number of high-profile deals between the major operators and black empowerment groups. Similar progress has been made in the mining sector, also driven by the Department of Minerals and Energy.

Given its very different structure, empowerment in the tourism sector is likely to follow a different course. The liquid fuels industry is dominated by a small handful of major suppliers, most of them multinational companies, and is characterised by a well-defined supply chain subject to heavy regulation (both by the state and by the industry itself) on everything from pricing through employment practices to the number and location of service stations. **Tourism, by contrast, is characterised by a wide diversity of products and types of firms, even within broad sub-sectors such as travel and hospitality, and there are many small and emerging enterprises. No single empowerment model will fit all or even most players, and – contrary to some fears expressed in the industry – government recognises this fact.**

The general tone of government initiatives around black economic empowerment is one of co-operation with the private sector, and strong awareness of the danger of alienating private investment.

The one segment of the tourism industry where government influence via licensing has been most notable, the gaming industry, is also the segment which has shown most empowerment progress.

The BEE Commission

The Black Economic Empowerment Commission – itself a private sector rather than a state initiative – submitted a report to the government in 2001 which made two key recommendations: firstly that the government draft an Empowerment Act, and second that a permanent BEE Commission be housed in the office of the President, to oversee an Integrated National BEE Strategy.

The government has agreed in principle to the idea of legislation and the Department of Trade and Industry's strategic framework for empowerment, scheduled for release sometime during mid-2002, will lay the groundwork for the Empowerment Act. The BEE Commission's broad conception of empowerment, encompassing "job creation, rural development, urban renewal, poverty alleviation, land ownership, specific measures to empower black women, skills and management development, education, meaningful ownership, and access to finance for households and for the purpose of conducting business" is likely to form the basis of any strategy and future legislation.

According to announcements by Ministers earlier this year, the overall approach to BEE will be sector-based and emphasise partnership with the private sector. In general there is also a commitment to incorporate BEE principles into existing legislation, rather than formulating specific new legislation that is likely to introduce rigidities. The BusinessMap Foundation expects that the soon-to-be-released strategy "will focus on a framework to support and facilitate empowerment rather than prescribe its course".²² **There is, however, some pressure on government to build reporting requirements into its legislation, so that listed companies, and private companies over a specified size, would be required to gather information and report regularly on BEE progress.**

Government as travel consumer

The state is a large consumer of travel services in its own right, providing it with another, less commonly acknowledged, avenue through which to drive empowerment progress.

Affirmative procurement policies are in place throughout the state, but government departments face many of the same constraints as do private sector firms, notably difficulty in identifying suitable black suppliers and problems of fronting. Government departments are also bound by the Preferential Procurement Policy Framework Act, which as already noted has had a paradoxical effect in many cases. Thus even the Department of Environmental Affairs and Tourism, according to a study it commissioned from the Tourism Enterprise Programme, has not yet achieved all it could in terms of affirmative procurement.

²² BusinessMap, *Empowerment 2002*, p. 31.

Government relations with the tourism industry

From the point of view of industry participants, government's tasks in relation to the tourism industry are:

- To **establish broad policy guidelines**;
- To **market South Africa as a tourism destination internationally**; and
- To **provide and maintain adequate supporting infrastructure** for tourism development.

Government supports industry by means of the following national institutions: DEAT, the Tourism, Hospitality and Sport Sector Education and Training Authority (THETA), South African Tourism and the Tourism Grading Council of South Africa. (Government funding initiatives are dealt with in the next section of this report).

1. On the tourism policy front, the **DEAT** launched its **Tourism Transformation Strategy in November 2001**. The strategy has a specific focus on empowerment initiatives, with three key objectives:
 - To sustain black owned enterprises in tourism;
 - To create a demand for establishment of new business (especially via SMME development and poverty relief programmes); and
 - To develop linkages between government as travel consumer and black owned companies.

The effort to create government-industry linkages incorporates a three-year action plan which includes:

- The development of a database of black businesses in each tourism segment for local, provincial, national departments and parastatals. This database is to be updated on a quarterly basis.
- The joint publication with DTI of the *Support Programmes for Tourism Businesses Handbook*. The handbook is to be updated annually and is aimed at increasing the demand for government support.
- A public-private sector forum, which was established in November 2001 and meets monthly, to address empowerment, the gaps between public and private initiatives, and share information and ideas. The forum includes the IDC, DBSA, DTI, TBCSA, and other major financial institutions. The forum is a vehicle to drive tourism transformation in South Africa as well as to align funding to tourism transformation strategy.

Participants, however, were in general not aware of the DEAT's Tourism Transformation Strategy. Furthermore, some expressed concern that government should not impose rigid or restrictive empowerment targets. This concern is perhaps misplaced, given government's commitment to promote

partnership with the private sector and the DEAT's comment that "government cannot penalise players who do not transform as this would drive away investment". It does, however, indicate that **the government may need to communicate its own empowerment vision more clearly.**

2. **THETA** is a government body supporting training within the tourism industry and is governed under the Skills Development Act. THETA aims at developing a national qualification framework for increasing tourism capacity by addressing the following tourism segments:
 - Tourism and travel services;
 - Hospitality;
 - Gambling and lotteries;
 - Conservation and guiding; and
 - Sport, recreation and leisure

The role of THETA has been addressed more fully above, in the section on Internal Transformation.

3. **South African Tourism** (previously SATOUR) is mandated to promote South African tourism internationally. Several initiatives have been rolled out:
 - SA Tourism Month, a national awareness campaign.
 - The Emerging Tourism Entrepreneur of the Year Award (ETEYA), an annual award aimed at SMME development.
 - An annual tourism indaba, a trade show which attracts domestic and international visitors and tourism stakeholders.
 - The Tourism Growth Strategy, a "strategic vision for a more focused, cost-effective and customer-driven approach to international marketing operations" aimed at growing the inbound travel market.²³ An e-Business strategy – a re-developed web site – forms part of this recently launched marketing strategy.

Marketing support was highlighted by most participants as a *sine qua non* for industry development, particularly for small businesses. While South African Tourism was broadly acknowledged to be currently making progress, industry participants are still waiting to see whether it can deliver on its marketing of South Africa internationally. Participants were also concerned that some of the provincial marketing boards were not properly fulfilling their mandates. Small and emerging businesses were felt to be those which suffered most in these cases.

4. The role of the **Tourism Grading Council of South Africa** (TGCSA) is also important to the overall marketing effort, as its star grading system provides a guarantee of the consistency and quality of accommodation products. While none of the interviewees for this survey expressed any

²³ South African Tourism, Media Release: "Indaba 2002 fulfils South African Tourism's promise of being bigger and better", May 2002.

dissatisfaction with the work of the TGCSA – it has only been fully operational since November 2001 – some concerns have been raised in public forums that the empowerment and job-creation focus of the Council may be at odds with its independent accreditation role. Nevertheless, the star grading system is perceived by industry to offer both domestic and international marketing mileage.

Industry's view of Government

Our research has shown that, in general, participants expressed satisfaction with the quality of their relationships with government, although some areas were seen to require constructive engagement on the part of government.

In terms of **fostering government and industry relations at decision-making level**, industry players viewed public-private forums as a positive step though concern was raised over the infrequent gathering of stakeholders. Furthermore, certain participants indicated a desire for one-on-one meetings with government officials. Their experience to date has been that these officials were not always as accessible as could be wished, even to major industry players.

Industry players also indicated that government should continue to play a role in **providing supporting infrastructure and services to tourism development**. Many participants made comments about the need to improve inbound tourism services and infrastructure; namely, airline capacity and the quality of customs and immigration services. Some respondents wanted greater consultation around labour legislation. The Department of Transport was criticised for co-ordinating poorly, and sometimes not at all, with the DEAT. The issuing of Road Transportation Carrier Permits was cited as a particular problem: the process was said to be characterised by “total inefficiency and red tape” impacting negatively on SMMEs in particular.

Finally, industry views government as creating an **enabling environment for investment in tourism development**. There was some expression of desire for greater financial incentives for foreign investment to grow the South African tourism. One industry respondent expressed the frustration that local and regional tourism initiatives did not benefit from government revenues they had generated. Airport taxes, for example, were perceived to be “disappearing into central coffers” rather than being dedicated to tourism development.

The Role of Industry Associations

The diversity of the tourism industry is reflected in the relatively large number of representative bodies and associations that serve the interests of industry members. **While the report has focused on the role of the larger, national**

industry associations, future research will need to report on the empowerment activities of other associations not mentioned here.²⁴

TBCSA

The Tourism Business Council of South Africa (TBCSA), established in 1996 by leading tourism industry players, is **an umbrella organisation for the tourism business sector**. The TBCSA membership includes the full spectrum of tourism, travel and hospitality providers along with international businesses outside of tourism proper. The TBCSA provides macro-level co-ordination and representation for the entire industry “to create an enabling environment for tourism development.”²⁵ It addresses key issues through partnerships, communication, lobbying and project initiatives and has a formal agreement with the government that tourism policy will be developed and implemented as a joint public-private undertaking. The TBCSA has become a “conduit to the industry for government and international organisations.”²⁶

During 2001/2002 the TBCSA has cemented relations with DEAT, various government departments, parastatals and supporting organisations such as the THETA, the Tourism Grading Council of South Africa and Business Trust. It closely associated with, and provides strategic input into, government initiatives such as South African Tourism, working on the Marketing Committee and assisting in the use of recent domestic market intelligence for business planning and an e-business enabled web site. The TBCSA established Tourism Marketing South Africa (TOMSA), a public-private partnership in which government matches industry’s contributions toward the international marketing of South Africa, in 1998.

The TBCSA focused on the following priorities during 2001/2002:

- Fostering a universal tourism culture through public relations;
- Developing good relations with DEAT at Ministerial level;
- International and domestic tourism marketing;
- Assisting the World Summit on Sustainable Development;
- Reducing the constraints facing the tourism industry (e.g. airline capacity);
- Providing information about tourism as well as travel health and safety;
- Supporting enterprises; and
- Enabling empowerment and transformation within tourism.

The TBCSA has played a leading role in raising industry awareness around issues of empowerment, including the formulation of the [Charter of Empowerment and Transformation in](#)

²⁴ For example, Bed and Breakfast Association of South Africa (BABASA), Field Guides Association of South Africa (FGASA), Guest House Association of South Africa (GHASA), Professional Hunters’ Association of South Africa (PHASA), amongst others.

²⁵ TBCSA Brochure.

²⁶ TBCSA, Presentation: *CEO Report 2001/2*, June 2002.

the Tourism Industry in 2001 and the reporting process of which this review is a part. TBCSA's other empowerment and transformation activities include: participating in DEAT's Transformation Forum; promoting BEE in TEP, TGCSA and the Tourism Indaba; and, as part of the Tourism Advisory Committee for the World Summit, assisting in developing custom tourism products which meet empowerment criteria. Empowerment and transformation is further advanced through TBCSA's efforts in promoting enterprise support, encouraging the development of appropriate tourism products, and in the marketing of South African tourism.

FEDHASA

The Federated Hospitality Association of South Africa (FEDHASA) was established to serve the **hospitality sub-sector** of the tourism industry. By late 1999 its membership was falling off and there were question marks over the appropriateness or relevance of some of its offerings, prompting a thorough process of re-examination and transformation that has resulted in a substantial restructuring. **There was also concern that failure to transform would prompt black-owned and emerging businesses to form their own associations, creating an unhealthy fragmentation of the industry.** The restructuring proposals, which have been accepted in principle but are not yet formally signed off by FEDHASA's members, aim to increase the organisation's value to small and emerging enterprises in particular.

Specific mechanisms to achieve this include:

- Membership fees have been drastically reduced, by up to 40% in some cases.
- Target research will be conducted, with the support of SA Breweries, to establish the exact needs of hospitality SMMEs.
- FEDHASA has established a one-stop consulting shop, through which it identifies and promotes approved consultants who offer preferential fees to SMMEs. Consultancy services on offer include labour, insurance, building and design, marketing, management, training, legal, IT, recruitment, financial and environmental consulting services.
- A variety of new communication channels will be opened, including a newspaper for distribution to all members and increased use of mobile and SMS platforms.

FEDHASA also intends to encourage operators, especially SMMEs, to comply with all regulatory and legislative requirements. It is working successfully with smaller associations to do this.

Large established businesses will also be encouraged to support industry development, not only through using their combined power to negotiate discounts and benefits that will then be available to all FEDHASA members, but also through a twinning initiative currently under development in partnership with Ebony Consulting International, the consulting firm operating the Tourism Enterprise Programme on behalf of the Business Trust.

FEDHASA has also launched the Imvelo Responsible Tourism Awards – an initiative recognising excellence and best practice among tourism operators.

SATSA

The Southern Africa Tourism Services Association is the leading representative body for **private sector inbound tourism operations** in South Africa. Its members must comply with all relevant legal and regulatory requirements and sign up to the SATSA code of conduct, so that membership provides a level of credibility and quality assurance that is especially important for small and emerging enterprises. SATSA members including enterprises of all sizes, in sectors including accommodation establishments, brokers/tour operators, transport operators and tourism services.

While there is no single overall transformation strategy, SATSA has instituted several initiatives, driven by demand and opportunity, to increase membership and participation by black-owned enterprises. Among the most significant of these initiatives are the following:

- The first year of SATSA membership is free to SMMEs that meet all the criteria, and the second year is discounted by 50%. This scheme has been in place for two years and is successful, with increasing numbers recognising the advantages of SATSA membership.
- Morning courses are run every month or six weeks, in association with the Tourism Enterprise Programme, to provide basic entrepreneurial information to tourism start-ups.
- Membership is complemented by a mentorship programme through which established members act as mentors to emerging entrepreneurs, so that relevant & experienced advice is on call at all times.

SMMEs are identified for assistance in a number of ways – some approach SATSA on their own initiative, some come via referrals from the Tourism Enterprise Programme or provincial tourism authorities and some are recommended by existing members.

ASATA

The Association of South African Travel Agents (ASATA) is the representative body and networking forum for **travel agents**, whose members include five major franchise groups or consortia. Altogether ASATA represents 87% of South Africa's total retail travel industry.

ASATA identifies **the major constraint on broader BEE progress in this industry segment to be the predominance of very small, independently owned and managed businesses, mostly operating on margins of 1%-2% profit.** As discussed above in the section on Ownership, travel agents must also put up hefty financial guarantees to qualify for IATA licences, and this is a further constraint on empowerment.

Despite these constraints, which are not adequately reflected in government commentary on the industry segment, progress is being made. Franchise groups such as UniGlobe, 50% owned by empowerment group Mopani, runs management courses for would-be travel agents and has a number of black franchisees.

At an association level, ASATA adopted a formal Transformation Policy at its 1998 congress. It plays important roles both as mentor to new and would-be members – the CEO is on call to offer expertise when needed and to refer people to others in the ASATA network – and as a facilitator for existing members seeking BEE assistance. There is demand among its members for BEE information, especially since most large contracts – both in the public and the private sectors – now include very specific BEE requirements.

Finding empowerment partners with appropriate skills remains a problem for many ASATA members, however, and the association is also involved in efforts to promote the industry to young people. It has recently partnered with the National Business Initiative, Gauteng Tourism and the Gauteng Department of Education to provide learnerships to senior school pupils, providing early training and facilitating informed career choices. The learnership initiative has been set back, however, by the contraction in the industry post-September 11, which led to job cuts among many members.

General Issues

Despite the initiatives mentioned above, **several survey participants still believed there was a need for more mentoring and skills transfer programmes for SMMEs, or for greater promotion and use of the Tourism Enterprise Programme. This would suggest either that current initiatives could be more widely publicised and promoted, or that the need is so great none of the existing programmes are able to meet it.** FEDHASA's proposed research into the needs of SMMEs in the hospitality sub-sector should go some way to showing which of these is the case; but further research is likely to be required to establish needs in the entire sector.

Participants also suggested two additional, related roles for industry associations: to promote the tourism sector to black entrepreneurs and to promote it to young people as a desirable place to work. These came out of a widespread perception that the sector and its opportunities were poorly understood by many South Africans. Tourism has recently been introduced into the school curriculum with the aim of building tourism culture in South Africa and encouraging school leavers to seek employment in the tourism sector.

Funding for Empowerment Activity

Financial support for black economic empowerment in the tourism industry takes two major forms: firstly, and most commonly, as support for small and emerging enterprises, and secondly through support for

large projects, often infrastructure-related, that are either sponsored by black investors or promise benefits in the form of poverty alleviation and community development.

Small business support

At Indaba 2002, DEAT and the Department of Trade and Industry (DTI) launched the **Support Programmes for Tourism Businesses Handbook**. The handbook is aimed at SMMEs within the tourism industry and provides a listing of government support programmes – including funding criteria, the process for apply for funding, as well as each institution’s contact details.

There are four main sources of funding and other support for small and emerging enterprises: the Tourism Enterprise Programme (TEP), the DEAT’s International Tourism Marketing Aid Scheme (ITMAS) and two initiatives by the Department of Trade and Industry: Khula Enterprise Finance and the Small Medium Enterprise Development Programme (SMEDP). Each of these offers distinct, non-overlapping services.

1. **Tourism Enterprise Programme’s** goal is to create jobs in and through the tourism economy by helping SMMEs to grow and create linkages. It works with SMMEs directly involved in the tourism industry and also with those who provide non-tourism products or services, such as office supplies or outsourced cleaning, to larger tourism companies. Rather than helping to create new businesses, it concentrates on helping those already established – however small – to grow by providing training and technical assistance, and access to new clients and contracts.

The four-year programme, funded by the Business Trust in partnership with Ebony Consulting International (ECI), is nearly halfway through its life and is on track to achieve its goals. There seems to be a need to sustain this programme once Business Trust funding has ended.

TEP achievements 1 August 2000- 31 March 2002*

	Achieved	4-year target for July 31 2004
Total small enterprises assisted	478	1,000
Distinct transactions facilitated	371	1, 000
HDI-owned enterprises:	77%	75%
Value of increased SMME revenues	R123m	R450m
Person days of work created	852,000	2,000,000
Full-time job equivalents ²⁷	4,260	10,000

* As evaluated by Gobodo & Associates.

TEP has identified lack of skills and inadequate marketing as major constraints to the growth of many of the SMMEs it supports. In most cases small enterprises are not in a position to do their own marketing and rely instead on the co-ordinated efforts of regional tourism boards and private sector tour operators. The example was given of a small township B&B that

²⁷ 200 person days per annum = 1 full-time job. Given the seasonal nature of the tourism industry, the TEP prefers to measure days of work created.

will be unable to attract foreign tourists regardless of the quality of the product on offer – yet has every chance of success if marketed as part of a route or package. A good pilot study might be provided by a DEAT-initiated responsible tourism project that has selected 12 accommodation establishments in Soweto and is providing training and group marketing services in the run-up to the World Summit on Sustainable Development.

2. The **International Tourism Marketing Aid Scheme (ITMAS)** is a DEAT-sponsored programme that assists SMMEs by sponsoring part of the cost of attending international exhibitions, as well as producing and distributing international marketing material. An SMME can qualify for assistance if it complies with any three of the following criteria:
 - The business is owned by historically disadvantaged individuals;
 - The business is owned by disabled individuals;
 - It has been in operation for between one and four years;
 - It has a turnover less R1m per annum;
 - It has operational assets worth less than R1m.

In addition, applicants must be registered members of an official tourism trade organisation and have formal SA Tourism approval to attend an international marketing exhibition.

3. **Khula Enterprise Finance**, a DTI initiative, does not directly fund small enterprises, but facilitates access to private sector finance by helping them develop business plans, providing (if necessary) credit guarantees for up to 80% of a R1m loan, and providing ongoing free mentorship services after a loan has been concluded. Khula's services are open to either established or start-up businesses wishing to borrow between R50,000 and R1m. There is no specific requirement that the business be black-owned, but Khula's overall mission is to "facilitate access to finance by people who have not had the opportunity to accumulate sufficient wealth (such as fixed property or insurance policies) to provide as collateral security to the banks to obtain a loan for starting a new business"²⁸ – and most of these are likely to be black South Africans. The only other requirements are that the applicants be involved full time in the day-to-day running of the business, can provide an own cash contribution of at least 10% towards the start-up of the business and have a clean financial track record.
4. The **Small Medium Enterprise Development Programme (SMEDP)**, also an initiative of the Department of Trade and Industry, offers cash grants to tourism-related businesses to invest in buildings, furniture, equipment or tourism vehicles. The two-year grants are offered tax free to businesses that have been in operation for less than six months, or plan to increase their current capacity by more than 25%.

²⁸ DEAT and DTI, *Support Programmes for Tourism Businesses Handbook*, 2002.

Large Project and Infrastructure Funding

The Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation (IDC) supply funding for larger projects and infrastructure development, and both have earmarked the tourism sector for active support. DEAT address poverty alleviation and community development programmes through the Poverty Relief Fund.

1. The **DBSA** acts mainly as a catalyst, partnering with public and private sector organisations, development finance institutions and civil society to support projects that are financially sustainable and will have a clear development impact. In the tourism sector the priority areas include transformation, skills development including management capacity building, tourism policy development and project management, innovative ways of responding to new market opportunities and building linkages and networking.
2. The **IDC's Tourism Business Unit** is also a major player in the industry. Since 1992 the IDC has refocused its investments from manufacturing to services, with tourism in particular seen as the fastest-growing sector in the economy. The priority focus areas have been eco-tourism and urban accommodation products for domestic tourists, with funding going to individuals, companies and conservation authorities. The IDC also specifically targets empowerment ventures. Total funding approvals in the tourism sector have risen rapidly, from 10 in 1993 to an expected 31 in 2002; and approvals for empowerment companies have risen from 0 in 1993 through 1997 to an expected 13 in 2002.

Despite this progress, there is some industry concern that the expected benefits from IDC funding have not yet fully materialised. The funding process is perceived to be bureaucratic and expensive, and is accessible only to well-established players with existing industry experience – only investments over R1m qualify for support.

3. Government has recently established the **Poverty Relief Fund** to address poverty alleviation in South Africa. Some of this funding has been allocated to DEAT. The Poverty Relief Fund is aimed at:
 - Job creation through the development of tourism infrastructure;
 - Development of new tourism products and enhancement of the environment;
 - Provision of training and capacity building in the tourism industry;
 - Ensuring sustainability of tourism projects in the long term; and
 - Promotion of SMME creation and empowerment.

The Poverty Relief Fund is a funding vehicle specifically catering for community-based trusts and Section 21 companies with community representation. It funds the labour, materials and administration of development projects. South African National Parks, as discussed in the

Community Development section above, has identified several parks and projects which are to benefit from the Poverty Relief Fund.

Identifying the Funding Gap

Several participants in this research noted that there is a major gap in the tourism sector for funding to start-ups and SMMEs, who typically need amounts between R100k-R1m. Funding is particularly scarce for those who have limited or no previous tourism industry experience.

Other forms of support – such as the training and technical assistant provided by TEP – are also limited for new entrants. While both Khula and the SMEDP go some way towards filling this gap, survey participants broadly agreed that much remained to be done. To address the skills shortage in tourism, the Business Trust and the Department of Labour initiated the Tourism Learnership Project. This R115 million project is aimed at developing SMME capacity and creating a national qualification certificate for SMMEs.

There were some suggestions that larger industry players should offer mentorship services to SMMEs – but it was noted against this that SMME development is not the core business of tourism operators, and mentorship initiatives would need to be co-ordinated at an industry level.

Conclusion: The Way Forward

BEE Progress in the South African Tourism Industry

Some clear and encouraging conclusions can be drawn from this research:

- In general **there is a high level of awareness among industry participants that BEE is an issue, and this awareness is matched by a corresponding willingness to take positive action.** This is frustrated in some cases by uncertainty over the best course of action to take, and a lack of expertise and knowledge.
- **Compliance with government requirements around employment equity and skills development is high.**
- **Affirmative procurement and SMME development are universally regarded as important components of a broader empowerment strategy.** There is, however, a range of levels of commitment: from good intentions through to rigorous written policies and measurement systems.
- **The level of horizontal pressure for affirmative procurement within the industry is encouraging:** parastatals and private sector firms are increasingly taking the initiative and requiring empowerment

initiatives from each other, creating positive incentives for transformation.

This is despite the fact that empowerment in the South African tourism industry is in general still in its very early stages, though much progress has been made compared to other industries. Little research has been done so far and there is little or no quantitative data available on the basis of which to assess progress. One of the key objectives of this study is thus to establish a set of indicators that can serve as benchmarks for future research.

Addressing Affirmative Procurement and SMME Development

Affirmative procurement and SMME development emerge as two key areas for empowerment, which are not always given sufficient prominence in public debate. This is all the more important given the serious constraints that have been identified to changes in ownership.

It is important to acknowledge from a policy perspective, however, that affirmative procurement does entail costs as well as benefits, and to recognise and respect constraints where they exist. Industry players are in general willing to incur varying levels of additional cost, so long as this is a short-term measure towards transformation of the economy.

Currently lack of information limits the potential for assessing and quantifying the full impact of affirmative procurement programmes. Accordingly the following goal should be established, and agreed upon by industry, in reporting on affirmative procurement measures:

Increase the number of companies that have formal, monitorable affirmative procurement policies. These policies should include collection, on a quarterly or half-yearly basis, of at least the following data:

- **Number of contracts awarded to black-owned companies as a percentage of all contracts awarded.**
- **Value of contracts awarded to black-owned companies as a percentage of the value of all contracts awarded.**

Additional useful data could include:

- **Number and value of contracts for which no BEE supplier exists (e.g. imported technology).**

Companies that are unable to gather clear quantitative data – for example in the case where existing information systems do not allow for it – should nonetheless be encouraged to state their affirmative procurement goals and to report anecdotally on what progress has been made.

The Tourism Enterprise Programme can play a leading role in facilitating successful linkages between established players and small black enterprises. Companies should be encouraged to seek TEP assistance,

especially where they lack information about BEE suppliers or experience of implementing affirmative procurement programmes.

Gaps and Areas of Concern

- All players in the industry, large and small, depend on effective marketing of South Africa as a tourism destination, and in general participants expressed satisfaction with the marketing efforts of SA Tourism. **This national marketing effort needs to be complemented, however, by effective marketing of the different provinces and regions, and many people felt that performance in this latter area was patchy.**
- There is a major gap around **funding for and support of new small businesses** in the tourism sector.
- **Quantitative data is next to impossible to obtain because of problems of definition and measurement, and the early stage of some empowerment projects.** A clear and simple framework for quantitative data collection is required. The following recommendation is made:

Companies should commit themselves to recording and making available information on key BEE indicators, including at minimum:

- Total number of permanent employees vs number of permanent black employees;
- Total number of managers vs number of black managers;
- Spending on corporate social investment and community development programmes as a percentage of total turnover; and
- Spending on training as a percentage of total wage and salary bill.

- **One of the key areas of confusion and uncertainty around empowerment is there simply is no single, universally agreed definition of key concepts** including “black-owned company”. This has left many, particularly in the private sector, unsure exactly what is required of them. This gap should be filled urgently. It is suggested the industry, under the leadership of the TBCSA and with the support of the government, take the definitions suggested by the BEE Commission as a starting point.

Additional Recommendations

1. Those industry players who have made notable progress in one or another area of empowerment should be recognised and rewarded. An **annual TBCSA empowerment awards scheme is suggested**, at which companies could be acknowledged in categories such as the best supporter of emerging businesses, the

most innovative BEE joint venture and the community development project of the year.

2. The [*Charter of Empowerment and Transformation in the Tourism Industry*](#) should be a living document, updated and revised annually in the light of research findings. A **2002 version of the Charter**, for example, should take into account the need for market development and greater support for start-up SMMEs, including access to information and funding.

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Appendix I: Participants in the Survey

Private Companies

1. African Collection Orient-Express Hotels	Nick Seewer	(021) 483 1151 www.orient-expresshotels.com
2. Air Chefs	David Noko	(011) 394 2627 www.airchefs.co.za
3. Avis	Glenn van Heerden	(011) 923 3500 www.avis.co.za
4. City Lodge Hotels	Clifford Ross	(01) 884 5327 www.citylodge.co.za
5. Conservation Corporation Africa	Jan Harrison	(011) 809 4300
6. Don Suite Hotels	Thabiso Tlelai Caleb Mabaso	(011) 788 1323 www.don.co.za
7. Global Resorts SA	Monde Tabata	(011) 267 9200 www.globalresortssa.co.za
8. Legacy Hotels and Resorts Ltd	Bruno Corte Vusi Nkonyane	(011) 806 6888 www.legacyhotels.co.za
9. Protea Hotels	Allan Duke	(011) 430 5000

		www.proteahotels.com
10. Rennies Travel	Lillian Boyle Kokodi Morobe	(011) 407 3211 www.renniestravel.co.za
11. Sun International	Peter Bacon	(011) 780 7444 www.sunint.co.za
12. The Southern Sun Group	Hugo Lambrechts Kamil Karrim	(011) 780 0200 www.southernsun.com
13. Tourvest	Carol Scott	(011) 325 7040 www.tourvest.co.za

Government departments and parastatals

14. Airports Company of SA	Vernon Naidoo	(011) 453 9116 www.airports.co.za/acsa
15. Department of Environmental Affairs and Tourism	Sugen Pillay	(012) 310 3611 www.environment.gov.za
16. SA National Parks	Aniel Soma Peter Fearnhead Chris Patton	(012) 428 9111 www.parks-sa.co.za
17. South African Airways (SAA)	Victor Nosi Happy Zondi Vusi Fele	(011) 978 2500 www.flysaa.com

Industry associations and supporting bodies

18. Association of South African Travel Agents (ASATA)	Vanya Lessing	(011) 484 0580 www.asata.co.za
19. Cape Town Tourism	Sheryl Ozinsky	(021) 426 4260 www.cape-town.org
20. Federated Hospitality Association of South Africa (FEDHASA)	Willem Fick	(011) 886 2394 www.fedhasa.co.za
21. Industrial Development Corporation	Ben Nkosi	(011) 269 3000 www.idc.co.za
22. Southern Africa Tourism Services Associations (SATSA)	Gail McCann	(011) 463 6559 www.satsa.co.za
23. Tourism Grading Council of South Africa (TGCSA)	Salifou Siddo	(011) 778 8108 www.tourismgrading.co.za
24. Tourism Enterprise Programme	Tim Anderson	(011) 804 5750 www.tep.co.za

Appendix II: Charter of Empowerment and Transformation in the Tourism Industry



CHARTER OF EMPOWERMENT AND TRANSFORMATION IN THE TOURISM INDUSTRY

A Commitment to Furthering Black Economic Empowerment in the Tourism Industry

CHARTER OBJECTIVES

In this historic document, signed at the Annual General Meeting of the Tourism Business Council of South Africa on the 29th June 2001, tourism industry leaders took a bold step to communicate their awareness of the need for empowerment and transformation of the industry and commit to working individually and collectively to ensure that the opportunities and benefits of the industry are extended to previously disadvantaged South Africans.

*Industry leaders and players make this commitment fully aware of the fact that empowerment and transformation of the industry will greatly contribute to its growth and sustainability at company and at sector level. In signing the Charter, industry leaders commit themselves individually and collectively to developing and supporting initiatives in key areas identified and furthermore agree to participate in an industry wide reporting and information sharing process on progress made. The key areas identified and agreed to are **Ownership, Business Development, Management Opportunities and Community Development** as set out in The Industry Position Statement attached.*

PREAMBLE

We the undersigned, representatives of South Africa's leading tourism companies, institutions and organisations take this opportunity to state our awareness of the need to develop and advance industry initiatives to empower formerly disadvantaged South Africans and in so doing make the industry more accessible, more relevant and more beneficial to all South Africans.

OUR COMMITMENT

We acknowledge that two main challenges face the tourism industry; 1) The need to become more globally competitive; and, 2) The need to include the formerly disadvantaged into the industry mainstream. We believe that these two challenges are fundamentally linked. For our industry to thrive and grow we commit to do both. Our commitment to Empowerment and Transformation is therefore based not only on social responsibility, but also on our fiduciary obligations to our shareholders and employees, and to the growth of the South African economy.

THE LEGACY

We recognize the fact that despite the significant changes and advances in our industry, and despite progress that has been made at individual enterprise level, our industry, just as our broader society, remains characterized by huge disparities in access to opportunities and benefits. We recognize too that our businesses are largely white owned and controlled and as such have benefited historically from such inequality. We are further aware of the residual impact of this legacy of inequality and the negative impact it has on efforts to ensure that a tourism and tourist-friendly culture takes root in our country.

BLACK ECONOMIC EMPOWERMENT

We embrace a broad definition of what is meant by furthering black economic empowerment. We understand that it entails initiatives that will further **Ownership, Business Development, Opportunities for Management, and Community Development** towards a more equitable distribution of jobs, skills, income and ownership of capital in the industry.

CALL TO ACTION

We declare our commitment to developing these initiatives at every level and agree to participate honestly and openly in an industry-wide reporting and information sharing process to all stakeholders concerning the progress of these initiatives in achieving our goals.

SUSTAINABILITY

We acknowledge that, for these initiatives to be sustainable and to be meaningfully empowering, they must be based on the identification of strategic opportunities for our enterprises and for our industry. These initiatives must be underpinned by sound commercial logic, be well designed and be focused with deliverable growth objectives.

CURRENT INITIATIVES

We are mindful of the fact that while much remains to be done to advance empowerment and transformation in the industry, much has been done already. The companies and organizations we represent have developed a multitude of initiatives such as Empowerment consortia, representation on senior management bodies, affirmative procurement, outsourcing, small business linkages and staff training and development programmes.

Our industry as a whole has made great progress as evidenced in the establishment and active involvement in and compliance to a number of initiatives, institutions and legislation (including The Tourism Learnership Project, the Tourism Enterprise Project, THETA, The Grading Council, The Skills Development Act, The Equity Act etc).

Progress made should be recognized. The instigation of an Annual Status Report on Empowerment and Transformation, will inform all stakeholders of the existence and impact of our activities in the tourism industry. With the commitment to be open, honest and transparent about progress, we clearly intend to redouble our efforts, to expand our initiatives, to co-ordinate, to work together, and to communicate more effectively with all our stakeholders.

CALL TO GOVERNMENT

While we pledge to deliver on the promises contained in this document, we cannot be solely responsible for such delivery. Government is uniquely positioned as tourism regulator, as the owner of tourism assets and as tourism customer, to encourage our companies and the industry as a whole to fulfill their obligations.

We acknowledge government's increased commitment to tourism evidenced by increased funding to market South Africa internationally. We seek acknowledgment of our commitment as evidenced in this document and seek a corresponding commitment by government to assist us in deepening empowerment in our industry by developing and implementing initiatives in partnership with industry.

We furthermore challenge government to increase its efforts and achieve tangible improvements in regards to safety and health that remain impediments to tourism growth in our country and to continue to increase

funding to market South Africa internationally as a preferred tourist destination.

IN CONCLUSION

The tourism industry led by the Tourism Business Council of South Africa remains committed to working together to build a tourism industry and sector that grows, thrives and is sustainable for the benefit of all South Africans now and in the future.

SIGNATORIES

Board Members 2000-2001

Abrahamse, Tanya (TBCSA)
Baloyi, Danisa (NBBC)
Botha, Kobus (Blue Mountain Lodge)
Brebner, Keith (SAFCC)
Dibate, Boni (Esselenpark)
Du Toit, Chris (ASATA)
Enderle, Hans (City Lodge)
Fick, Willem (FEDHASA)
Gwala, Cyril (FABCOS)
McCann, Gail (SATSA)
Mohale, Bonang (SAA)
Ntshani, Mandla (Coca Cola)
O'Sullivan, Paul (Randburg Waterfront)
Shongwe, Keith (Kifaru Tourism)Van Heerden, Glenn (Avis)
Wigley, David (Co-opted)

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Airports Company
Avis
Budget Rent A Car
City Lodge Hotels
Conservation Corporation Africa.
Global Resorts
Imperial Car Rental
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Protea Hotels
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Partners

Business Trust

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Chair of SA Tourism

Chair of THETA