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***TOURISM INCENTIVE PROGRAMME***

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# ***IS THE TOURISM INCENTIVE PROGRAMME OVERREACHING?***

As the Department of Tourism's (NDT) Small, Medium & Micro Enterprise Businesses (SMME) outreach programme, the Tourism Incentive Programme [TIP] was initially intended to create direct linkages between South African (SA) inbound and outbound tour operators with international tourism companies by assisting SA tour operators in exhibiting their products at trade shows across the world.

However, a large portion of the budget went to expenditure on activities that were not directly linked to the initial purpose of the programme. This is due to Economic Competitiveness and Support Package (ECSP) funding, which provided additional funding to the department and possibly resulted in the programme getting over budgeted.

The additional funding has left the department with a programme that has too much to do at such an early stage and one that doesn't have a holistic approach, at least in the short run, so it might be better to "trim it down".

## **WHERE WE STARTED ...**

Initially, the tourism SMME support programme was housed in the Department of Trade & Industry (Dti) under the name "Tourism Support Programme (TSP)" and was then transferred to NDT in 2013.

The TSP was a reimbursable cash grant that aimed to support the development of tourism enterprises that will stimulate job creation and increase the geographic spread of tourism investment. The grant is for the establishment or expansion of tourism operations such as: Accommodation services; passenger transport services; tour operators; cultural services, and recreational and entertainment services.

The programme was reviewed in order to align its focus with the Tourism Sector Strategy and was since amended accordingly. The review resulted in the name being changed to the Tourism Incentive Programme [TIP].

The very nature of the TIP, as an incentive programme, means that a key component of its overall expenditure will transfer payment due the subsidies that are provided as part of achieving the aim of the programmes.

The TIP has the following 4 aims that are directly related to each of the 4 programme elements, which inform the expenditure decisions:

1. To drive sales and grow the customer base of small tourism establishments by providing them with better access to tourism buyers and potential guests.
2. To promote compliance with quality standards and ensure that tourists know what to expect by helping establishments to get graded.
3. To enhance the experience of visitors to iconic tourism attractions by improving facilities at these sites.
4. To reduce the operating costs and make tourism facilities more sustainable by installing renewable energy sources.

Prior to the pilot year, 2015/16, the TIP was only restricted to providing market access to tourism SMMEs. The programme elements/breakdown, pre-pilot year, was as follows:

- ***International Exhibition Assistance Programme:*** Tourism enterprises are encouraged to attend international exhibitions, though the subsidisation of the costs that are incurred.
- ***International Trade Mission Assistance Programme:*** Tourism enterprises are encouraged to attend international shows, though the subsidisation of the costs that are incurred.
- ***Domestic Exhibition Assistance Programme:*** Tourism enterprises are encouraged to attend domestic exhibitions, though the subsidisation of the costs that are incurred.
- ***Social Responsibility Implementation (EPWP):*** The Social Responsibility Implementation Programme (SRIP) is the job creation or the Expanded Public Works

Programme (EPWP) of the Department of Tourism. The purpose of the programme is poverty alleviation and job creation through tourism development.

The above were the programme elements in the years building to the pilot year. The format of the programme has since changed from the above and has expanded. Three of the four programme elements have now been merged into one programme element in the current format of the TIP, as seen below:

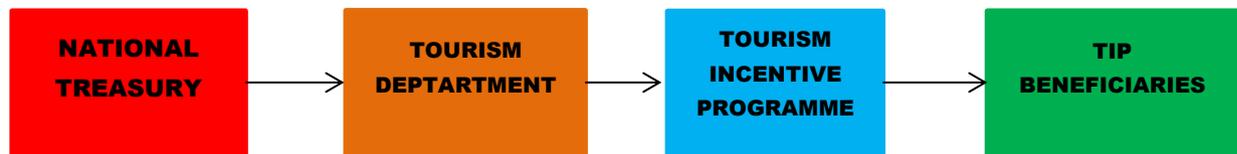
- **Market Access Support Programme:** This element is aimed at providing support to private sector tourism enterprises to reduce the cost of participating in international trade exhibitions and marketing road shows to stimulate enterprise growth to drive more employment.
- **Destination Development and Enhancement:** Under this element, investments will be made into projects that enhance the Expanded Public Works Programme (EPWP) initiative of NDT by improving already existing facilities that have tourism potential and to also support the establishment of new ones.
- **Tourism Grading Support Programme:** Provision of support to private sector tourism enterprises (accommodation and meeting venues) to reduce the cost of tourism grading and encourage greater conformity to quality standards to enhance the visitor experience.
- **Energy Efficiency:** Under this element, there will be retrofitment of tourism facilities at strategic and iconic state-owned attractions with renewable energy systems. Some privately and community owned establishments may also receive this kind of support.

The Department's entity, South African Tourism [SAT], plays a pivotal role in the execution of certain programme elements of the TIP, namely: the Market Access Support Programme and the Tourism Grading Support Programme.

SAT's purpose is to stimulate sustainable international and domestic demand for South African tourism experiences, and regulates the standard of tourism facilities and services. This is done through the market access and tourism grading support programmes, therefore SAT is an important to these aspects of the TIP, because those are closely related to SAT's mandate.

# WHERE WE ARE NOW ...

## 1. Institutional and Logical Landscape.



The institutional and logical framework of TIP is informed mainly by the flow of funds through the programme and to the beneficiaries [as shown in the above diagram], mainly because of the very nature of the type of programme that TIP is. The beneficiaries of TIP are encouraged through the provision of subsidies from the Department of Tourism.

The money flows to the beneficiaries of the programme through the TIP programme elements, namely: Market Access Support Programme; Tourism Grading Support Programme; Destination development and enhancement and Energy efficiency.

The institutions that are key to the institutional landscape are: The Department of Tourism (NDT), as the initiator of the programme and delegator of tasks related to achieving the aims of the programme; SA Tourism (SAT) as the public entity is the implementer of 2 of the 4 programme elements and the Industrial Development Corporation (IDC), which assists the NDT in implementing the private sector focused element [Energy Efficiency] of TIP.

## 2. Resource costs

The resources costs, employee and equipment, over the years that were covered in this analysis [2013/14 – 2015/16] have grown significantly over the years. This is because in the years prior to the pilot phase the department was building its capacity to administer the newly adopted programme, which is shown by the changes in travel & subsistence and costs related to office equipment.

Travel & subsistence expenditure went from R5 109.10 in 2013/14 to just under R1.1 million in 2015/16. The expectation is that this will continue rise as TIP becomes more established. This trend is also common to expenditure on compensation of employees, which more than

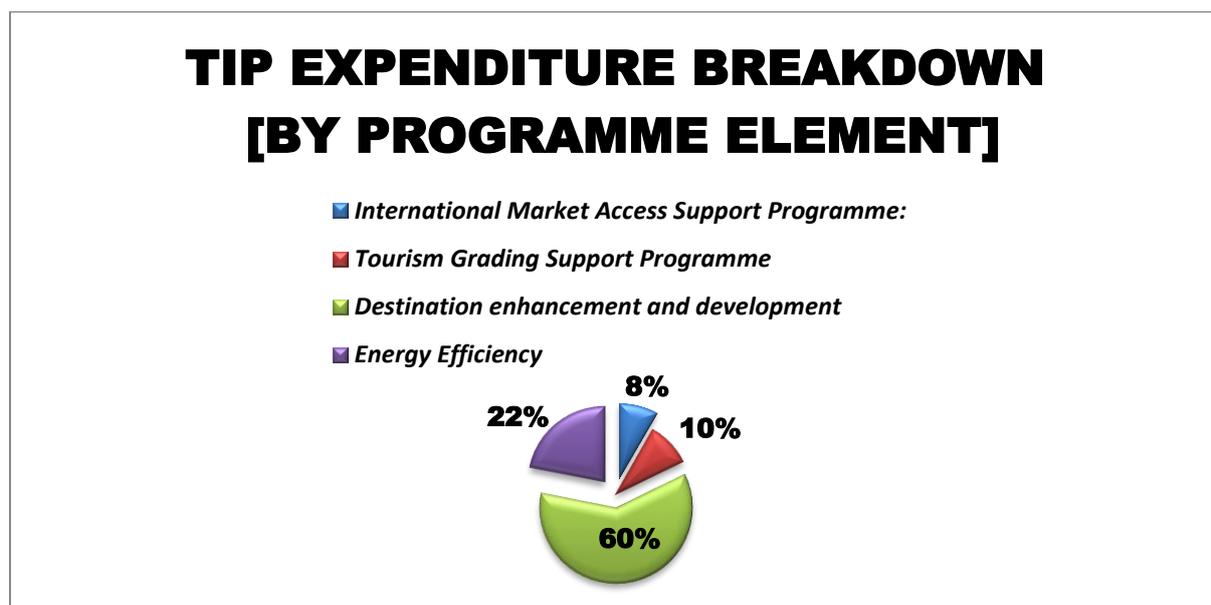
doubled between 2014/15 and 2015/16. This was due to the establishment of the Chief Directorate: Tourism Incentive Programme within NDT. Office equipment expenditure, on the other hand has been understandably been decreasing over the years, because these are usually durable goods.

### 3. Performance of TIP elements in the Pilot year (2015/16).

The budget allocation for the TIP in 2015/16 was approximately R170 million and the total spending, as at March 2016, on the programme was R 158 million. This is representative of under spending of approximately R 12 million, or a 7.1%. From a spending perspective, this indicates that the programme either didn't achieve its targets or that market uptake was less than expected.

Majority of the spending under TIP was for activities under the Destination Development and Enhancement Programme element, which accounts for 60% of the expenditure. The second biggest cost driver was activities under the Energy Efficiency, which accounts for 22% of TIP's expenditure.

Given the initial purpose of TIP, the current expenditure is an indication that the intention has since shifted from what it previously was, because the two programme elements that are still related to the initial purpose only account for a combined 18 percentage points. As seen in the table below:



The performance of the various programme elements is broken down as follows:

- ***Market Access Support Programme:***

The operations of element are mainly funded in foreign currency and SAT plays a key role in the execution of the market access support programme. SAT is responsible for securing road show/trade exhibition spaces for all the beneficiaries. The aim of this programme element is to essentially enable tourism SMMEs to break into the market, by affording them the opportunity to connect with their potential clientele.

In the pilot year, through TIP, a total number of 8 trade shows/exhibitions, which took place across 8 countries around the world and spanned over a period between June 2015 and May 2016 were funded. A total number of 52 beneficiaries attended the trade shows/exhibitions. This cost the department, on average, R 59 271.99 to get each beneficiary to a road show.

The Tourism Indaba (Indaba) was allocated largest portion of the expenditure, 76.9%, in the Market Access Support programme. Indaba showcases the widest variety of Southern Africa's best tourism products and attracts international buyers and media from across the world. INDABA is owned by South African Tourism and organised by Pure Grit Project and Exhibitions Management (Pty) Ltd and is thus funded under SAT's budget and isn't accounted for in NDT's expenditure.

The most expensive road shows/trade exhibitions to attend were the business tourism related exhibitions (IMEX America and IBTM), which cost approximately R128 000 per beneficiary. This is sensible, given that Business Events Tourism or Meetings, Incentives, Conferences, and Events (MICE) Tourism is currently the segment of the tourism sector that has the biggest growth potential.

- ***Destination Development and Enhancement:***

The aim of the Destination Development and Enhancement is to enhance the experience of visitors to iconic tourism attractions by improving facilities at these sites. The department aims to achieve this through transferring funds to government-owned facilities that attract tourists and are important to the tourism sector.

This programme element was the biggest cost driver of TIP, with transfers to facilities such as: Robben Island Museum (RIM); South African National Parks (SANParks) and South African National Biodiversity Institute (SANBI). These transfers amounted to a total of approximately R96 million, or 72%.

The aforementioned facilities, which are also public entities for the Department of Environmental Affairs (DEA), accounted for 40% of the expenditure under the Destination Development and Enhancement programme element. The rest of the expenditure, approximately R57 million, was for transfers to non-DEA facilities such as: National Heritage Monument (NHF) and tourism facilities on Cradle of Humankind. The rest of the transfers were for the Social Responsibility Implementation (SRI) programme.

This programme element has greater potential from an Expanded Public Works Programme (EPWP) aspect, because there is potential for a lot of labour intensive components that form part of Destination Development and Enhancement.

This is a key criterion for EPWP projects [project must be labour intensive and must be funded by government], so this could be an aspect of TIP that is combined with the Social Responsibility Implementation (SRI) programme, which is NDT's EPWP programme. Such a combination could enable the department to realise some savings.

- ***Tourism Grading Support Programme:***

The aim of the Tourism Grading Support Programme is to promote compliance with quality standards and ensure that tourists know what to expect by helping establishments to get graded.

The department plans to achieve this goal/aim through subsidising the assessment fees that tourism establishments would have to pay in order to get a star grading from the Tourism Grading Council of South Africa (TGCSA).

This programme element is executed through the TGCSA, which is a business unit of SAT. In the 2015/16 financial year, this programme element accounts for the lowest percentage of the expenditure under TIP activities, which is approximately 0.2% or R187 000. The money was spending towards rebates to tourism establishments that got graded through TIP.

The weak performance in the Grading Support Programme spending was due to a low market uptake, hence the department has since transferred R15 million to SAT in order for them to develop and administer a revised strategy for the Grading Support Programme.

- ***Energy Efficiency:***

The aim of the Energy Efficiency is to reduce the operating costs and make tourism facilities more sustainable by installing renewable energy sources. The department aims to achieve this through encouraging tourism enterprises (private and publicly-owned) to retrofit their facilities with renewable energy sources by providing them with subsidies that will reduce the cost burden related to retrofitment. The department does this with the assistance of the Industrial Development Corporation (IDC) and other private service providers.

In the first year of TIP, the main cost driver in the Energy Efficiency was a transfer of funds to IDC for purposes of private sector Solar PV retrofitment support programme, which amounted to R30 million or approximately 86% of expenditure related to this programme element. The IDC, as the executor, is responsible for developing a new impact assessment and reporting mechanism.

The rest of the Energy Efficiency expenditure, which accounts for 15%, was for payments to services providers (technical advisors) on Solar PV projects for Robben Island, SANParks and SANBI sites. The technical advisory services include: Project Scoping, Energy demand and supply analysis, development of technical specifications, assistance with the development of RFPs, technical presentations during mandatory site visits, technical evaluation of proposals, technical support during contract negotiations and oversight during construction for all sites.

Essentially, the expenditure for this programme element in the first year was for preparation for the retrofitment projects and not actual implementation. The implementation aspect of the project has EPWP characteristics, because some elements of the actual implementation of such projects have labour intensive components.

#### **4. Savings Potential [Recommendations].**

TIP is an incentive programme, so the intention behind it is to encourage certain behaviour or directly/indirectly influence something through giving up something else. In the case of TIP money is the something else, so looking for savings in such a programme may be deemed unnecessary, however the programme needs to be as effective and efficient as possible.

And considering the current state of the programme against the landscape that it exists within, TIP can be trimmed down by transferring one or two of the programme elements to fall under the Social Responsibility Implementation (SRI) programme.

The NDT is one of the national departments that contribute to the Department of Public Works' (DPW) Expanded Public Works Programme (EPWP), through the SRI, a portion of their budget is allocated to EPWP projects that are aimed at creating work opportunities that have a labour intensive/low skill requirement.

Incorporating some of the aspects of TIP that have EPWP characteristics could enable NDT to realise some savings, especially considering that EPWP has incentives that kick-in when EPWP targets are reached.

Considering that some of the Destination Development and Enhancement transfers are already for SRI projects, it might be a good option to transfer all the activities and funds under this programme element to the SRI, especially considering that EPWP incentives are linked to the budget allocation for SRI. An increased allocation would lead to increased incentives provided that targets are reached. And targets could be reached better if the department's focus areas were clearer as opposed to having to programmes [SRI and TIP] that have similar characteristics.

Also, there were transfers that indicate that the programme tried to do too much, too early. Transfers to SAT for the tourism grading support programme and IDC for the energy efficiency, which add up to R45 million were for designing and developing revised strategies in order to increase the market uptake in the coming years.

These cannot be transfers that are made frequently, so the aforementioned entities should be able to come up with better models and thus ensuring that these unplanned transfers are no longer a feature in the TIP expenditure.

## **WHERE TO FROM HERE?**

The Tourism Incentive Programme is a good initiative, however if it is executed inefficiently it risks looking like a vehicle for the department to just offload funds. It is better for the department to have a more holistic approach for the programme, which will not make it easier for them to track their spending, but also has positive implications for accountability.

The current state of the programme makes it look as though the department is trying to do too much with too little, which has a negative effect on the quality of the outcomes. So, the consideration of trimming it down by transferring some of the activities of TIP to other more established programmes such the SRI.