

Presentation to Portfolio Committee on Tourism

UPDATE ON TOURISM EQUITY FUND (TEF)

16 February 2021

broadening horizons



tourism

Department:
Tourism
REPUBLIC OF SOUTH AFRICA



Contents

- Sectorial Overview
- Access to Finance
- State of Transformation
- Resolutions of Transformation Summit: 2017
- Black Industrialist Scheme and Tourism
- Tourism Equity Fund Rationale
- Establishment of the Tourist Equity Fund
- Objectives of the Tourist Equity Fund
- Overview of the Tourist Equity Fund



SECTORIAL OVERVIEW

- The South African tourism economy has shown to have been one of the best performing economic sectors and has shown further potential to grow even further over time.
- A National Tourism Sector Strategy (“NTSS”) 2016-2026 was developed to position the tourism sector as a significant contributor to the economic growth and development of South Africa.
- Inclusive growth is a core focus of the NTSS as it underpins the broader development imperatives of South Africa, including addressing barriers to growth and the building of a transformed and inclusive tourism economy.
- The NTSS, is based on five pillars which provide a framework for the actions of this Strategy. Pillar five of the NTSS addresses the Broad Based Benefits in the tourism sector. This pillar focuses on transformation, rural and township tourism development, enterprise development and investment.



SECTORIAL OVERVIEW (Cont...)

- On 20 November 2015, the Minister of Trade and Industry published in the Government Gazette the Amended Tourism B-BBEE Sector Code in terms of Section 9(1) of the B-BBEE Act No. 53 of 2003, as amended by B-BBEE Act No. 46 of 2013, to advance transformation in the tourism sector.
- While promoting Black ownership of enterprises is a priority element within the amended Tourism B-BBEE Sector Code, less enterprises achieved the targets set for ownership.
- Less than 45% of tourism enterprises in the three sub-sectors (accommodation, hospitality and travel) had achieved the 30% ownership target).



SECTORIAL OVERVIEW (Cont...)

- Linked to the objectives of transformation and expansion of the tourism economy is access to finance for development.
- Access to finance in tourism is difficult for black owned enterprises and new entrants into the sector.
- This is true for investment finance, working capital and finance for acquisitions.
- Many factors limit access to finance – a perceived lack of viable and feasible business plans, limited experience in tourism, limited equity contributions, and a highly competitive industry, amongst others.

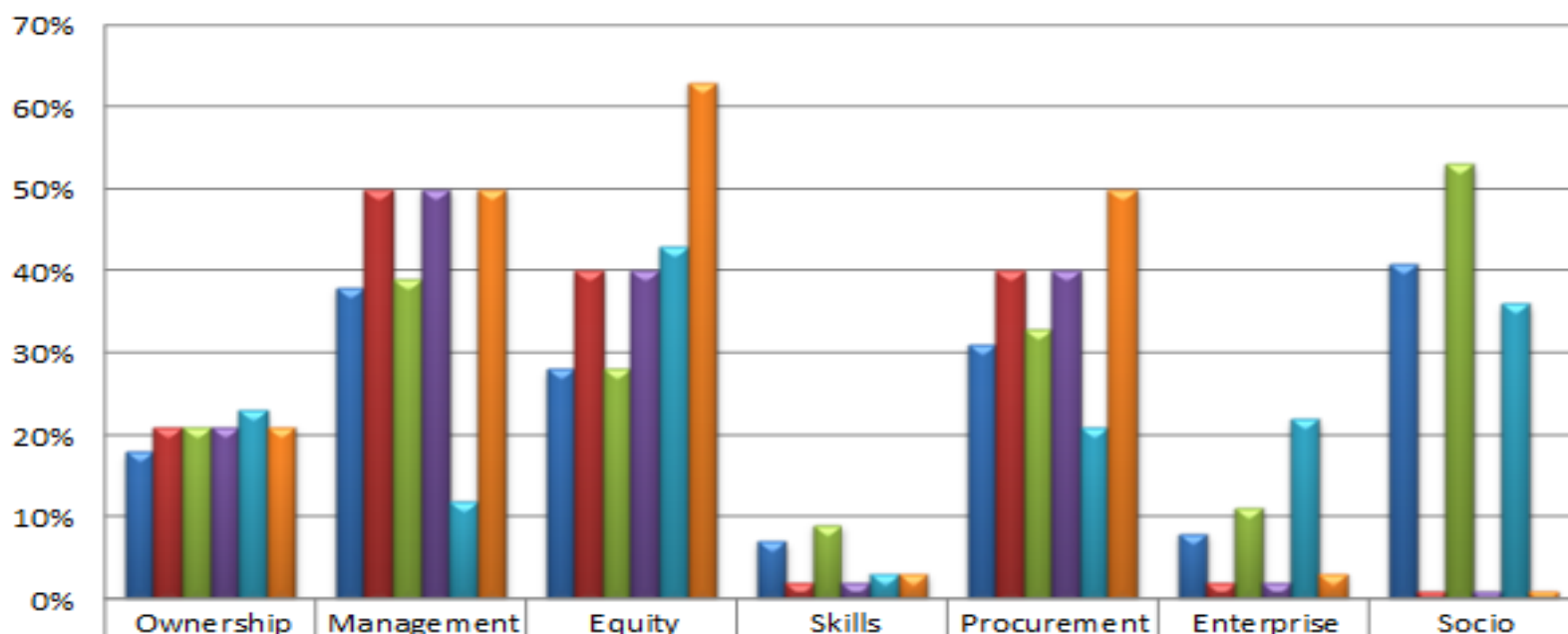


ACCESS TO FINANCE

- The Department of Tourism (NDT) has identified the need to expand the existing funding offering in order to address some of the challenges contributing to the slow progress in Codes implementation.
- While the Tourism Transformation Fund (TTF) introduced in May 2018 in partnership with the National Empowerment Fund (NEF) offered some financial support for sector transformation, it had had some limitations:
 - R5 million grant funding cap of TTF limits programme to smaller investment projects.
 - TTF grant funding component not available to any form of acquisition transaction.
 - It also does not allow for fully blended financing.

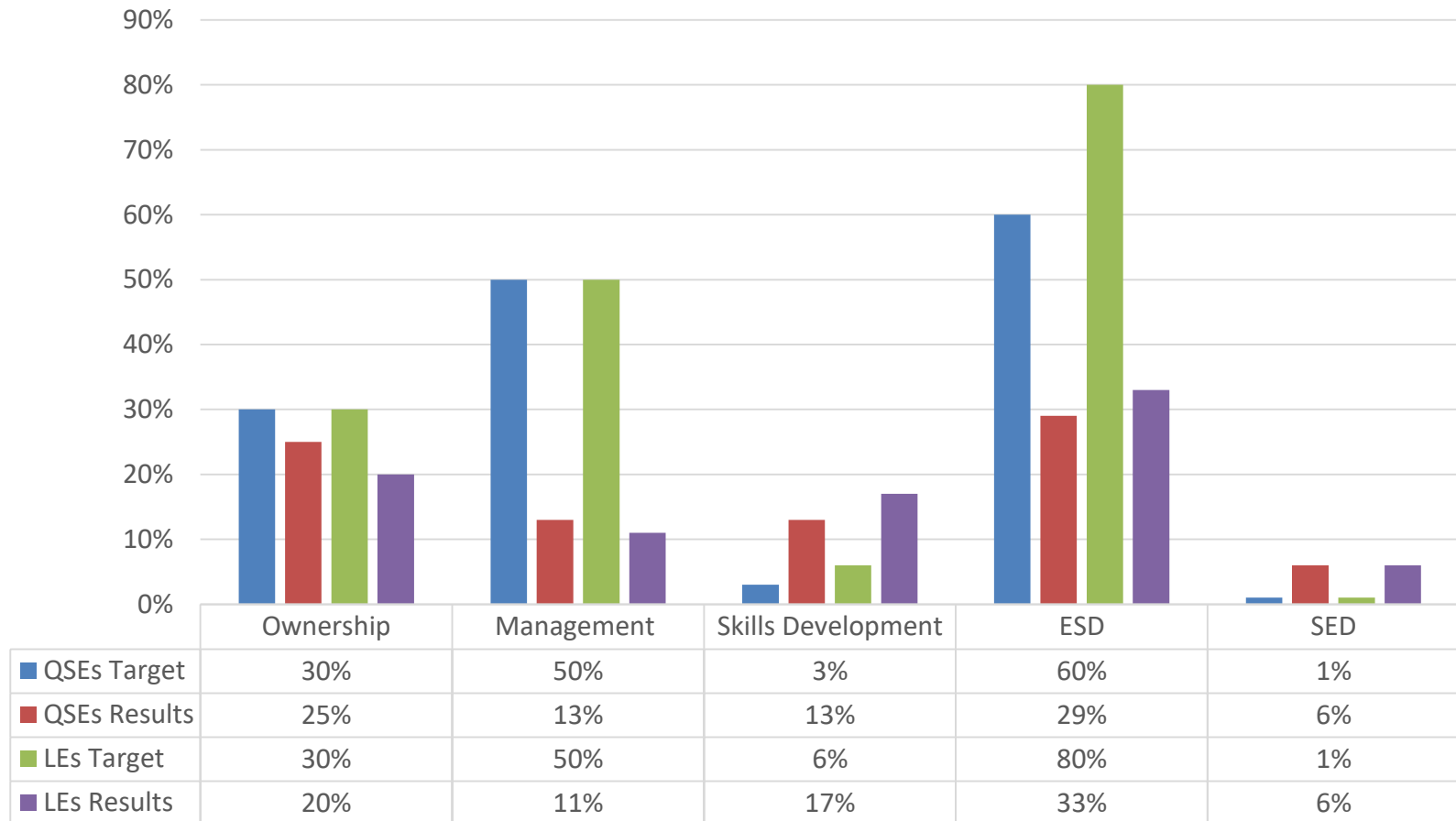
STATE OF TRANSFORMATION IN 2012

2012 TARGETS AND RESULTS

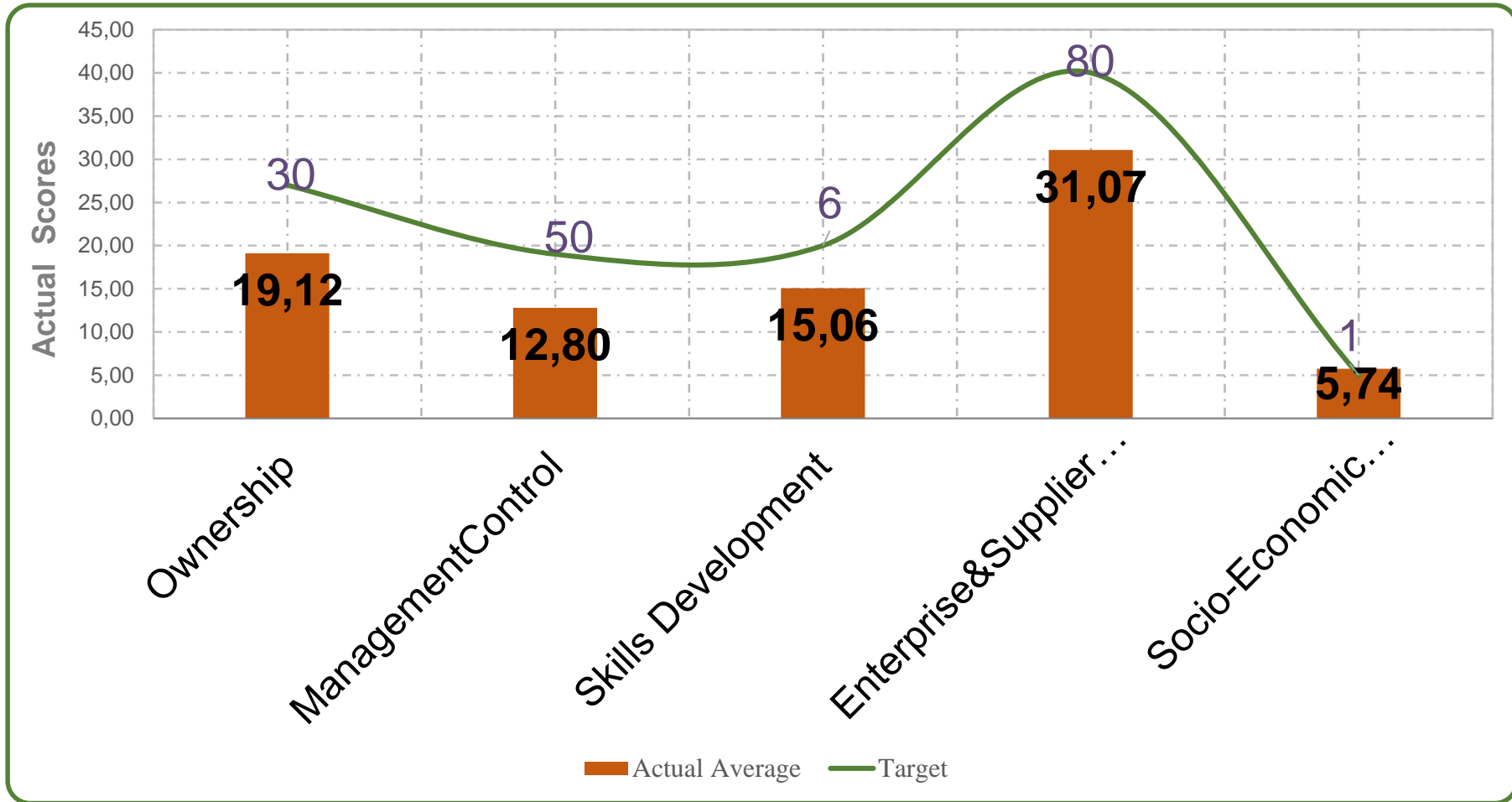


	Ownership	Management	Equity	Skills	Procurement	Enterprise	Socio
EME: results	18%	38%	28%	7%	31%	8%	41%
TARGET	21%	50%	40%	2%	40%	2%	1%
QSE: results	21%	39%	28%	9%	33%	11%	53%
TARGET	21%	50%	40%	2%	40%	2%	1%
LE: results	23%	12%	43%	3%	21%	22%	36%
TARGET	21%	50%	63%	3%	50%	3%	1%

STATE OF TRANSFORMATION IN 2017



STATE OF TRANSFORMATION IN 2018



RESOLUTIONS OF TRANSFORMATION SUMMIT: 2017

The conference made the following recommendations on the Ownership element:

- ☐ The summit noted with concern that only one-in-ten tourism enterprises had Black shareholding;
- ☐ It was recommended that the Department of Tourism should explore an Equity Fund to support majority black owned and controlled enterprises in the tourism sector;
- ☐ The Department should also explore feasibility of a Transformation Fund using the NPAT under ESD element to support Black businesses to access the market;
- ☐ The conference further recommended that National Treasury should explore a set aside of 30% of procurement budget for township, rural and 51% Black owned businesses. To support the growth of Black businesses Government should settle procurement bills within thirty days;
- ☐ Large Enterprises should support Government by investing on enterprise development to create increased numbers of Black-owned Band 1 enterprises.



BLACK INDUSTRIALIST SCHEME AND TOURISM

- The tourism sector is not a beneficiary of the dti's Black Industrialist Scheme (BIS) in its current form wherein the beneficiaries of the scheme are required to be involved in the manufacturing sector of the economy as outlined in the Industrial Policy Action Plan (IPAP).
- Funding tourism investments requires a substantial equity contribution, minimum of 40% unencumbered cash and assets. Without the support of schemes like the BIS, transformation of the tourism sector in line with the NTSS and the B-BBEE Policy is proving difficult to achieve.



TOURISM EQUITY FUND RATIONALE

- Limited number of medium size businesses owned and controlled by black people in the tourism sector, let alone large business.
- Majority of tourism enterprises have not met the 30% ownership target as per the Tourism BBBEE Codes.
- Most black entrepreneurs indicate that access to funding has been the main challenge for them to either acquire equity in existing businesses or start new businesses in the sector.
- Existence of mainly family owned businesses that may always seek to do business with government drags transformation efforts as there is no incentive to transform in such instances.
- The entrepreneurs point to a funding gap and demand for collateral whether they are dealing with commercial banks or Development Finance Institutions (DFIs) alike.
- DFIs have also pointed to the need for financing instruments that close the gap between what they are willing to provide and what is required for the project.
- All these gave rise to the need for a dedicated funding mechanism to support majority black ownership and control at 51%.

ESTABLISHMENT OF THE TOURISM EQUITY FUND

- To ensure that the 51% black ownership and control target becomes reality in the tourism sector, request was made to participate in the Black Industrialist Scheme (BIS).
- The 51% was approved in terms of Section 9 of the B-BBEE Act, 2003 as amended but the DTIC indicated capacity constraints to administer participation of tourism in the already existing BIS.
- The Department of Tourism was further advised to work with DFIs in this regard.
- Initially the Department identified IDC as a partner and manager of the fund.
- However, due to the need to leverage commercial banks funding and provision of non-financial support, SEFA became the preferred partner and implementation manager.
- However, currently there is a threat of litigation against the Fund.



OBJECTIVES OF THE TOURISM EQUITY FUND

- The objective of the TEF is to accelerate the quantitative and qualitative increase in participation by black tourism industrialists in the tourism sector as reflected by their contribution to growth, investment, and employment creation.
- This emphasises the focus on scale in the levels of participation of black people in the sector.
- In addition, TEF seeks to achieve the following:-
 - To increase black controlling ownership equity in the sector.
 - To stimulate investment in rural, township and small towns tourism assets.
 - To empower women, youth and people with disability.



OVERVIEW OF THE TOURISM EQUITY FUND

- The fund totals about R1,2 billion comprised of grant funding and debt financing.
- Initial seed funding amounting to R77 million was authorised for this financial year (2020/21) after approval by National Treasury.
- Thereafter the Department shall contribute equal amounts of R180 million per annum for three years starting 2021/22 Financial year, amounting to R540 million for grant funding and low interest loans.
- The repayment of the loan component shall recapitalise the fund for sustainability.
- The grants will be capped to a maximum of R20 million.
- Project value is set at a minimum of R10 million.
- The remainder of the debt finance is provided for by SEFA and a commercial bank partner for the blended financing model.



Thank you

