



**MINISTRY OF TOURISM
REPUBLIC OF SOUTH AFRICA**

Update on Transformation and Tourism Equity Fund

31 May 2021

On 26 January 2021, we launched the Tourism Equity Fund (TEF) as part of the implementation of the commitments made during SoNA 2020 and the Department of Tourism efforts to transform the sector. The R1.2 billion fund is managed by the Small Enterprise Finance Agency (sefa) on behalf of the Department and is tailored to provide a combination of debt finance and grant to facilitate equity acquisition and new project development in the tourism sector by black entrepreneurs.

The TEF was developed taking from the DTIC model of black-industrialists to fast-track transformation in response to 2015 and 2018 State of Transformation reports. Sector players during consultation on the state of transformation, urged the Department to take efforts and implement programmes that will transform the sector after concerns of the snail pace transformation.

AFRIFORUM AND SOLIDARITY CASE AGAINST THE TOURISM EQUITY FUND

Since the launch, our effort as government to transform the tourism sector has been frustrated by a court challenge brought by AfriForum and Solidarity. Last month, the High Court in Pretoria interdicted the processing of applications for the TEF. The court felt it necessary to temporarily halt the processing of TEF until such time that the main application in the matter can be heard. At the time, we announced that we would abide by the court order as we considered our options. The court application is in two parts, Part A focussed on the interdict to stop the implementation, while court hears the matter.

Today, we announce our intentions to defend the main case in court regarding the constitutionality of the criteria, which is Part B of the court application. In particular, AfriForum and Solidarity are contesting the legality and rationality of the 51% black owner/managed qualification criteria for the fund. They suggest it deviates materially from the Broad-Based Black Economic Empowerment (B-BBEE) Act, read with the Tourism Code. The Code prescribes a formula for allocating points for B-BBEE compliance. The TEF intendeds to fund majority black-owned and black management-controlled tourism enterprises (minimum 51%) in accommodation; hospitality and related services; and travel and related services, products and initiatives. Through a combination of grant funding, concessionary loans and debt finance to support equity acquisitions and new and expansion developments in the tourism sector.

In terms of the B-BBEE Act, provision is made for Executive Authority to apply to DTIC for the increase in the percentage, hence the application and gazetting for TEF to be at 51%. It must be noted that the application process was done by my predecessor with the approval of his then dti counterpart and unfortunately an administrative oversight occurred in that, at the time of announcement of the opening of the applications, administrative step to gazette the approval had not yet taken place in line with approval granted. **This oversight is regrettable and consequence management in the Department is currently underway.**

It is important to also mention that after the announcement, I received a letter from AfriForum and Solidarity requesting for information on the nature of the fund in light of the impact of COVID-19 on the tourism sector.

After receiving the letter from AfriForum and Solidarity, we instructed our implementing agent i.e. sefa to put on hold the implementation in terms of assessment and adjudication of applications.

I subsequently convened a meeting with AfriForum and Solidarity wherein the nature of the fund and its

origins were clarified. In essence, they were of the view that the Minister should repurpose the fund to provide for financial relief to businesses affected by COVID-19, arguing that transformation of the sector should be secondary to the COVID-19 relief measures. Given that the sector, based on State of Transformation reports had already called for such a fund as far back as 2016/17 financial year, there was no doubt as to the policy intention of the Tourism Equity Fund which is to boost sector transformation. Furthermore, it was clarified that the TEF is not blind to the impact of COVID-19, but supports transformative and inclusive reconstruction the tourism sector.

I also wish to state that during the period when the implementation was put on hold, the administrative step to gazette was also affected in line with the approval. All the processes that sefa had put on hold, were restored subsequent to the gazette.

Our mission now is to get the matter through the court processes and we are hopeful that given the nature of the urgency of the matter, Solidarity and AfriForum will agree to an expedited mechanism so as not to disadvantage the thousands of people who have applied since the launch. We must express our appreciation on the eagerness shown by many applicants who have responded to the call to apply. Prior to the interdict, sefa reported that the value of the rands of total applications that qualify for final adjudication stood at about R5.6 billion.

We must re-emphasise that our efforts to transform the sector remains steadfast. We have instructed our legal representatives to proceed with our defence to stop attempts by AfriForum and Solidarity to oppose and render the criteria unconstitutional. It must be noted upfront that the delays in implementing the TEF will negatively affect black businesses which have already negotiated deals and applied for the funding through sefa.

The fund recognises that the industry's capital-intensive nature prevents new and existing black-owned tourism enterprises from meaningfully participating in and contributing to this sector. By providing access to finance for black-owned commercially viable tourism projects, the TEF intends to address one of the significant challenges to the transformation of the tourism sector.

TRANSFORMATION OF THE TOURISM INDUSTRY

Whilst we celebrate 27 years of our country's democracy, we are still considered one most unequal country in the world, according to the World Bank. Our economy does not equally benefit all its citizens, which we cannot be proud of.

Our latest surveys, conducted independently throughout the industry, indicates the following about the state of transformation in the tourism sector:

- The majority of tourism enterprises have not met the 30% ownership target as per the Tourism B-BBEE Codes, according to the 2018 State of Tourism Transformation Report;
- There is still a limited number of medium-sized businesses owned and controlled by black people in the tourism sector, let alone large business;
- Most black entrepreneurs indicated that access to funding had been the main challenge for them to either acquire equity in existing businesses or start new businesses in the sector, as revealed by the 2017 Tourism Transformation Summit;
- The existence of mainly family-owned businesses that may not always seek to do business with the Government drags transformation efforts as there is no incentive to transform in such instances;
- Many entrepreneurs point to a funding gap and demand for collateral whether they are dealing with commercial banks or Development Finance Institutions (DFIs) alike;
- DFIs also pointed to the need for financing instruments that can close the gap between what they are willing to provide and what is required for the project;

As the matter approaches its resolution in court, we appeal for patience from all applicants who have kept our lines busy seeking answers on when feedback on their applications would be provided and when processing of applications will commence. We further call on those who are working with these entrepreneurs to be patient and understand that the matter is in the hands of the courts. We extend our gratitude to those who have expressed words of solidarity with us as we fight for what is a just and fair cause.

As our legal team prepares to present and represent us in yet another court battle on transformation of the tourism sector, we do so with our unwavering resolve that the fund is a necessary intervention, within the

constitutional values and imperatives for the creation of an equal society and addressing the imbalances of our country's past. It is our view that these perpetual obstructions to the transformation of the sector, come at a high price for those who suffered as a result of serious marginalisation and oppression which dominated our unfortunate and sad history. Their only hope is derived from their rights accorded in our Constitution.

In this regard, we remain committed to advancing the transformation agenda through creating equitable opportunities to realise an inclusive and revived tourism economy.

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