



## **International Trade in Services and Sustainable Development: The Case of Tourism in South Africa**

**Edited by: Rashad Cassim, Wendy Jackson and Lucille Gavera**  
TIPS

**Contributing authors:**

**Paul Robertson**  
University of Cape Town

**Jolene Skordis**  
Centre for Social Science Research, University of Cape Town

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International Institute for Sustainable Development  
161 Portage Avenue East, 6th Floor  
Winnipeg, Manitoba  
Canada  
R3B 0Y4

Tel: (204) 958-7700

Fax: (204) 958-7710

E-mail: [info@iisd.ca](mailto:info@iisd.ca)

Web site: <http://www.iisd.org>

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TIPS is currently engaged in research for the DTI in restructuring of the defence industry, in spatial development initiatives and in regional integration.

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# General introduction

## International trade in services and sustainable development: the case of energy and tourism in South Africa

### Introduction to services

As services have become increasingly tradeable on the global market—due in part to technological developments and regulatory reform—they have consequently become more important in international trade negotiations. In addition, the recent review of the General Agreement on Trade in Services (GATS) as part of the World Trade Organization's (WTO's) built-in agenda has also drawn attention to trade in services. Work already undertaken under the built-in agenda will continue under the Work Programme as set out in Ministerial Declaration of the WTO Fourth Ministerial Conference held in Doha in November 2001. The Work Programme specifies that participants shall submit initial requests for specific services commitments by June 30, 2002 and initial offers by March 31, 2003.

Developing countries have been grappling with liberalization of services sectors. Two specific challenges have been encountered: domestic reform of the state monopolies; and, how GATS negotiations are likely to undermine or reinforce domestic reform efforts.

South Africa (SA) is a middle-income economy with one of the highest levels of inequality in the world—close to 30 per cent unemployment and a high incidence of poverty. The problem is compounded by the fact that the economy continues to experience low growth. There is an urgent debate about how best to create long-run growth and reduce inequality and poverty. Policy-makers and economists increasingly recognize that the services sector could become a potential lever to growth and a significant creator of more jobs.

The services sector already makes up 65 per cent of the gross domestic product (GDP), 63 per cent of employment and 74 per cent of capital formation in SA and has been the main source of growth for the economy in the 1990s. The largest sectors are community/social services (18.6 per cent), distribution services (14.5 per cent), business services (11.2 per cent), financial services (6.1 per cent) and transport services (5.3 per cent). The domination of services is more pronounced in the informal sector where petty trade, domestic work and minibus taxi-driving are the most common sources of income, although not subject to liberalization as such. Sectors such as energy and tourism also contribute significantly to the economy. Both these sectors have large, indirect effects on competitiveness, employment and output.

### Sustainable development

The concept of sustainable development was popularized by the International Union for the Conservation of Nature in its “World Conservation Strategy,” and was refined in 1987 in the Brundtland Report of the World Commission on Environment and Development:

Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.

While definitions and interpretations of the elements of sustainable development have varied, the concept is generally viewed as consisting of three primary aspects or “pillars”: economic

(sustainable economic development); social (social development/equity); and environmental (environmental protection/conservation/preservation). Other essential characteristics of sustainable development have been identified by a number of organizations and institutions. For example, the Canadian Commissioner for the Environment and Sustainable Development has suggested that sustainable development must incorporate quality of life, integrated decision-making and equity aspects.<sup>1</sup>

While work in the area of services liberalization is fairly new to SA, work on the synergies between services liberalization and sustainable development does not exist. The major reason for the absence of work in this area relates to the difficulty of assessing the exact nature of the linkages. Although the GATS will be used as a starting point for this analysis, we are interested in the *de facto* liberalization and/or deregulation, irrespective of whether the influences are external or domestic. Looking at two specific sectors—energy and tourism services—this study attempts to investigate the nature of trade liberalization and deregulation within a sustainable development framework. There are several reasons why the energy and tourism sectors were chosen.

## Energy

Energy is central to achieving the interrelated economic, social and environmental aims of sustainable development, and energy services play a crucial role in providing efficient access to energy in support of development. Developing countries are faced with a number of challenges in this regard, such as achieving more reliable and efficient access to energy for domestic consumption and production, growing their share in the trade of energy goods and services, and mitigating adverse environmental impacts from energy activities.

The energy sector includes coal, oil, gas, electricity, nuclear and renewable energy sectors. The main objective of this study is to look at what dominates SA energy supply—coal-based energy—although we also review other forms of energy generation. However, the main emphasis of the energy study is on electricity.

Electricity relates to sustainable development in that it provides a critical service element in:

- running hospitals, schools and businesses;
- heating, cooling and lighting in homes and workplaces;
- preserving food commercially and at home;
- pumping fresh water supplies and sewage;
- maintaining the flow of road, rail and air traffic;
- lighting in public places;
- operating global communications systems;
- providing access to the Internet and the information society; and
- supplying power for a wide range of appliances.<sup>2</sup>

With electrification still a major objective of South Africa's electricity utility Eskom, which has committed to a further 600,000 connections, an examination of the sustainable development implications of further liberalization and deregulation is merited.

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<sup>1</sup> Web site of the Commissioner for the Environment and Sustainable Development: [http://www.oag-bvg.gc.ca/domino/cesd\\_cedd.nsf/html/menu6\\_e.html](http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu6_e.html) accessed 30/01/03.

<sup>2</sup> See *Joint Statement by the Electricity Industry on Sustainable Development* for the World Summit on Sustainable Development: [www.basd-action.net/resources/positionpapers/200208\\_electric.pdf](http://www.basd-action.net/resources/positionpapers/200208_electric.pdf)



The research on the energy sector, which forms part of this study's investigation into the nature of trade liberalization and deregulation within a sustainable development framework, has been published as a separate paper.

## **Tourism**

Tourism is another important services sector that the government has identified as a major contributor to job creation, economic growth and poverty relief objectives. There are various benefits of tourism growth. First, tourism is relatively labour intensive and therefore well placed to absorb a large part of the unskilled workforce. Second, the industry uses relatively few imported inputs and gives rise to extensive forward and backward linkages in the hotel, food, entertainment and transport industries. Third, it can be an important source of foreign exchange and contribute to export diversification.

However, certain constraints to tourism growth have been identified, such as: a lack of transparent investment incentives to attract investors; a scarcity of needed infrastructure in regions with the strongest natural resource base for tourism; inadequate tourism education; and, inadequate marketing of SA as a long-haul tourism and business centre.

Although there has been considerable work done on sustainable tourism, there is a paucity of research and analysis on trade in tourism in southern Africa and in SA specifically, creating an explicit need for further awareness, knowledge and understanding of the sustainable development issues of the sector. The studies that have been conducted on tourism have tended to focus on sustainable tourism and poverty elimination, with only cursory attention given to environmental aspects or specific social dimensions, such as employment.

An important question facing the SA tourism industry is what impact it will have on both the environment and the poor of SA as the industry grows and its importance to the overall economy expands. This has brought to attention a few important issues, such as how new tourism developments use local suppliers and the distribution of benefits from tourism growth. Tourism is particularly essential in creating employment in remote, poverty-stricken areas of SA.

## **Methodology**

TIPS' contribution to the TKN Phase II project is a collaborative effort among a number of different researchers from various universities and organizations in SA. The tourism study, contained in this publication, was conducted by Paul Robertson and Jolene Skordis, both from the University of Cape Town.

For the publication detailing the energy sector research, Anton Eberhard from the University of Cape Town's Graduate School of Business was responsible for the section outlining the economic and regulatory characteristics of the energy industry, as well as the sections on energy services reform and the social equity aspects of energy provision. O. A. Akinboade from the Department of Economics at the University of South Africa (Unisa) and E.W. Niedermeier and F. Sibanda from the Competition Commission undertook the environmental discussion of the energy study. Significant modifications and additions to the electricity study were made by Rashad Cassim, the previous Executive Director of TIPS.<sup>3</sup>

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<sup>3</sup> Much of the information contained within these studies is available in separate papers prepared for TIPS. The following papers can be found on the TIPS Web site ([www.tips.org.za](http://www.tips.org.za)): *Energy Services, WTO GATS Negotiations and Energy Market Regulation and Liberalisation in South Africa* by Anton Eberhard; *The Impact of Electricity Trade on the Environment in South Africa* by O.A. Akinboade et al.; and *The Impact of Trade Liberalisation on the South African Tourism Industry* by Paul Robertson.

## Structure

After this general introduction, the tourism study is presented, with the energy study published as a separate paper. Both studies start off with a brief description of the linkages between sustainable development and the sector under discussion. From that context, the economic and regulatory aspects of each sector are discussed in detail. Tourism regulation is described in light of the four modes of services supply, whereas energy is discussed in light of current reform initiatives being undertaken in the industry.

The tourism study investigates the links between sustainable development and tourism services liberalization using three case studies. The authors selected a property rights approach to analyzing the incentive structures under various forms of tourism establishment ownership (private ownership, community ownership and government/public sector ownership) and each establishment is discussed in terms of the three pillars of sustainable development.

The energy study comprises a description of the economic and regulatory characteristics of SA energy services, as well as various elements of energy services reform. Because electricity generation and provision have significant linkages with sustainable development issues, there is heavy emphasis on aspects of energy services. In that connection, there is an extensive discussion of how the electricity sector can advance sustainable development, i.e., by: supporting industrial competitiveness and economic growth; promoting energy efficiency, increased use of renewable energy technologies and reduced emissions; and ensuring widened access to affordable services.

## Abridged findings

### *Tourism*

The authors of the tourism study found that the links between trade liberalization, tourism and sustainable development are difficult to establish because of the range of services included under the tourism heading and each one's differing contribution towards poverty alleviation, economic growth and employment. However, the study pointed to several potential indirect links between the liberalization of trade in services and sustainable development. These include:

- significant inflows of foreign investment for new project development, for NGO support and for community upliftment projects; and
- a tremendous upsurge of overseas tourism since the beginning of 2002, and projects that rely on incomes or donations from these sources clearly benefit.

They also note that a commitment to enforcing environmental safeguards as recommended in the White Papers on Environmental Management and Coastal Management, as well as the guarantees of the Constitution, need to be addressed more explicitly in future economic development programs. Moreover, the authors suggest that regulatory bodies can be guided in their tasks so that they enhance the achievement of sustainable development goals. Open, consultative processes that include public and private partnerships are desirable, while some amount of benevolent leadership from experienced practitioners may be necessary to overcome lack of capacity and entrepreneurship.

Lastly, the authors suggest that to encourage the right kind of development, it falls on regulators and investors to:

- support initiatives that use tourism as a vehicle for delivering skills while protecting natural assets;
- discourage such exploitive arrangements that work against the principles of sustainable development; and
- develop methods of assessing the impacts tourism investment is likely to have on the communities involved in its delivery. In this manner, liberalization of tourism services would be able to ensure the most appropriate skills and resource development.

# Tourism

## Executive summary

The main aim of the tourism study is to provide a macro overview of the sector, focusing specifically on its importance to the economy. The paper provides a broad outline of the contribution of tourism to growth and the economy, with specific attention to the regulatory environment in which the sector operates. In addition, three case studies are used to investigate the various linkages between tourism services and sustainable development.

The discussion of tourism services is complicated by the range of economic sectors involved in supplying tourism products, and the competing definitions of tourism. For the purposes of this paper, the World Trade Organization definition of tourism is used, which describes it as “the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.”

SA tourism is made up of two-thirds domestic and one-third foreign consumers. The focus of this research is on export tourism—that is, tourism that takes place within SA and is consumed by foreigners. To this end, data on foreign visitors is presented, followed by information about SA tourism service suppliers. Most foreign tourists—about two-thirds—come from the African continent, and most of these are from neighbouring countries. Lesotho alone accounts for more than one-sixth of all foreign visitors to SA. Of the remaining share from overseas, two-thirds are from Europe. Most visitors come on holiday—over 80 per cent—while roughly 10 per cent come for business, and still smaller percentages for work (two per cent) or study (one per cent).

Service suppliers in tourism include transport companies, hotels, car rental companies, restaurants, advertisers, the travel press, guides and the distribution services designed for each of these. Institutions that enable the delivery of tourism products, such as government departments and professional organizations, should also be considered suppliers. Tourism sites are points around which these services operate, and include national parks, game reserves, historical monuments and museums, as well as cities, towns and villages.

Until 2001, tourism contributed about three per cent to the GDP of SA, but its indirect and induced effects were responsible for as much as 7.1 per cent of the economy. This contribution increased in 2002, with estimates varying as to how much more the economy will benefit if this trend continues. About 41 per cent of all revenues generated by SA tourism is captured in the GDP, with the balance retained in the source markets of foreign tourists. The tourism industry employs about 490,000 people directly, and 1.1 million when indirect employment is included. Investment in tourism is about 10 per cent of total GDP, and tourism exports are 10 per cent of all exports. Furthermore, tourism service exports are 50 per cent of all service exports. Government spending in the industry is low by world standards (0.6 per cent of all government expenditure compared to a worldwide average of 6.8 per cent), but the returns on this spending are much higher than the global norm (15:1 compared to 1.7:1). Tourism also generates over eight per cent of all taxes paid in SA.

Tourism is one of the least regulated industries in SA and worldwide. However exceptions include unequal treatment in the entry of natural persons, favouring those from wealthier Western nations over neighbouring countries. Exchange controls, restrictive conditions on the employment of skilled foreigners and financing limitations dependent on foreign equity shares

are examples of regulations that harm both domestic and foreign investors. These create an environment of uncertainty, inhibit the inflow of technology and skilled people, and impose unnecessary hardship and bureaucratic barriers to investment.

Liberalization in the tourism sector should bring improvements to the economy that outweigh the hardships of adjustment. While threats of competition, loss of SA ownership and retrenchments are to be expected to some extent, the efficiency benefits from specialization will provide a net social gain for the average consumer. Due to the relative ease with which people can enter travel and tourism professions, these benefits can be realized in the short term as well.

Measuring the impact of liberalization is less obvious. Apart from the differing definitions of tourism, various methods exist to calculate its contributions to the economy. Tourism Satellite Accounts attempt to capture the downstream effects from each injection into the industry, but may end up inflating its actual importance. Multiplier analysis tends to reflect features of the host economy rather than those of tourism's contributions. Other simulations may offer more precise figures, but can be costly and time-consuming to develop accurately.

Since the Doha Round, WTO members have undertaken to make further commitments by March 2003. With this in mind, the following conclusions can be drawn from the research so far. Further liberalization of regulations inhibiting commercial presence and the movement of capital and people will remove uncertainty around investment. Tourism will be affected most by the progress of liberalization in sectors that enable its service delivery—most notably transport and utilities. Despite its contribution to GDP and its importance as an employer, the tourism industry concentrates information-gathering efforts in a demand-side marketing approach instead of seeking to understand its suppliers better.

SA policy on sustainable development is mixed, and the environment is often omitted from discussion. Also, employment creation and equity are paramount in this era of highly unequal employment opportunities. Fortunately, with the success of eco-tourism ventures there is a growing emphasis on harnessing the environment in tourism.

An examination of the Phinda Reserve and the Greater St. Lucia Wetlands Park in northern KwaZulu-Natal, as well as Amadiba Adventures in the northern Wild Coast of the Eastern Cape reveals how different management and ownership structures can deliver benefits to communities. Representatives of each management area were interviewed to complete baseline research on economic growth, poverty alleviation, environmental impacts and possible links to trade in services to formulate recommendations for sustainability in eco-tourism.

## **Tourism and sustainable development**

One sector that has increasingly contributed to the advancement of sustainable development dialogue and activities is tourism. The interaction between sustainable development as a practical approach and tourism as an industry is tangible and far-reaching, and the manner in which the industry impacts on economic and social development and environmental initiatives is enormous. A very cursory description of these interactions is given below.

In terms of economic development, the potential contribution of tourism is significant. The World Tourism Organization (OMT) has reported that in 2001, US\$463 billion in international tourism receipts were recorded worldwide.<sup>4</sup> In terms of export earnings on tourism goods and services, in 1999, international tourism and international fare receipts (receipts related to passenger transport of residents of other countries) accounted for roughly 8 per cent of the total worldwide. In terms of long-term trends, the OMT reports that:

The number of international arrivals shows an evolution from a mere 25 million international arrivals in 1950 to the 699 million of 2000, corresponding to an average annual growth rate of seven per cent. In the same period, international tourism receipts, at current prices and excluding international transport costs, had an average annual growth rate of 11 per cent.

While earnings from tourism vary among countries, all regions monitored by the OMT (Europe, the Americas, East Asia and the Pacific, South Asia, Africa and the Middle East) indicated growth.

Employment from the tourism industry is estimated at approximately 72,000,000 jobs, while the tourism economy as a whole is estimated to be about 198,000,000 jobs worldwide.<sup>5</sup> This latter figure equals about 7.8 per cent of total employment, or about one in every 12.8 jobs.

In terms of the social pillar of sustainable development, the OMT has identified a number of social benefits that can result from tourism. For example, it suggested that tourism could contribute to:

- rural development;
- agricultural transformation;
- community enrichment;
- social empowerment, particularly for women; and
- preservation of cultural and heritage traditions.<sup>6</sup>

At the same time, however, there can also be negative social outcomes from tourism activities, for example:

- inflationary pressures pose the danger of significantly worsening the household distribution of income;<sup>7</sup>
- increased incidence of crime, and spread of drugs and diseases, including HIV/Aids;<sup>8</sup>
- change or loss of indigenous identity and values (in terms of commodification, standardization, loss of authenticity and staged authenticity, and adaptation to tourist demands);<sup>9</sup>

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<sup>4</sup> See the Web site of the World Tourism Organization: <http://www.world-tourism.org/projects/ethics/principles.html>, accessed 30/01/03. Subsequent economic statistics were also obtained from this Web site.

<sup>5</sup> Employment statistics taken from *The Impact of Travel and Tourism on Jobs and the Economy – 2002: Executive Summary*. World Travel and Tourism Council, 2002.

<sup>6</sup> The OMT has initiated research and consultation on the interrelationship of tourism and poverty through a project called “Sustainable Tourism – Eliminating Poverty.” See the Web site for more information.

<sup>7</sup> *Sustainable Tourism Development in Small Island Developing States*. Report of the Secretary-General, Addendum. UN Commission on Sustainable Development. Fourth session, April 18–May 3, 1996. Document E/CN.17/1996/20/Add.3. See [www.un.org/esa/](http://www.un.org/esa/)

<sup>8</sup> *Ibid.*

<sup>9</sup> UNEP Production and Consumption Branch. See the UNEP Web site: <http://www.unep.org/pc/tourism/sust-tourism/soc-drawbacks.htm>

- culture clashes (income inequality, irritation due to tourist behaviour and job-level friction);<sup>10</sup> and
- ethical issues (child labour, prostitution and sex tourism).<sup>11</sup>

The environmental aspects of tourism are obvious, yet complex. The fundamental paradox that underlies the environmental aspect of tourism is that most forms of tourism depend on either a built or natural environment, but excessive tourism can degrade that same environment. Impacts from tourism can be categorized into three types:

- pressure on natural resources (land, freshwater and marine resources);
- pollution and waste generation (improper disposal of liquid and solid waste, for example, from cruise ships); and
- damage to ecosystems (disruption of habitats, alteration of animal behaviour, destruction of coastal areas, forests, mangroves, etc.).<sup>12</sup>

However, environmental benefits from tourism have also been documented, the most predominant of which is the conservation and protection of ecologically-sensitive or unique areas. These areas attract tourists who are interested in botany, bird watching, wildlife, nature photography, scuba diving, archaeology, etc.

Accordingly, tourism organizations—local, national and international—have been producing a number of sustainable development guidelines, principles and codes of behaviour for the sector. At the international level, the OMT has published a number of documents that emphasize the importance of integrating a sustainable development approach to tourism projects and activities. For instance, in Article 3 of its *Global Code of Ethics for Tourism*,<sup>13</sup> the OMT states that:

All the stakeholders in tourism development should safeguard the natural environment with a view to achieving sound, continuous and sustainable economic growth geared to satisfying equitably the needs and aspirations of present and future generations.

This Article encompasses the economic, social and environmental aspects of sustainable development. In addition, the OMT has drawn up a guide for sustainable tourism development that also places emphasis on these three elements. The guide stresses that “sustainable tourism development can fulfil economic, social and aesthetic needs while maintaining cultural integrity and ecological processes.”<sup>14</sup> Moreover, the guide explicitly states that planning, development and operation should entail integrated decision-making, “involving different government agencies, private corporations, citizens groups and individuals.”<sup>15</sup> Both the *Global Code of Ethics for Tourism* and the guide for sustainable tourism development also contain clear directives in terms of equity, fair distribution of benefits and costs, and application of policies to help raise the living standards of the populations in the regions visited.

<sup>10</sup> *Ibid.*

<sup>11</sup> *Ibid.*

<sup>12</sup> *Sustainable Tourism, Environmental Protection and Natural Resource Management: Paradise on Earth?* Frederico Neto. Paper submitted to the International Colloquium on Regional Governance and Sustainable Development in Tourism-Driven Economies. Cancun: Mexico, February 20–22, 2002.

<sup>13</sup> See the Web site of the World Tourism Organization for the full Code.

<sup>14</sup> *Sustainable Tourism Development: Guide for Local Planners*. OMT: 1993. See the Web site of the World Tourism Organization (listed above).

<sup>15</sup> *Ibid.*

# South Africa tourism – introduction

## General information

The tourism sector of the South African economy has been characterized by rapid growth in the mid-1990s, followed by more conservative gains recently, and an increasing contribution to overall employment. The Department of Environmental Affairs and Tourism (DEAT) indicated in 2002 that South Africa's tourism sector was the fastest growing export tourism market in the world.<sup>16</sup>

The majority of tourism consumption in SA (67 per cent) is by South Africans. Export tourism accounts for the remaining 33 per cent. Of the total R92.95bn spent by foreign tourists on their SA visits, R38.43bn (or 41 per cent) comes into the country, while the rest remains in the source market, largely due to airfare sales and respective commissions by foreign travel agents.<sup>17</sup> This is regarded as a normal percentage split in the tourism sector.<sup>18</sup> Through the development of tourism distribution services and marketing campaigns, SA hopes to claw some of this percentage back in its favour.

Although there are many similarities between SA tourism services and those in other countries, the SA tourism sector has also evolved to feature those assets that are uniquely South African. The best example of this is cultural tourism, which describes the activities of visitors who engage in the political and cultural history of the country. South Africa's peaceful transition to democracy and current process of transformation are widely appreciated throughout the world, and translates into a very dynamic component of South Africa's tourism industry, as evidenced by its repeated mention in provincial tourism strategies.<sup>19</sup>

Other forms of leisure and recreation include ecological, adventure, sporting, health and even educational tourism. Less is known about the percentage of time a foreign visitor is likely to spend between these classes of tourism activities, although the data permit a broader distinction to be made between holidays and other purposes of visit.

The South Africa Tourism (SATOURL) slogan, "A World in One Country," rightly draws attention to the diversity of SA flora, fauna and landscapes. Around this natural asset an adventure market has developed, catering to thrill-seekers and nature enthusiasts. The country's reputation in several international sports ensures many visitors for SA-hosted events. A choice of temperate climates in any season is also an attractive feature of the country. On the rise are multi-purpose visitors who find good value in elective health services and combine their therapeutic visit with a recreational holiday. Those on work or study permits staying less than a year would also be considered tourists, as are those who come for business purposes or to attend a conference.

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<sup>16</sup> Department of Environmental Affairs and Tourism (DEAT), 2002a.

<sup>17</sup> DEAT homepage, [http://www.environment.gov.za/parliamentUpdate/QA\\_Tourism.htm](http://www.environment.gov.za/parliamentUpdate/QA_Tourism.htm), accessed October 2002.

<sup>18</sup> *Ibid.*

<sup>19</sup> See, for example, <http://www.capetourism.org/content/greenpaper.doc> for the Western Cape province or <http://www.kzn.org.za/kzn/kznta/26.xml> for KwaZulu-Natal province.



## Economic characteristics of South African tourism

### *Employment*

The generation of employment is one of the strongest recommendations for tourism, and the Department of Environmental Affairs and Tourism identified the sector as an engine for growth in its 1996 White Paper. After a doubling of tourist arrivals from 1992 to 1996, it was estimated that for every eight visitors a new job was created. Currently, it is estimated that there are over 490,000 people employed directly by the travel and tourism industry in SA, representing about three per cent of total employment. According to the World Travel and Tourism Council (WTTC), the employment figure rises to over 1,100,000 jobs when one looks at the larger travel and tourism economy, which would equate to about one in every 14.5 jobs in SA.

There are many labour-intensive features of tourism's prominent sub-sectors. Typically, the skills required in this sector are low to medium, and the wages and salaries reflect these requirements. This means that although there are opportunities for all to participate, the sector suffers from a lack of status and has trouble attracting people with higher qualifications.

Moreover, tourism does not occupy the place in the SA economy it ought to if one considers the percentage of GDP attributable to tourism in other economies. The U.S. share, for example, is 10 per cent of GDP while the SA share is about three per cent. If tourism were to grow to this potential, an estimated two million additional jobs would be created.<sup>20</sup>

Since 1999, the DEAT alone has spent over R260m on more than 150 community-based tourism projects.<sup>21</sup> Although the number of temporary jobs created surpassed 400,000, only 2,300 newly-created, permanent positions exist. The DEAT has also funded additional training to provide more skilled people into the tourism market, but there has been no follow-up on this program's placement success.

There is further a concern over the participation of women in new jobs in the tourism sector. Although 46 per cent of new jobs in tourism go to women worldwide—far outpacing the percentage in other industries—the average seems to be somewhat lower in SA.<sup>22</sup> It has been posited that the high levels of male unemployment are partially responsible for lower female gains.<sup>23</sup>

### *Investment*

Capital investment in tourism has been fairly constant since the mid-1990s. This seems odd when one considers the growth of the industry in the same period. Tourism investment as a share of GDP has remained constant at just over 10 per cent, which compares well with the world average of 9.2 per cent.

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<sup>20</sup> WTTC, 2002. Except where otherwise noted, statistics in this section are from this document.

<sup>21</sup> DEAT, 2002

<sup>22</sup> Page, 1999.

<sup>23</sup> *Ibid.*

For an analysis of this kind it should ideally be possible to decompose the industry into its sub-sectors and sources of investment (foreign or local), but as mentioned earlier, data are not easily refined into these subsets. Furthermore, most of the available data are geared towards developing marketing strategies for holiday-makers. Although one is able to differentiate between vacationers and business visitors in the arrivals and departures data, not much more is known about potential and current investors in SA.

The WTTC forecasts more robust investment figures for the years ahead, with the assumption that SA will have addressed some of its investor uncertainty and risk issues. Professor David Kaplan, former chief economist at the Department of Trade and Industry (the dti), has identified uncertainty as the number one issue plaguing investment in SA.

### *Exports*

The activities and purchases of international visitors are, by definition, measured as exports in the host economy. Services in tourism are unique among exports because they are consumed in the same country in which the services are produced. Although exports can refer to the spending on both merchandise and activities by foreigners, it is only the non-merchandise spending component that is discussed under the trade in services.

For smaller developing countries in particular, the export share of tourism is the most significant portion of the industry, and often for the entire economy. In SA, tourism exports represent about 35 per cent of consumption within the industry, and are about 10 per cent of all SA exports. Tourism exports include a visitor-spending component about 3.5 times larger than the merchandise component. It is the visitor spending that touches the trade in services issues, since transport, accommodation, car hire and the like are all service industries. If there were to be a consequence of trade liberalization, it would be evident in both the share of tourism among exports and absolute growth in tourism exports.

### *Government spending*

Expenditure by the SA government on tourism services and facilities is considered very small compared to world averages, and has remained constant at about R130m from 1997 to 2000. Only recently has it risen to R900m, and this amount still represents just two per cent of government expenditure. The worldwide average is more than three times this share at 6.8 per cent. This can be interpreted as a threat to future growth or as a sign of confidence in the industry. To the extent that government spending is linked to growth, a zero-growth budget for tourism spending could mean a future bottleneck in the provision of services.

However, SA is unique in that the return experienced from current expenditure is of several magnitudes larger than most countries. The ratio of tourism's contribution to the economy versus government spending is about 15:1, while the world average is about 1.7:1. Interpreting this is more difficult, but it would appear that SA owes its dividends to other sources than government spending.

### *Taxes*

Less recent information is available on tax revenues from the tourism industry. In 1998, these represented R15bn, or about 8.4 per cent of all taxes paid in SA. Of this, R6.6bn is generated from the wages and salaries of employees in the industry, R5.9bn is the estimated contribution

from indirect taxes and a further R2.6bn comes from businesses. As tax collection improves, it is expected that revenues will continue to grow, which also assumes employment and consumption growth in this sector.

From the above, it can be seen that the travel and tourism sector is managing to defy some of the negative trends present in other sectors in SA. Employment is growing, and the share of private investment is on par with that of other nations. Moreover, the consequences of 2001's terrorist events were not felt as severely in SA.

## **South African tourism services regulation**

South Africa's array of tourism-related policies address all three pillars of sustainable development: economic development; social development/equity; and environmental protection/conservation. For example, the 1996 White Paper identifies a number of specific economic, social and environmental objectives.<sup>24</sup> However, with GATS negotiations taking place in the WTO, the current emphasis is on the trade and economic aspects of tourism.

Presented below is an overview of the regulatory environment of SA as it relates to tourism and to the trade in services.<sup>25</sup> Tourism in SA is unregulated in the sense that consumption by foreigners is not subject to controls. A discussion of how trade liberalization affects tourism is thus not based on any direct controls in this industry, but rather on how other activities that allow the supply of tourism goods and services in this country are affected by regulation. So in this respect, the body of regulation that affects tourism is largely the same as that which affects any other service industry.

### **Cross-border supply (Mode 1) – focus on financing**

Mode 1 covers service flows from the territory of one WTO Member into the territory of another Member, such as banking.<sup>26</sup> In this sense, foreign firms are not treated differently than South African firms by lending institutions, except for limits imposed by the percentage of foreign ownership (described under "commercial presence" below). In its latest requests for the WTO trade in services negotiations, the EU has requested of SA that this limitation be suppressed.<sup>27</sup> The SA banking system is known to be efficient and sophisticated, but suffers from higher real interest rates than those available at equally reputable institutions overseas. Otherwise, the financial market is not heavily regulated and banks are generally left to set their own criteria for lending.

There are a number of financing schemes available to consumers of tourism financial services, of which both foreign and domestic investors should be aware. Previously, the Industrial Development Corporation (IDC) offered two financing products below prime lending rates for investors who either developed appropriate tourist facilities in ecologically-protected zones or improved existing accommodation elsewhere. Now the role of the IDC in tourism has expanded with the creation of a Strategic Business Unit (SBU) that is focused on broader initiatives.

<sup>24</sup> Available online at: [http://www.polity.org.za/govdocs/white\\_papers/tourism.html](http://www.polity.org.za/govdocs/white_papers/tourism.html).

<sup>25</sup> DTI, 2001. Except where noted, regulations cited in this section are from this source.

<sup>26</sup> See World Trade Organization Web site section on GATS: <http://www.wto.org>.

<sup>27</sup> EU Ad Hoc Committee – Services, 2000.

Using partnerships with the dti, Khula Enterprises and the Development Bank of Southern Africa (DBSA) to encourage investment in other types of tourist facilities, the SBU has helped to develop convention centres, cultural villages and health tourism facilities. The IDC also offers a discounted rate on the funding of operations that will create new employment opportunities. The criterion here is that the capital cost must not exceed R100,000 for each opportunity created.

However, the SBU fears that the market may soon be saturated in SA, and so is also turning its attention to neighbouring countries.<sup>28</sup> The IDC starts funding at R1m, so this precludes development in the small, medium and micro-sized enterprise (SMME) category.

These schemes are still largely targeted towards the making or refurbishing of upper-end establishments by investors with sufficient collateral at their disposal. The 1996 White Paper identified this as a problem area because (a) there may be a surfeit of five-star properties already and (b) participation in the tourism economy is not enhanced by the continued exclusion of groups without access to funding.<sup>29</sup> It goes on to quote independent consultancy Kessel Feinstein as saying the current incentives are “so little as to be meaningless in encouraging any development.”

## **Consumption abroad (Mode 2)**

Consumption abroad refers to situations where a service customer (for example, a tourist) moves into another WTO Member's territory to obtain a service.<sup>30</sup> For the most part, this mode covers tourism or education abroad. Activities of foreign individuals who remain in SA for less than one year (including those who enter with work, business or study permits) can be classified under tourism. Thus the movement of these people into the country is a matter of tourist regulation and, by extension, affects Mode 2 trade in services. The government fully manages this aspect of regulation, although members of the tourist industry have a larger stake in seeing greater liberalization and hence a freer movement of people.

As far as SA regulation is concerned, foreigners are not treated differentially in their consumption of services, and there are no Mode 2 requests at present.

However, under the present arrangements, not all members of the WTO are granted equal entry rights, as is the eventual goal. Citizens of the U.S., Canada, Japan, Australia, New Zealand and most of the Western European nations receive preferential treatment for a variety of reasons: reciprocal arrangements, low history of visit-length violations and their value to the economy in terms of spending per capita. Typically, these nationals are issued visitor permits on arrival for stays up to 90 days according to return/onward flight dates. Upon supplying further proof of a *bona fide* intention as a visitor (such as means of financial support) and at the discretion of immigration officials, these nationals can request a temporary residence permit valid for up to one year.

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<sup>28</sup> Dampier, 2002.

<sup>29</sup> 1996 White Paper.

<sup>30</sup> See World Trade Organization Web site section on GATS: <http://www.wto.org>.

As of November 2000, nationals of neighbouring Southern African Development Community (SADC) countries do not enjoy the same treatment, and are granted visits not exceeding 30 days on average. Research conducted by SATOUR shows that nationals of these countries generally come on much shorter—but more frequent—visits than their overseas counterparts.<sup>31</sup> In fact, SADC citizens represent the greatest proportion of foreign visitors.<sup>32</sup> Given the frequent nature of their visits, if their shorter lengths of stay are not the result of the relatively more restrictive visa conditions towards SADC nationals, then it would do no harm to extend the stipulated period of visit.

### **Commercial presence (Mode 3)**

The establishment of a commercial presence in SA is an area subject to regulation, and more particularly if the South African company is 75 per cent or more foreign owned. Such companies are known as “affected companies” and are limited in the amount that they may borrow from SA sources. Companies that are 100 per cent foreign owned can borrow up to 100 per cent of their effective capital. The percentage allowed increases as the percentage of South African ownership increases, according to the formula:

$$100 \text{ per cent of effective capital} + (\text{per cent SA interest} / \text{per cent foreign interest}) \times 100 \text{ per cent}$$

Thus a situation may arise where the repatriation of funds would not be permitted if the amount of effective capital would be reduced to a point below what is required to have qualified for SA financing.

This, however, is somewhat less restrictive than the 10 per cent foreign asset base limitation SA firms face. Although this was recently improved from five per cent, it does not permit the same flexibility in investment as is possible for foreign-owned firms. Residents must obtain permission from the National Treasury through its agents—the exchange authorities—when converting large sums of rands into foreign denominations. However, there have been no restrictions for non-residents on exchanging rands since the abolition of the financial rand in 1994. Likewise, there are scarcely any controls over the repatriation of investment income.

The controls that do exist are maintained to prevent capital flight, although they may ironically contribute to weak investment through the uncertainty they impose. Controls might cause potential investors to question the reasons behind the enactment of such restrictions, and ultimately may serve only to advertise and substantiate perceived risk.

In terms of labour, potential investors should be familiar with some of the legislation, including the Basic Conditions of Employment Act (1998), the Employment Equity Act (1999), and the Skills Development Act (1998). SA has made enviable strides in legislating the rights of workers, which are on par with those of developed nations. Trade unions are also well organized and exert a lot of upward pressure on nominal wages.

There are two aspects of the labour market of interest to foreign investors. Under the Skills Development Act, foreign investors are expected to import new technologies to improve productive capacity. It is unclear how the legislation addresses this issue and whether there is a monitoring process in place. Secondly, given the relatively high unit cost of labour compared with other markets in SA, there is much scope for examining the role this plays in investment as well.<sup>33</sup>

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31 SATOUR, 2002b.

32 Stats SA, 2001.

33 Fedderke, 2001.

Regarding other issues, business registration, land acquisition and land re-zoning are further areas of regulation that affect commercial presence but which are neither discriminatory toward foreign investors nor unduly encumbered processes. Tax incentives are offered for industrialists involved in export, but schemes for attracting overseas investment in tourism are not as well known. This problem was also identified in the 1996 White Paper, which recommended that either a new institution devoted to tourism be created or that the existing State institutions be more aggressive about funding this sector.

### **Presence of natural persons (Mode 4)**

According to the GATS, the presence of natural persons consists of persons of one WTO Member country entering the territory of another Member to supply a service—such as their labour. Foreigners planning to work in SA are not officially differentiated by nationality. For a foreign national to enter SA with the intention of working, certain standards must be met that show the country will benefit from the person's skills, and that these same skills are not possessed by a South African who could fill the desired post. These clauses are expressly designed to protect the domestic labour market but are arguably more restrictive than necessary. First, they provide for the use of a much stricter standard of credential analysis than exists in the domestic labour market. Secondly, prospective employers are required to draw up a plan of skills transfer from the foreigner to a South African citizen who will hold the post in the long run. This places the onus on the employer to (a) find or have employed an under-qualified SA candidate at the time of the foreigner's application and (b) arrange for training that might better be accomplished through the educational system, professional organizations or other means than its foreign employees. The assumption is that the qualifications of the foreigner are of the sort that cannot be obtained in SA, rather than the sort that may simply be scarce in SA for other reasons.

Requirements for those seeking business visas—whether they are representing a foreign business, visiting a branch office in a temporary capacity or exploring investment opportunities—are less stringent than for those seeking work visas. Key personnel transfers to SA branches of foreign firms are also more easily secured, and the movement of these persons need only be justified in a letter to Home Affairs. Secondments, or employees paid outside of SA for their work inside the country, require only a visitor visa.

As of 2001, work (and study) permits could be obtained for a three-year period rather than having to renew the permit yearly. This move reduces the administrative burden on both the permit-holder and the Department of Home Affairs, but has little impact on the movement of labour. As part of the WTO negotiations on trade in services, the European Union (EU) has requested SA to reduce the credentialing criteria for certain professional sectors to one year of experience and a university degree or equivalent professional diploma.<sup>34</sup>

When referring to the tourism industry, the movement of natural persons has consequences for both SA and foreign businesses. Foreign-held businesses are more easily able to import labour under secondment and transfer arrangements, so it is possible to imagine that some might benefit from overseas expertise. However, given the adequate skills base in SA, it is unlikely this would occur for any but the most senior positions. Still, foreigners in the SA tourism industry might possess a level of education, global experience and linguistic or cultural affinity with clientele that a SA employer might find desirable but inaccessible. Finally, and although the effect would be longer term, the opening of the tourism labour market would help to remove wage pressure that existed for the most senior positions. If skills for such jobs are scarce within SA, then welcoming more foreigners could relieve this pressure.

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<sup>34</sup> EU Ad Hoc Committee - Services, 2000.

## Case studies – methodology

To explore possible links between the regulatory environment and sustainable development through tourism, the authors will present findings from a microeconomic study that illustrates these processes in selected SA coastal communities. While it would have been desirable to conduct a more precise macroeconomic analysis of tourism in SA, owing to the diversity of the industry participants and the indistinct definition of tourism services, it was decided that a case study approach would be sufficient to highlight the salient features of tourism and sustainable development—even if not able to do so in a representative manner for all experiences of tourism in SA.

In this instance, the authors chose to look at the eco-tourism segment of the tourism market. Eco-tourism is a fast-growing sector of tourism in SA, as evinced by the DEAT's drafting of an Integrated Eco-tourism Development Plan for 2003.<sup>35</sup> Land that might have previously been used for agricultural and forestry products or mining is becoming more profitable as an attraction in its natural state.

This phenomenon is demonstrated in the focus of two coastal spatial development initiatives (SDIs) located at either end of KwaZulu-Natal Province. Both the Lubumbo SDI and the Wild Coast SDI began as infrastructure development plans that later tapped into the wealth of eco-tourism. When the inherent value of the land as a tourism asset began to be realized, a shift in focus took place from infrastructure development for general use to that designed for the specific use of tourism. As a result of this shift, land that was likely to be given over to mining in both SDI areas may now be set aside for eco-tourism. The Lubumbo SDI incorporates both the Greater St. Lucia Wetlands Park and Phinda Game Reserve, while the Wild Coast SDI hosts the community-run Amadiba Adventures coastal hiking and horse trail.

This paper adopted the use of a property rights (that is, Coasian) approach to analyzing the incentive structures under various forms of ownership. To facilitate this, it was necessary to control for the environment as far as possible and to vary the form of ownership (or management structure) to understand the incentive to conserve the natural environment, create new employment opportunities and actively attract visitors to the site. Once these questions have been asked, the remaining concern was whether tourist throughput and the associated incomes were sufficient to sustain these efforts.

There was insufficient data in the public domain to facilitate this form of analysis without field visits and additional qualitative research. The key stakeholders needed to be interviewed in person and their feedback assimilated into the framework of the discussion. In short then, using a careful selection of case studies, these aim to:

- 1) Examine different forms of ownership including:
  - private ownership;
  - community ownership; and
  - government/public sector ownership.

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<sup>35</sup> DEAT, 2002.

- 2) Explain the institutional dynamics of each of these forms of ownership. Particular attention will be given to the following aspects and the extent to which they might promote (or discourage) sustainable development and a culture of environmental conservation:
  - principle-agent relations;
  - asymmetry of information; and
  - incentive structures (both positive and negative).
- 3) The extent to which increasing competition, efficiency and openness might encourage growth in the tourism received by these destinations.
- 4) The likely impact that growth might have on poverty and job creation in each of these cases.

In accordance with this methodology, and to further explore the eco-tourism segment, the following sites were selected as case studies:

- Phinda Game Reserve – KwaZulu-Natal: private ownership;
- The Greater St Lucia Wetlands (GSLW) Park – KwaZulu-Natal: government steward-ship; and
- Amadiba Adventures – KwaZulu-Natal/Eastern Cape: community ownership).

At each of the three targeted sites, initial consultation with available contacts and other researchers helped to identify the correct spokespeople within the relevant management institutions. In many cases, more than one organization, and more than one spokesperson, was approached to provide a more comprehensive understanding of the management context. Meetings with the targeted respondents<sup>36</sup> took the form of an in-depth qualitative interview. Discussions were structured around specific predetermined themes or topics to ensure that the same ground was covered in all conversations. The report below is structured around the themes of these interviews, and pertinent information from each case study is presented under each topic heading for purposes of comparison.

## **Background on the case study sites**

### *The Phinda Game Reserve*

“Phinda is acclaimed as South Africa’s most responsible wildlife tourism project, with its goals of wilderness restoration and community participation.”<sup>37</sup>

Owned and run by Conservation Corporation Africa (CC Africa), Phinda is situated within 17,000 hectares and seven distinct ecosystems in Zululand, northern KwaZulu-Natal. Phinda has earned a worldwide repute for its diversity and scenic wonder and the Web site for the resort describes it as the “nucleus linking nearby conservation areas in the creation of the Greater St Lucia Wetland Park,” and claims that “Phinda has ensured the bio-diversity of this remarkable region.”<sup>38</sup>

<sup>36</sup> The terms “spokesperson” and “respondent” are used interchangeably in the subsequent narrative and the reader should be aware that they carry the same meaning. Details of the meetings and spokespeople can be found in Appendix C.

<sup>37</sup> <http://www.africantravel.com/cca/phinda2.html> accessed 05/12/02

<sup>38</sup> [http://www.southafrica-travel.net/Parks/e\\_lucia.htm](http://www.southafrica-travel.net/Parks/e_lucia.htm), accessed 4/12/02



### *Greater St. Lucia Wetlands Park*

Greater St. Lucia Wetlands Reserve comprises a river mouth approximately 60 km long, which forms a lagoon parallel to the coast. The lagoon is separated from the sea by a ridge of dunes. There are countless species of fish and an equally impressive variety of birds. Another attraction is the chance to see hippos and crocodiles. With about 1,500 specimens, the crocodile population in the St. Lucia Lake is the biggest of all the animal parks in SA. The park offers camping sites and holiday facilities of varying degrees of luxury. On weekends, these are usually filled with visitors from nearby Richard's Bay and the city of Durban.

### *Amadiba Adventures*

Amadiba Adventures was initiated by PondoCROP (a regional NGO<sup>39</sup>) in conjunction with the Amadiba Coastal Community Development Association (ACCODA). The Amadiba Horse and Hiking Trail is a wilderness trail that runs along the northernmost section of the Transkei Wild Coast in the Eastern Cape, from the Mzamba River to the Mtentu River. Accommodation in tented lodges, the hire of horses, tour-guiding and catering is supplied by small business enterprises owned by members of the local community.

PondoCROP, ACCODA and Triple Trust (an NGO focusing on skills development) are working together on the development of the region's low-impact eco-tourism trail. PondoCROP holds responsibility for the development of the new trails, strategy planning and the development of appropriate business plans. Triple Trust handles the training of involved community members to ensure appropriate skills development, and the community group manages the operationalization of the trails.

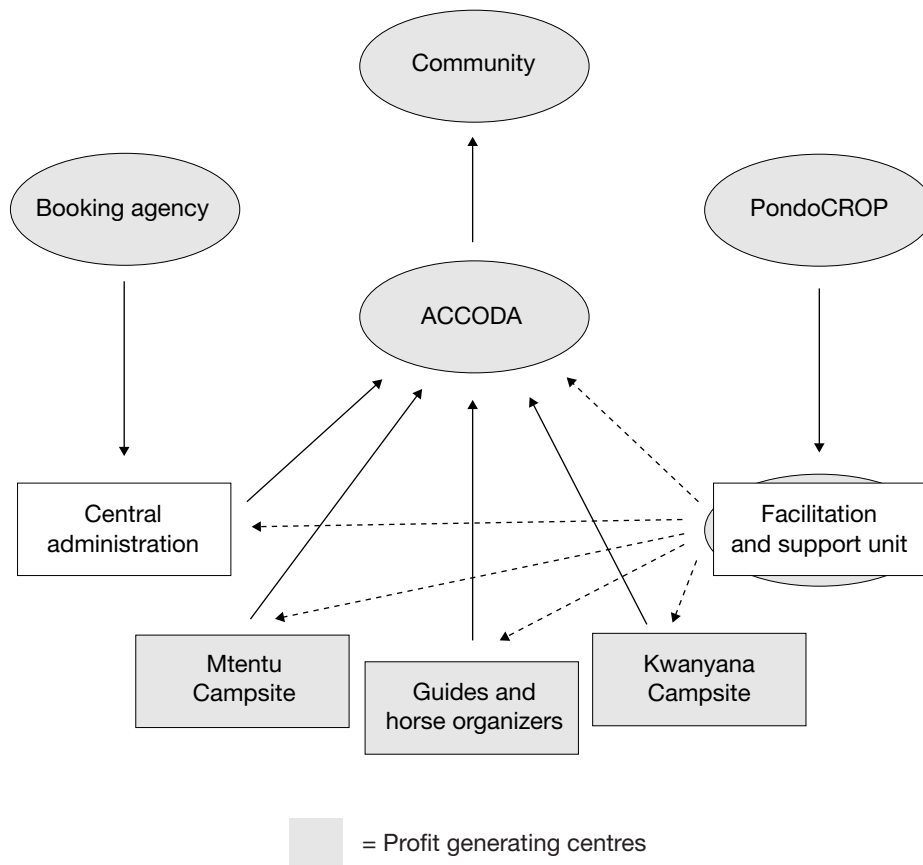
This initiative has recently benefited from an R80m investment by the EU into the Wild Coast region over a five-year period, and Amadiba Adventures is one of a number of beneficiaries. The initiative is going into its third year under its original development grant from the dti. Figure 1, provided by the Amadiba respondents, explains how the institutional arrangement of Amadiba Adventures operates.

The trail, use of the land and the funds generated are all the property and responsibility of the Amadiba Community, which is represented by ACCODA (hence the selection of this site by the authors as a community-owned initiative). Representatives from PondoCROP, ACCODA and the booking agency were interviewed, as well as representatives from the community active on the trail, such as the guides, cooks and camp keepers. The views discussed below reflect a summation of these interviews.

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<sup>39</sup> Non-governmental Organization

**Figure 1: Structure for the management of Amadiba Horse and Hiking Trail**



The community owns the Horse and Hiking Trail. ACCODA makes decisions on behalf, and in the interests, of the broader community. PondoCROP provides ongoing support during hand-over. The business units are self-managed and are all represented on ACCODA. The Facilitation and Support Unit builds capacity within the business units, enabling them to become effective interdependent units of the overall business. Macro-marketing initiatives for the Wild Coast area (Booking Agency) are closely linked with the Central Administrative process.

*Source: Amadiba Horse and Hiking Trail: A Brief Overview*

## Tourism and sustainable development: case studies<sup>40</sup>

### Social development/equity

#### Phinda

#### CC Africa

##### *Poverty alleviation*

The respondent claims that the dependency ratio in the area is 10 to one, that is, for every single income earner in a household there are 10 dependants. They, therefore, claim to be supporting about 2,500 members of the local community (which reportedly constitutes almost 25 per cent of the local population). The respondent claims that there is a 45 per cent unemployment rate in the area, which would make Phinda the largest employer, serving nearly half of the employed population.

##### *Education and health provision*

Consideration for sustainable development is integrated into CC Africa's decision-making at every step. In an effort to strengthen co-ordination, a classroom will not be built without an undertaking from the government to provide a teacher for at least five years, while a clinic will not be built without similar guarantees that it will be staffed and stocked.

##### *Legislative improvements that enable the opening of other game farms*

Phinda claims a significant contribution to growth and employment in the northern KwaZulu-Natal region. Before the park opened up, the land was under cattle farming, with some small proportion under pineapple farming.

When development of the park began, there was no legislation regulating the retention of "big five"<sup>41</sup> game on private land, nor was there legislation permitting (or regulating) buffalo on private land. Phinda claims the credit for getting this legislation formulated and passed. According to the Phinda representative, the park had substantial support from the people on the ground but higher up the legislative hierarchy, the agents became more risk-averse and less willing to assist the project. Despite the reported lack of active support from regional and national government, the legislation was passed and Phinda was permitted to contain the big five on its land.

When asked to explain the reason for the risk-averse behaviour by certain government agents, the respondent gave as example the attempt to introduce cheetah into public (that is, government-run) game parks. This attempt was unsuccessful for a number of reasons, resulting in a net loss of some 100 cheetah by the public authorities. The Phinda reserve has also introduced cheetah; however, its experience has been a net gain of some 100 head of cheetah. The respondent was asked to suggest a possible explanation for the difference between the negative public park

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<sup>40</sup> The information presented in this section has been verified wherever possible, and relies chiefly on interviews with those involved in managerial or representative capacities at each of the case study sites. These interviews should be considered the source where no other is cited. Details of those interviewed are presented in Appendix C.

<sup>41</sup> Lion, leopard, buffalo, rhinoceros and elephant.

experience and the positive private park experience as far as the reintroduction of cheetah was concerned and his answer related directly to factors of institutional arrangement. In the private environment, accountability for the loss is directly attributable to the person working on the project and the loss of a cheetah means loss of money. The respondent painted a picture of government bureaucracy where the person responsible for the loss of the cheetah in the public sector simply enters it in a journal and is never expected to explain the loss. This, of course, is a claim that is impossible to verify.

### *Promotion of the northern KwaZulu-Natal region*

The Phinda representative claims that before the development of the Phinda reserve, the northern KwaZulu-Natal region had no market presence as a top-end facility. Phinda became a flagship for the Maputaland region and needed to promote the region as a whole before it could promote the resort itself. The respondent cited a joint DBSA and World Bank report that details some indicators (see Table 1 below) of tourism growth in the region.

**Table 1: Tourist accommodation measurements for Greater St Lucia Wetlands park region**

	1991	2000
Number of structured beds	Less than 4,000	12,000
Number of foreign tourist arrivals to the region	2,000	8,000

The Phinda representative also claims that its promotion of the region—which came at a heavy financial cost with no assistance from the State—opened the door for the Greater St Lucia Wetlands Park, although he does not believe that the Park has maximized its potential for development.

### *Infrastructure development*

The positive externalities being reaped by other reserves such as the GSLW reserve do not end with benefits from the promotion of the region. Phinda claim to have initiated the development of infrastructure in the region, which not only made other resorts a viable possibility, but also contributed to the upliftment of local communities. The most notable of these was initiating the building of a major SDI road, which took place in 1994 during a period of what the respondent describes as “pre-election political inertia.” Getting the road project off the ground cost CC Africa a reported R500,000 in ministerial visits to the region and other forms of facilitation.

### *Consequences of trade liberalization*

In most cases it was difficult for respondents to distinguish any direct impact from trade in service negotiations on the effectiveness of tourism’s delivery of sustainable development. Phinda has been successful at reaching out beyond SA for financing and the funding of its projects, so trade liberalization would probably entail no significant change to such endeavours. If one were to assume an increase in the number of foreign-owned, private game reserves, it is arguable that sources of funding for Phinda may decrease as they transform into sources of new ownership and competition. There is little reason to believe in a fixed number of foreign investors, so this scenario would appear unlikely. It is more plausible to expect Phinda’s continued support of the surrounding communities to be consistent with the growing trend of overseas visitors in SA.

## *The Africa Foundation*

### *Infrastructure provision*

Aside from employment and training, the Phinda resort—through the Africa Foundation—takes visitors into the local community and encourages them to assist in building local facilities. This initiative has raised some R10m in the last 10 years and this money has been used to build a 24-hour clinic with 10,000 people on the books and 45 classrooms schooling as many as 3,500 children. This is done in co-operation with the government and no classroom is built without an assurance that a teacher will be provided to teach in that classroom.

Another way in which Phinda has attempted to bring about poverty relief in the surrounding community was through the purchase of vegetables from local farmers to meet the resort's catering needs. Unfortunately, the lack of infrastructure (irrigation particularly) and low rainfall in the area prevented the success of this project and fresh produce is now purchased from outside the area. When asked about the possibility of an irrigation scheme, the respondent pointed out that tap water needs to be made available to people before it can be made available to plants—a point which illustrates how much development remains to be done in the region.

The Africa Foundation representative made it very clear that without tourism the Foundation would not have come into being. In the first five years of its existence (as the Royal Investment Fund), the Foundation was entirely dependant on funding from CC Africa and hence on money from tourism. Without the Foundation, it is highly unlikely that the classrooms and clinic would have been built.

### *Growth through infrastructure and skills development*

The Africa Foundation began as a division of CC Africa known as the Royal Investment Fund. The Fund was primarily tasked with the responsibility of involving local communities in community development projects. Difficulties in separating funding applications for CC Africa in general and the Royal Investment Fund in particular led to the removal of the department from the CC Africa fold and the formation of the autonomous Africa Foundation, which stills works closely with CC Africa in the vicinity of Phinda. The locality serviced by the Africa Foundation includes the areas of Nibela, Mduku, Mngobokazi and Kwajobe, cumulatively populated by about 50,000 people.

The Foundation is funded primarily (but not solely) by funds contributed by visitors to the Phinda resort. A representative of the Foundation will visit tourists at the resort, give them some background to the communities living on the borders of the resort and, if they are interested, take tourists on a cultural visit to local schools and clinics. These visitors often end up contributing money to the development of the areas they visit and this forms a substantial portion of the Africa Foundation's funding. By working closely with the communities, the Africa Foundation has structured a communication process whereby communities bring proposals for development to the Foundation, that in turn applies to the central office in Johannesburg for approval of the funding. Once the funds have been granted, the Foundation reverts to the community and assists in setting up the project (be it a classroom, clinic or other project). The idea of assisting the community at every step throughout the implementation of the project is to ensure that skills are developed as part of the process and that the community is able to maintain its new resource without ongoing help from the Foundation. Community participants are also required to make some contribution to the building of the project. The relatively impoverished

status of these communities prevents them from giving money but they are required to give time and to assist with bricklaying, cementing or bringing water to the building site. This aims to inculcate a sense of ownership rather than a sense of entitlement.

The respondent defines the Foundation's success in terms of the longevity of its projects, and this longevity is attributed to the close process of consultation and involvement not only with the community involved but also with other stakeholders. For example, no classroom will be built without an undertaking from the KwaZulu-Natal government to supply a teacher. No clinic will be built without a similar undertaking to supply nurses, medicines and a doctor (even if that doctor is not part of the full-time staff.). No infrastructure will even be considered for funding without first establishing that the community have the right to occupy the premises and that the community who will benefit from the project is equitably constituted, that is, that funds are not channelled to chiefs and their families, as is often the case.

### *Employment through empowerment*

These projects contribute to employment through the development of skills and through the use of local contractors for building and other services and supplies. These contractors are required to tender for the work and thus gain some experience with the tendering process, albeit on a small scale. The community is normally asked to nominate at least four builders in the area to ensure reasonable pricing and good quality. There are also secondary growth and employment benefits as more classrooms contribute to a better educational environment for learners. Similarly, the building of clinics ensures easier access to healthcare and less time spent off work due to illness.

## **Greater St Lucia Wetlands Park**

### *The St. Lucia Wetlands Authority*

#### *Health and social programs*

The St. Lucia Wetlands Authority is able to cite a number of programs to alleviate poverty (and the effects of poverty), although few of them are managed or initiated by the Authority itself. These include:

- a malaria program to reduce the incidence of the disease in the area;
- crafts, which have assisted about 400 crafters to build skills as well as links with markets;
- cultural programs targeting youth;
- a new partnership with THETA that aims to launch skills development programs in the area;
- the use of local labour to build fences in the area; and
- the use of local labour to build roads.

Of these examples, the use of local labour to build the major SDI road through the region is perhaps the most significant. According to the respondents, 68 per cent of the services used in the development of the Hluhluwe-Maputo road in the Lubumbo SDI come from local small, medium, and micro-sized enterprises (SMMEs).

The SMMEs have gained not only an opportunity to ply their trade but also an opportunity to develop skills, particularly tendering skills, which have enabled them to tender for other jobs.

At an activity level, the Authority claims to be targeting SMMEs for guiding. They are currently devising a tender process for concessions that would prescribe equity requirements for all tender candidates. These criteria would also apply to any applications to develop new accommodation facilities in the region. This proposal has met with some resistance in the racially volatile area. According to the respondents, some groups see the Authority as a national body with an African National Congress (ANC) agenda rather than one with the best interests of the Park at heart. This resentment has been fuelled by delays in the processing of tenders and entitlement issues.

From an institutional perspective, the respondents did make it clear that private managers are being sought to take over accommodation facilities and relieve the public sector of the risk of running these facilities. The public facilities in the Park are currently running at a loss and it is hoped that private management might restore some financial balance.

### *Growth and land redistribution*

The representatives of the Authority were quick to point out that the development of a tourism industry in the St. Lucia area was starting off with a low base, and that significant input was required to allow for potential growth in tourism (and thus in the benefits that tourism could bring to the region). These respondents believe that the Park is now positioned to “take off.”

The area constituting the Greater St. Lucia Wetlands Park initially consisted of 16 separate parcels of land. The St. Lucia Wetlands Authority was established with the directive of consolidating these parcels and instituting a single institutional and regulatory framework for the area, which has historically been dogged by stalled development. In some cases, it is reported that developments in the area have been delayed for up to 10 years. Defraying this backlog while still keeping pace with new applications poses a considerable challenge to the new Authority. However, it is hoped that the newly streamlined process will meet with success.

The establishment of the Authority also signals a shift in the way in which conservation is managed in the area. The community is reported to be resentful of past conservation efforts as they were forcibly removed from land without any remuneration or share in the benefits of the conservation efforts. These communities were competing with the environment for survival. This situation is being redressed in a number of ways. To address the historical imbalance, communities are being invited to submit lands claims for restitution. Four claims have already been processed and a further six are pending. Under the most recent system of compensation, a nominal solatium is paid, which acknowledges suffering, and grazing rights are granted. However, the bulk of the restitution package is tied up for development, which enables the community to benefit from the future development of the land. In short, successful claimants are granted title with restricted use.

The representatives of the Authority see their goals as:

- ensuring tourism development;
- regulating conservation; and
- ensuring that the conservation that does happen benefits the people affected.

As a conduit to the realization of these goals, the Authority has a management agreement with KZN Wildlife, formerly the Natal Parks Board, an organization with a long track record in conservation in the KwaZulu-Natal region.

### *Employment with potential for improvement*

According to the respondents, approximately 500,000 people live in the area, which was described during the interview as a “previously cut-off former homeland.” The area was considerably underdeveloped and the building of the Pongola Dam in the region had adversely affected the flood plains. Agriculture and tourism were the only industries in the area and agriculture was not considered by the respondents to have been a success, despite the large tracts of land still occupied by commercial forests, pineapple farms and sugar cane. Tourism, however, has created approximately 3,500 direct jobs. Only 350 of these jobs are within the Hluhluwe-Umfolozo Park and the private game lodges. Concerns about the impact of tourism on employment are two-fold: (1) the sorts of jobs being created at present are unskilled, menial jobs; and (2) the majority of the tourist beds in the St. Lucia area are self-catering beds, which create less employment than other forms of accommodation. The concerns do, however, speak to a potential for further employment creation in the area as a direct result of tourism.

### *The St. Lucia Tourism and Publicity Association (SLTPA)*

The aim of greater growth potential than is currently being realized was reiterated at a meeting with the St. Lucia Tourism and Publicity Association. The Association consists of a number of local business people operating in and around the town of St. Lucia. Many of the respondents own self-catering holiday accommodation, guesthouses and bed and breakfast establishments.

The respondents agreed that the effect of tourism on growth and employment in the area had been positive, but far from reaching its potential for the area. They attribute the poorer growth performance to three key reasons:

- failure to promote St. Lucia as a tourist destination;
- the recent ban of 4x4 driving on the beach, which resulted in a decline in the number of domestic visitors in the area; and
- failure by the institutional legislative bodies managing the area (KZN Regional, Nkanyakude and the St. Lucia Wetlands Authority) to co-ordinate their activities.

### *Co-ordination of management bodies to ensure greater growth and employment*

It was the consensus of the group that a lack of property rights between the legislative bodies has resulted in inertia. Simple problems such as the construction of new ablution facilities on the beach and then the failure to maintain them were cited as examples of this lack of action. However, the most serious example given is the perceived failure to promote the area—a responsibility that the group sees as falling within the ambit of the legislative bodies. The group went on to claim that no head for the local SDI has yet been appointed formally and that they are struggling to get any decisions ratified. The SDI has apparently been waiting for four years for such an appointment, the lack of which was cited as a further example of institutional inertia in the region.



### *The ban on 4x4 beach driving – a story with two sides*

The 4x4 beach-driving ban from St. Lucia northwards to the Mozambican border was announced by the DEAT in November 2001. Environmentalists argued that aside from the nuisance for those wishing to enjoy the beach, off-road vehicles damage dune structures by killing surrounding vegetation and destroy or severely threaten bird and turtle nesting sites. However, the SLTPA has since pointed to research that contests the claim of dune damage, and has suggested alternative measures that would allow off-road vehicles limited access without threatening nesting sites.<sup>42</sup> The Association has also pointed out more urgent issues that need to be addressed, such as unsuitable forestry lands that drain the water table, polluting effluent from the sugar cane fields into the estuary; and prawn trawling methods that damage coral reefs and breeding grounds of demersal fish.

According to the SLTPA, 90 per cent of the visitors to St. Lucia and surroundings are domestic and only 10 per cent are international. The ban on beach driving has severely reduced the domestic visitation to the area (according to the respondents there has been a 71 per cent drop in business since January 2002). The respondents claim that 10 businesses closed in the six months before the interview date, and that one of the two local supermarkets will also be closing after Christmas 2002. This decline obviously has an impact on employment opportunities in the area and the respondents spoke of the surviving businesses expecting more hours from current staff rather than up-staffing for the Christmas season. The respondents also claim that domestic tourists spend more in the town than foreign tourists, as domestic tourists tend to stay in self-catering accommodation and shop in and around the town for provisions, while foreign tourists tend to be either day visitors or customers of holiday packages, the profits of which remain outside the region.

While these impacts are significant, there appears to be another side to the story. Those local business people who do operate establishments catering to foreign tourists are thriving. The bed and breakfast establishments and guesthouses are fully booked. If catered accommodation is more labour-intensive than self-catering accommodation, surely an employment trade-off presents itself? Will jobs shed in the local supermarkets and self-catering industry not be absorbed into the catered accommodation industry? Is it not possible for self-catering establishments to absorb some portion of the excess demand for catered accommodation by providing catered accommodation options?

The key here is that, while this may be possible, institutional failure has prevented it from happening in the short- to medium-term at least. The ban was instituted too quickly and, arguably, with too little consultation for local business people to adapt to the changes in their operating environment. The result is that self-catering accommodation supplies and the secondary industries (such as supermarkets) which benefited from self-catering visitors are barely surviving—and they are taking the matter to court. Their focus now is on overturning the beach ban rather than reversing their business fortune in more imaginative ways and working with the beach ban. In short, the result is that the fragile ecology of the St. Lucia beach is once again threatened because of an apparent institutional failure to implement change appropriately, promptly and in a consultative fashion.

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<sup>42</sup> [http://www.environment.gov.za/NewsMedia/MedStat/2000jun22\\_3/Lubombo\\_22062000.htm](http://www.environment.gov.za/NewsMedia/MedStat/2000jun22_3/Lubombo_22062000.htm)

Thus, while the market is currently aligned to favour domestic visitors, it continues to forego an opportunity of potential profits from the overseas market. Here, the foreign competition has been more successful at marketing and selling the destination to overseas visitors. Somewhat ironically, this is the type of competition that local suppliers fear will erode their current customer base in other markets, whereas in St. Lucia this segment has largely been ignored in favour of the domestic visitor. Rather than serving as an example of the dangers of increased competition from liberalization, St. Lucia may yet provide an interesting case of how foreign market presence will have encouraged competition from domestic suppliers.

## **KZN Wildlife**

### *Labour issues*

The respondent from KZN Wildlife expressed concern that most businesses in the area use the local community like farm labourers in low-skill, low-reward jobs. At present, no significant attempt is being made to train unskilled workers into more responsible positions. While authorities are trying to address this problem through co-management projects that ensure capacity building and sustainable program development, this process is not without its problems. Some co-management institutions are coming into the area through the tribal authorities, a process that fosters nepotism and benefits only the tribal authorities and their friends and relatives. This in turn creates resentment among the broader community and threatens the long-term sustainability of these initiatives.

The respondent believes that entry points into the community should be through the subsistence structures and that care should be taken to ensure fair processes and representation.

### *Training and capacity building*

KZN Wildlife is also concerned that, for historical reasons, local communities have low levels of capacity and lack the confidence to show initiative in the development of new projects. The respondent is further concerned that training and development can be very “stop-start”—her feeling is that these initiatives should take the shape of ongoing partnerships with communities that span at least five years or more. Again, co-management projects are seen as the ideal vehicle to operationalize this proposal. Skills development should be seen as a long- or medium-term project.

## **Amadiba Adventures**

### *Employment creation and skills development*

Amadiba Adventures has mainly contributed to poverty relief through employment creation, skills development and empowerment through the ownership of resources. The Amadiba Coastal Community Development Association is responsible for deciding how the profits from the trail are disseminated and for the present, the community has elected to reinvest the money into the business.

Although local schools sorely need the investment and there is no clinic or hospital of any kind in the area, the community reasons that investing in such infrastructure is futile if the business cannot afford to maintain its upkeep. With sufficient growth in the business, it hopes not only

to build classrooms and clinics but also to be able to employ teachers and nurses that it does not believe the government would be prepared to provide out of public funds.

Two possible weaknesses might pose challenges in the future. In the first instance, there is the possibility of community envy. One respondent claimed that “people are talking.” When he got involved in ACCODA he was a thin man, now he is fat and he drives a car (both symbols of wealth in this community). He does not see this as a problem at the moment but if the community continues to reinvest all profits back into the business and concern grows that certain stakeholders are enriching themselves from those profits, the initiative may fall victim to in-fighting.

The organizing bodies (and the community) are very aware of this problem. A similar initiative at KwaDapha in the Kosi Bay region failed for this and other reasons. In an attempt to reduce the level of suspicion as far as possible, the profits from the trails are not held within the community; instead PondoCROP acts as “banker” for the project. This solution raises its own set of problems, as one respondent pointed out. Since the system is becoming institutionalized, PondoCROP will at some stage want to remove itself from the project and leave it to the community to run. Without the skills to manage the finances, the project might be at risk when such a time comes.

## **Environmental conservation/protection**

### **Phinda**

#### ***CC Africa***

Phinda has taken over 15,000 hectares of heavily degraded farmland and restocked it with wildlife. It is the respondent’s belief that, had Phinda not taken over that land, the farming practises would have “bumbled along” until the money ran out. Conservationists had long targeted the land; however, a lack of money to purchase it had prevented any action. Private investors eventually provided the money, and the vision had the approval of the ANC, the Inkatha Freedom Party (IFP) and the National Party (NP)—the three strongest political parties in the country at the time.

Phinda views the communities residing on the borders of the park as the greatest potential threat to its ecology. The respondent believes that this is a function of education among a people equipped for a nomadic lifestyle, but who now live a sedentary one. For this reason, the resort has developed extensive outreach programs (through the Africa Foundation) into communities, not only to re-educate but also to provide some direct benefit to the communities from the tourism that Phinda receives.

#### ***The Africa Foundation***

The respondent from the Africa Foundation expressed a similar view as other respondents when he indicated that convincing local communities that environmental conservation was in their best interests was no mean task because of a history of marginalization in the name of conservation. To illustrate Phinda’s success in this area, however, he gave the example of Nkosi Kumede, an influential local figure who has put in a claim for the restitution of land adjacent to Phinda. Nkosi Kumede has publicly announced that if he wins the claim, he wants the land to

remain under Phinda management because he supports its formula of conservation and eco-tourism to provide lasting benefits to the surrounding communities.

## **Greater St Lucia Wetlands Park**

### ***The St. Lucia Wetlands Authority***

The Authority inherited an area that has a history of the State dabbling in forestry and cattle farming, as well as over-hunting. Efforts are now being made to re-introduce indigenous species to the area, approximately 20,000 hectares of commercial forests are reported to have been removed, and the respondents expect this to increase significantly by 2004. A road running through the Cape Vidal swamps was also relocated at a cost of about R2m.

The respondents attribute this return to conservation directly to tourism, which has replaced a proposed mining project as the main industry in the area. However, their work is not yet done. Plans are underway to develop an integrated management plan for the park in accordance with Unesco World Heritage Site guidelines. Greater levels of compliance are expected in the future, with this and other plans, and it is anticipated that the tendering process detailed earlier will facilitate this. SEED, the dti and the DBSA are working together to provide the skills necessary to tender candidates. In theory, there will be a significant amount of stakeholder support on the ground to ensure the success of the newly streamlined process. As far as the granting of tenders is concerned, the only anticipated bias in the process is likely to be an empowerment one. However, aside from this, operational experience will be preferred—regardless of whether the tendering service provider is foreign or domestic.

A multilevel strategy is needed to shift income sources away from natural resources, but the respondents believe that commercial operations are causing more environmental damage than the operations of marginalized communities. Historically, this has been the case with large-scale forestry and sugar cane farming in the region, while the subsistence gathering and farming activities of the traditional residents have allowed the environment to thrive for generations. Again, it is believed that the proposed tender process will, to some extent, mitigate the damage caused by commercial farmers.

This said, the Authority is not waiting for the “trickle-down effect” to benefit marginalized communities in the area. It believes that job creation is important for environmental conservation and that job creation and income switching will only be facilitated by tourism. The greatest perceived threat to these initiatives is the high HIV/Aids prevalence in the area, which is dissolving the benefits of skills development (and similarly, raising the costs).

### ***The St. Lucia Tourism and Publicity Association***

These respondents appeared unanimous in their conviction that tourism not only provides the incentive to upgrade the local ecology, but also provides the funds to do so. The respondents claim that they are “always looking for sustainable uses for [their] resources so that ecological resources can pay for themselves.” They believe that some amount of damage might be unavoidable but that damage should be repairable if resources are managed correctly.

While these respondents see little harm in the 256,000 hectares of the GSLW Park being farmed for medicinal plants, they are very concerned about the effects of sugar cane farming in the area.

They believe that sugar cane farming is drawing water out of the Hluhluwe River and that the lack of fresh water has closed the estuary mouth at St. Lucia. If tourism replaces these farming practises, such damage might be repaired.

The respondents believe that community development and environmental/ecological development should be symbiotic processes, particularly in the context of tourism. They claim that, as unemployment increases, more forests are being burned down. They are further concerned that, at the moment, unemployment is too high in the area to maintain an ecological balance and that people are returning to unfriendly subsistence farming practises on land that is not well-suited to this form of farming.

One group among the respondents stated that some compromises were needed between tourism promotion and conservation, and again returned to the 4x4 ban as an illustration of one instance where this compromise should take place.

The respondents claim that opening an 8.5-km stretch of beach to 4x4 driving is important to their sustainable development. Some of the respondents believe the fisherman (or leisure tourist) who would capitalize on this change is very aware of the environment and would not cause unnecessary damage. The group also claimed that domestic tourism fosters foreign tourism, since domestic visitors initiate infrastructure development that can then be upgraded for foreign visitors. Other suggestions to ensure sustainable development include the closer co-ordination of the three legislative bodies in the area and the active promotion of the area's potential.

## **KZN Wildlife**

The respondent from KZN Wildlife shared the general view that the number of direct jobs created through tourism in the St. Lucia area was considerable. However, she expressed concern regarding the size and nature of the secondary employment market. The word *concern* is used deliberately as she felt that the failure to factor this secondary market quantitatively into the expected environmental impacts of tourism might result in unanticipated environmental damage to both the terrestrial and marine components of the park.

### *The terrestrial environment*

By way of example, the respondent mentioned the informal links between the extraction of firewood from natural forests and the proliferation of tourists (who buy the wood from roadside vendors). The Dukuduku community is an example of an indigenous community who reside within the natural forests and use the wood—for their own needs and possibly for sale to tourists. Similarly, the production of grass mats and crafts could also be a problem as the raw materials are being extracted from what is essentially a porous park area.

A very different problem in the terrestrial environment is the need to maintain biodiversity and still satisfy the tourist need to see many animals in a relatively contained area. These high-density populations may not be beneficial to the local flora or conducive to the reintroduction of new species that are indigenous to the area but which no longer inhabit the park for one reason or another.

### *The marine environment*

In the marine environment, the extractive use is relatively low, with the prawn fisheries arguably causing the greatest damage to the estuary itself. The problem of off-shore fishing was positively impacted by the recent ban on 4x4 driving on the beach; however, the extent of that impact has not yet been quantified. Aside from the environmental impacts, the respondent believed that the ban had hit small businesses harder than it had local communities and that the interaction between local business and the indigenous communities is somewhat ad hoc.

### *Finding creative solutions*

It is the view of this respondent that the depletion of environmental resources due to the influx of tourists can be halted without undue prejudice to either the tourists or the communities involved. For example, as far as firewood is concerned, local communities could be encouraged to source their wood from commercial forests.<sup>43</sup> Similarly, the sale of crafts can continue if the nature of craft manufacture reverts to an emphasis on non-natural raw materials such as wire and beads. Some efforts are already being made to realize these changes and the Sokhulu Resource Project near Kosi Bay is teaching local potters to paint pots using enamel paints. Another example in the Kosi Bay area is a basketware project that is attempting to teach local weavers to produce premium basketware. The concept at work is that fewer resources can be made to yield higher returns.

Another alternative to natural resource use would be to move local people into tourism activities that are—for example—guide-based and do not rely on the depletion of resources but rather on their sustenance. The respondent feels that communities need to increasingly establish co-management structures with environmental groups such as KZN Wildlife and the Sokhulu Resource Project to address the need for alternatives to natural resource use. With correct management, tourism could be a “major-plus” to the ecological environs of St. Lucia Park.

A supply-side effort is unlikely to succeed without a comparable demand-side effort. Tourists provide the market for sales and those same tourists need to encourage communities to create sustainable crafts and related products by supporting those products that do not deplete the natural environment. This is likely to happen only with extensive consumer education.

### *Amadiba Adventures*

The benefits of tourism in this context are directly tied to the environment and the participants are aware that, without their beautiful surroundings, they would have no work. The environmental benefits are clear from this type of low-impact tourism: the major attraction and selling point of Amadiba Adventures is the pristine state of their land and coastline, so all activities are designed to complement their natural assets. Their efforts are supported by DEAT’s CoastCare initiative, which has created further awareness along the Wild Coast of the benefits of preserving the health and beauty of the coastline with signposting and the employment of 35 additional people.<sup>44</sup> The residents ensure the success of small-scale harvesting by re-planting mangroves to protect breeding sites, while their efforts at restoring and improving the coastal trail are rewarded with increased revenues from tourism.

<sup>43</sup> Some portion of the commercial forests surrounding the park is reported to be comprised of substandard commercial trees.

<sup>44</sup> Amadiba Adventures, *ACCODA Newsletter No. 2*, November 2002.

The Amadiba region also supports the Mtentu Fly-Fishing Programme—a catch-and-release, estuary fishing business that places an emphasis on environmentally-friendly practices. By restricting recreational fishing under the auspices of this one organization, these practices will help restore the kingfish population while again bringing in tourism revenues.

At a more formal level, PondoCROP and Triple Trust are actively educating their guides about ecological conservation. One guide was sent on a six-month conservation course in Johannesburg, and it is hoped that this sort of training will have spill-over effects into the schools and communities.

It is especially difficult to isolate potential effects from the regulatory framework on the Amadiba region due to the nature of their business. The selling point is the harmony between the traditional culture and the well-preserved environment, which cannot be supplied or duplicated elsewhere. So the threat is not in competition, but in the destruction of their natural resource, which the proposed toll road may hasten.

There is also uncertainty regarding the percentage of SMME involvement in this project, and how sustainable livelihoods will be encouraged after thousands of temporary construction jobs disappear. These latter issues are perhaps better addressed in assessing impacts vis-à-vis the transportation industry. Of course, the remunerative benefits of increased exposure and access cannot be ignored, but the recently published *Environmental Impact Assessment* does not examine the impact of the inevitable peripheral roads.<sup>45</sup>

## **Economic development**

### **Phinda**

#### **CC Africa**

##### *Foreign direct investment*

The purchase of the land for Phinda's development was entirely privately funded. According to the respondent, 60 per cent of the initial funds for the project were foreign funds and this constituted the first international investment into South Africa in 12 years. The remaining 40 per cent of the funding for the project was derived from local private investors and it was interesting to hear that the make-up of ongoing investment into CC Africa is now 60 per cent local investment and 40 per cent foreign investment.

##### *Employment and training*

The criterion for obtaining employment at the Phinda Lodge is that potential candidates are able to walk to the interview. This ensures that the resort draws their employees from the local communities and only once this pool has been exhausted does the resort look elsewhere (usually for more skilled candidates). For the development phase of the resort, Phinda employed 350 people. The resort now employs 250 people on an on-going basis. Most employees lack skills when they are first employed and CC Africa has set up a program to provide literacy,

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<sup>45</sup> SABC 2's "50/50," January 26, 2003. EIA available at [www.n2wcc.co.za](http://www.n2wcc.co.za).

numeracy and English lessons. Training is ongoing and the initial hope was that local community members could be trained up from entry level, low- or no-skill jobs to general management positions. Unfortunately, this has not been the case and the Phinda management attribute the failure directly to HIV/Aids. Local recruits do not live long enough to make the transition to general management level and even at the lower skill levels, the resort has to train two people for every one position they wish to fill.

### *Profitability/sustainability of land use*

Before the development of Phinda, the area was used primarily for cattle farming, with some small amount of the land being used for pineapple farming. According to the respondent, in a marginal rainfall area such as the Phinda reserve, you cannot beat the profitability of wildlife, which now earns approximately R1,500 per hectare compared to the previous R150 per hectare. Wildlife is also more sustainable than farming in the long run, according to the respondent.

### *Export markets*

He described an initiative in Hluhluwe-Umfolozi Park that aims to open export markets to local crafters. He also described the efforts of a group known as Ilala Weavers, a co-operative that exports local products. These projects were initiated after the development of Phinda, which raised awareness of the region and its local crafts and thus raised demand. Due to the popularity of these crafts, the markets continue to grow at home and overseas, but the benefits are more widely distributed as well. Instead of sourcing these crafts only from these communities, exporters in Durban are trucking the raw materials directly to their own manufacturing sites. Although it is difficult to obtain quantitative data, the benefits from such enterprises can be expected to decrease within a highly competitive market.

## **Greater St Lucia Wetlands Park**

### *The St. Lucia Wetlands Authority*

#### *Lack of facilities for international tourists*

Aside from the considerable amount of donor funding that the area receives, the Authority cited the growth in international tourism to South Africa and the GSLW region. However, despite these positive developments, the respondents believe that northern KZN is “barely on the map” and that there are relatively few places for foreign tourists to stay in the area.

### *The St. Lucia Tourism and Publicity Association*

#### *Profit differential between domestic and international tourists*

The majority of these respondents currently feel as though they are fighting for their survival as small business owners. They reiterated their concern that the ban on 4x4 driving effectively sacrificed domestic tourism in favour of international tourism and that this was affecting the indigenous community as well as themselves. They are concerned that the ban will exacerbate poverty in the area as local crafters cannot compete with the quality of crafts in other parts of Africa that foreign tourists are able to visit. Similarly, local vegetable vendors would be adversely affected by the drop-off in self-catering visitors to the area. These respondents see the area



around St. Lucia town as competing directly with Hluhluwe-Umfolozzi Park, which is more successful in offering a six-day product and accommodation for busloads of tourists. They are concerned that this competition is resulting in cut-throat rates, long delays in the receipt of payment and, thus, a hostile environment for the growth and survival of SMMEs.

They claim that domestic visitors to the park spend an average of R153 per day while foreign visitors spend only R43 per day on average, and that the new foreign bias in the promotion of the area is costing the local communities. Much of this difference is explained by the inability of St. Lucia service providers to capture profits from package holidays through which overseas visitors organize their visits.

## **KZN Wildlife**

### *Attraction of international aid*

The co-management and subsistence groups mentioned previously are almost entirely funded by Norwegian donations. Some 29 co-management institutions benefit as many as 19 communities.

### **Amadiba Adventures**

#### *The contribution to growth and employment*

The key contribution of the Amadiba trail to growth and employment in the region is through the creation of direct employment (tour guides, ferrymen and cooks, for example), as well as through the creation of less direct forms of employment such as the growing of crops for sale to the camp-cooks and the raising and training of horses for use on the horse trails. No money changes hands *en route*, but a carefully worked out paper trail keeps track of which services are provided by whom. These slips are then used to claim back money from the central fund for services rendered. An effort is made to share the employment as equally as possible throughout the participating community. For example, two sets of horses are used on the trail to allow two sets of horse owners to benefit from their lease.

Before the inception of the project a little over three years ago, the local hotel and casino (The Wild Coast Sun) was the main source of formal employment for the region. The local community subsisted on their crops and the sale of crayfish and seashells to tourists, and in most cases, young men had to travel to Durban and Johannesburg to find work. Of the guides we met, two were recent matriculants and one had gone through a series of jobs in Durban and East London before returning to the region to work as a guide. All expressed satisfaction that their families were able to stay together and were not divided by the need to travel to cities for work. All enjoyed their job as a guide and one had been sent on a number of training courses, including a six-month stint in Johannesburg, learning about ecological conservation.

#### *Investment and aid*

The single largest investment in the Amadiba region is the Wild Coast Sun. The principle behind Amadiba Adventures is to move away from such investments that do not enrich the communities and that are exploitive of their environment and labour. The type of investment desired is in skills development and infrastructure support. This role is currently being fulfilled by the active NGOs in the region; thus aid, rather than investment, supplies these development

needs. However, the proposed N2 toll road through their region would constitute a major investment on the part of the government (approximately R4bn).<sup>46</sup> An additional grant of R80m from the EU will also be primarily used to support this road, although the balance is administered by regional organizations for the development of local enterprise, from which Amadiba has received approximately R1 million.

The proposed N2 toll road extension is worthy of a separate study; the following are just some of the issues facing residents. The proposed upgrade from Port Edward to Port St. Johns is considered invasive by environmentalists and many community residents due to the increased traffic, construction spin-offs, and degradation of a recognized biological hotspot and place of high botanical endemism.<sup>47</sup> There could be benefits in greater market access and employment that must be balanced against the possible loss of the same on the current N2 route, as well as the irretrievable loss to the environment surrounding the highway's corridor.

For eco-tourism, the benefits of the road are limited and controversial. While easier access is certainly a drawing card for local economies surrounding Amadiba and neighbouring Mkambati Nature Reserve, with it comes the threat of more destructive practices. For example, some criticize the road as an excuse for mining companies to gain access to the titanium found in the coastal dunes.<sup>48</sup> Given the choice between mine employment and eco-tourism, the Amadiba community already chose to develop their own business and are already receiving revenues equal to the R300/month, as reportedly promised by one of the mining companies.

Amadiba was also the recent recipient of a small business development award of R620,000 from the dti's Community Public Partnership Programme.<sup>49</sup> Both sources of financing are to be used at the discretion of ACCODA for the benefit of the community, the business, or a combination of both. Already ACCODA has decided to reinvest Amadiba Adventures' profits back into the business, because they feel it is important to maintain the growth of the latter before dissipating its rewards thinly through the community members at this stage.

## Lessons from the case studies

Regardless of the institutional arrangement of a resort, tourism can have a positive effect on the sustainable development of servicing regions. Similarly, all three forms of institutional arrangements featured above—government ownership, private ownership and community ownership—have shown that tourism can create incentives to preserve the natural ecology of an area. This said, certain factors do appear to differ by institutional arrangement. While it is conceivable that these differences could be explained by the size, age or capacity of the resource owner/manager, ultimately they correspond with accepted theoretical assumptions regarding institutional behaviour.

Firstly, the government-managed St. Lucia Wetlands Authority is required to bring together a large number of diverse role-players who have conflicting ideas about what is best for the environment. It is proving difficult to convince all communities that ecological conservation at the expense of current business practices and (in the short term at least) at the expense of profits

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<sup>46</sup> *Ibid.*

<sup>47</sup> *Ibid.*

<sup>48</sup> *Ibid.*

<sup>49</sup> Amadiba Adventures, *ACCODA Newsletter No. 2*, November, 2002.

is meritorious. This difficulty may be the result of poor co-ordination between institutions at present, and a lack of transparent communication in the past that has created an aura of distrust and antipathy.

There also appears to be some incidence of the shifting of accountability in the GSLW park area; for example, the parties involved are unsure where the responsibility for marketing the St. Lucia destination lies—and the St. Lucia Tourism Association is unwilling to bear the primary responsibility. There are concerns about free-riding in the broader environs of the GSLW park and these concerns seem justified in the light of input from Phinda representatives who claim to have invested heavily in the promotion of the region, to the benefit of the St. Lucia Reserve as well as to themselves. These and other factors appear to have perpetuated a concern that the GSLW park is not yet reaching its potential as a tourist destination and, as such, is not fully delivering on the benefits that tourism can bring to the area.

The institutional arrangement of ownership also seems to affect the choice of, and manner in which, benefits filter down to community residents in the area. There are fewer intermediaries and fewer facilitating organizations in the privately-run Phinda arrangement and perhaps, as a result, the surrounding communities have benefited from infrastructural development (quite apart from the direct employment and sales opportunities) within a relatively short space of time. This is not to say that these same benefits will not accrue to communities around the other initiatives, merely that their institutions have not been in place as long as Phinda's have, and thus they have not had the opportunity of accomplishing their goals on the same scale.

The Amadiba community initiative appears to be the initiative adhering most closely to the World Bank principle of ongoing payments for ecological services described earlier. While this is also the case in the other two case studies, marginalized communities tend to benefit from ecological services largely through intermediaries such as the Africa Foundation in the case of Phinda. This may create a sense of removal from ecological resources and less of a vested interest in the conservation of those resources.

## Conclusions

The links in the chain between trade liberalization, tourism and sustainable development are difficult to establish because of the range of services included under the tourism heading and each service's differing contribution towards poverty alleviation, economic growth and employment. Eco-tourism provides an excellent example of the conflict between resource exhaustion and benefit, but rarely indicates a causality from the SA regulatory environment. Therefore, the existence of this link has been questioned in terms of possible impacts on tourism from trade liberalization. Thus far, the study can point to several potential indirect links between the liberalization of trade in services and sustainable development.

At a more tangible level, there have been significant inflows of foreign investment for new project development, for NGO support and for community upliftment projects. Additionally, overseas tourism has experienced a tremendous upsurge since the beginning of 2002, and projects that rely on income or donations from these sources clearly benefit. However, it is difficult to argue that these flows would not take place without a commitment to trade liberalization on the part of SA. Because of their humanitarian nature, such investments occur more as a function of fulfilling basic human needs than as motivations to make a profit. Yet some projects initially owe the attention they receive to tourism, so it is undeniable that sustainable development projects benefit to some extent from a liberal environment across all modes of trade in services.

A commitment to enforcing environmental safeguards as recommended in the White Papers on Environmental Management and Coastal Management, as well as the guarantees of the Constitution, need to be addressed more explicitly in future economic development programs. The lack of such commitments destabilizes the momentum of investment in current projects that rely on the environment in threatened areas, such as the Wild Coast. Currently, the interests of large-scale mining and infrastructure development in this region clash with the interests of those who rely on a pristine environment for eco-tourism.

Based on some of the successful experiences described in the case studies, regulatory bodies can be guided in their tasks so that they enhance the achievement of sustainable development goals. Open, consultative processes that include public and private partnerships are desirable, while some indication of benevolent leadership from experienced practitioners may be necessary to overcome lack of capacity and entrepreneurship.

Finally, in the interests of poverty alleviation, growth and greater employment, some forms of tourism are preferable to others. Projects like Amadiba Adventures, which encourage leadership and business development skills while sharing the benefits across numerous community stakeholders, are much more preferable to even large-scale hotel or recreation investments, which provide low-paying, menial employment in less-skilled positions. An emphasis needs to be placed, and more tangible incentives offered, for those whose projects engage communities in sustainable development. To encourage the right kind of development, it falls on regulators and investors to:

- support initiatives that use tourism as a vehicle for delivering skills while protecting natural assets;
- discourage exploitive arrangements that work against the principles of sustainable development; and
- develop methods of assessing the impacts tourism investment is likely to have on the

communities involved in its delivery. In this manner, liberalization of tourism services would be able to ensure the most appropriate skills and resource development.

## Appendix A: Definition of tourism

Tourism describes many different economic activities under one heading. In order to clarify the scope of discussion, one definition will be advanced. In a traditional sense, one thinks of tourism as encompassing all the industries that are involved in recreation or leisure away from the place of normal residence. Yet, this definition is open to exceptions and cannot be applied universally; for example, is normal place of residence defined by a radius of some length from one's home, or does it make more sense to use areas of concentrated economic activity as regions? How long must someone be away for the activity to fall under tourism? It is easy to imagine the inconsistencies that might arise from such definitions.

For purposes of comparison, the WTO has adopted the following definition of tourism:

The activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes.<sup>50</sup>

While easier to apply, the definition includes areas of activity that one may not immediately associate with tourism. With this definition, all business travel and consumption overseas becomes a form of tourism. Thus, when calculating the benefits that tourism might accrue to its host economy, the estimates become inflated over those strictly pertaining to the leisure and recreation market.

The WTO definition has already become a standard in the discussion of trade in services. For purposes of accurate data comparison, this definition is used throughout the paper, although the scope of analysis is somewhat more restricted. Although business activity is included in the definition, the paper focuses on sectors more traditionally associated with tourism—leisure and recreation activities, transport, hotel and guide services.

Multiple sectors of an economy are grouped together under the umbrella of the tourism and travel industry that would otherwise remain unrelated. Transportation, accommodation, entertainment, and recreation rely on very distinct supply chains because the inputs and skills required by these sectors are vastly different. It is the common profile of the demand-side of the market that brings these sectors into the same discussion. So there is an element of complementarity, as developments within any of the prominent sectors have implications for the tourism industry as a whole.

A comparison between the Standard International Classification of Tourism Activities (SICTA) and those defined in the General Agreement on Trade in Services (GATS) highlights the differences between the common understanding of tourism and the definition used by the WTO (Appendix A provides a list of SICTA codes as applied to the sectoral coding used by the GATS).<sup>51</sup> In many cases, the SICTA can be applied to the GATS-defined services sectors, but often these activities are not included under the tourism sector. Rather, many are within another industry's sector (such as transport, travel insurance, car hire) or not classified at all (such as computer reservation systems). Such differences between definition and application complicate the discussion of tourism services.

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<sup>50</sup> WTO homepage, <http://www.wto.org>

<sup>51</sup> For an exhaustive listing of all tourism activities, please refer to Europa's index at: [http://forum.europa.eu.int/irc/dsis/bmethods/info/data/new/embs/tourism/tour\\_appendix9.html](http://forum.europa.eu.int/irc/dsis/bmethods/info/data/new/embs/tourism/tour_appendix9.html)

## **Appendix B: SA's tourism suppliers and international tourism consumers**

### **Tourism suppliers**

Tourism in SA is composed of the same service industries as anywhere else in the world: transport, accommodation, restaurants and catering, entertainment, guiding, the travel press, as well as distribution mechanisms such as travel agencies and internet booking services. The country's heritage sites—parks, reserves, museums, and historical monuments—are pivotal points for suppliers and may contain several of these services. There are also government and private institutions involved in promoting, regulating and gathering information about tourism. This sub-section explores the roles of these key players and institutions and identifies features relevant to the trade in tourism services.

The GATS may have interesting ramifications for the introduction or acquisition of these services by international investors. Aside from the change in ownership structure, unequal terms for competition may not bring the intended benefits of liberalization. Equally challenging is the development of a sustainable and transformed industry reflecting South Africa's commitment to a more equitable distribution of incomes and opportunities. Regulation such as affirmative action, training requirements and, in some sectors, equity partnerships, will place additional burdens on the foreign investor. It is with these concerns that one should consider the role of tourism suppliers.

### **International tourism consumers**

Although SA has experienced a tremendous upsurge in foreign arrivals since the new dispensation, the so-called "democracy dividend" from the mid-1990s is over. South Africa must now employ sophisticated marketing strategies in order to maintain even a modest two per cent growth rate.<sup>52</sup> At first glance it would appear that these methods are beginning to yield results. After lacklustre inflows during the 1999–2001 period, foreign arrivals have quite surprisingly increased, despite the global downward trend. The latest statistics indicate that foreign arrivals are up 7.2 per cent for the first seven months of the year over the same period in 2001.<sup>53</sup> Overseas arrivals have increased by 11.3 per cent on average, and the stronger U.K. market has increased by as much as 19.4 per cent. It is worth keeping in mind that foreign arrivals represent 33 per cent of the tourist market, while 67 per cent is domestic.

Yearly visitor arrivals and departures are strongly correlated with industry growth. As seen from Figure 1, foreign arrivals have risen sharply since 1994 and have started to outpace departures, indicating ever-increasing lengths of visits.

The vast majority of foreign visitors are citizens of neighbouring African nations, and particularly of Lesotho (about 1.3 million annually). Of the six million visitors each year, over four million are from the African continent. Beyond the continent, about 67 per cent of overseas visitors come from European nations, with the U.K. (23 per cent) and Germany (14 per cent) comprising the brunt of this share (see Figure 2).

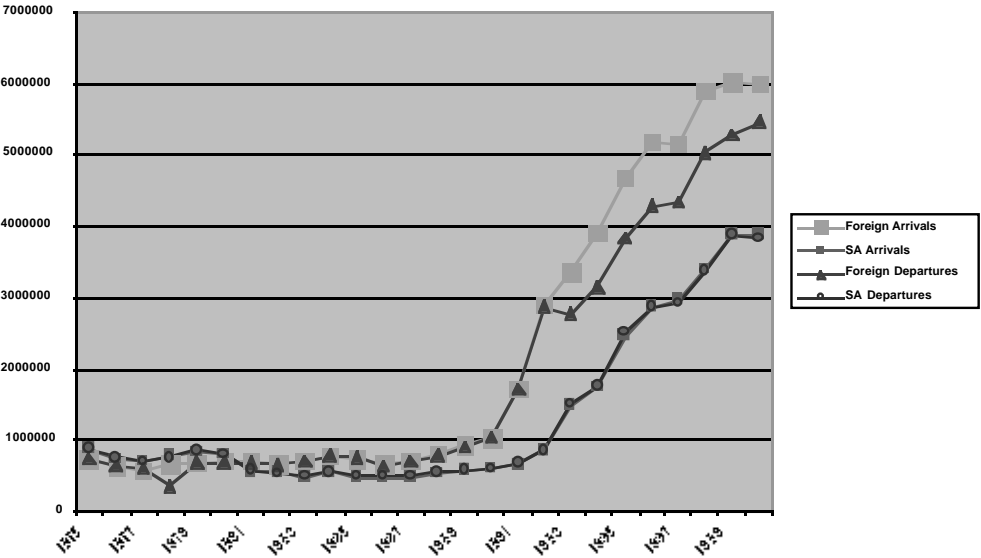
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<sup>52</sup> SATOUR, 2002a.

<sup>53</sup> DEAT homepage.

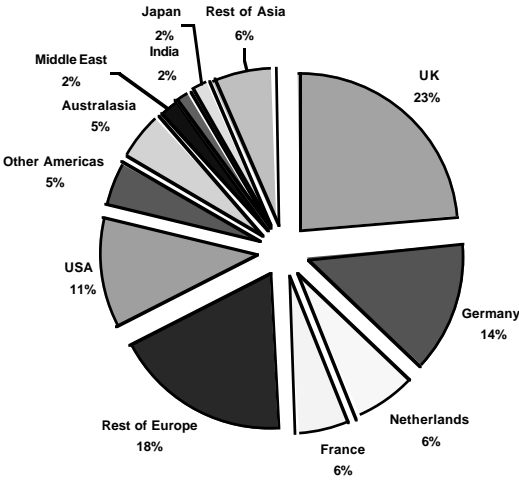
U.S. nationals make up the third largest category of visitors, yet are the largest per capita gross spenders of any group.<sup>54</sup> The relative shares of these groups have changed slightly in recent years, with the U.S., Australia, Japan, China, India and other Asian nations increasing their consumption of SA tourism.

**Figure 2: Arrivals and departures of foreign visitors and SA residents 1975–2000**



Source: Stats SA, 2001

**Figure 3: Shares of overseas visitors, 2000**

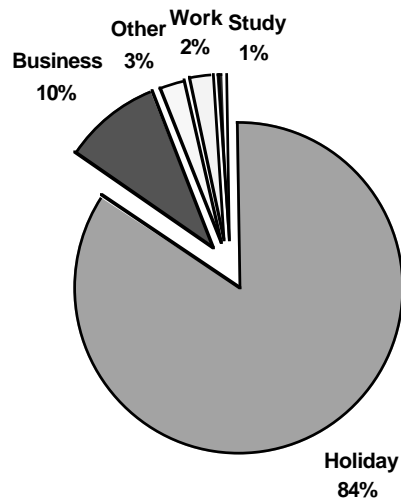


Source: Stats SA, 2001

<sup>54</sup> SATOUR, 2002a



**Figure 4: Purpose of visit for foreign visitors to South Africa, 2000**



*Source: Stats SA, 2001*

The purpose-of-visit data are also an important factor in tracking who is coming to South Africa. As seen in Figure 3, about 10 per cent of those choosing to come do so for business purposes, whereas 84 per cent state their visit is for leisure.<sup>55</sup> Among the majority coming for holiday purposes, less is known about what percentage choose to spend their time in eco-tourism, adventure, sport, and cultural activities or from which countries consumers with particular preferences usually hail.

A 1997 international tourism survey, in combination with the available statistics and domestic surveys, has played an important role in SATOUR's targeted marketing campaigns.

SA hopes to increase its share of overseas high-spenders while defending its stake of the more budget-conscious groups from neighbouring countries. As a result, SATOUR campaigns are due to be directed at countries with an already solid base of visitors poised for continued tourism growth. The U.S., the Netherlands, Australia, Japan and the U.K. are the top five countries for this campaign, while Germany, France, Italy, India and others have been identified for growth as well.

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<sup>55</sup> Stats SA, 2000.

## **Appendix C: Background information on respondents**

### **Phinda Reserve**

#### *CC Africa*

Time of interview: 13h00 – 13h47  
Date of interview: November 22, 2002  
Respondent: Les Carlisle

The research team had the opportunity to interview the developer of the Phinda nature reserve by teleconference. Now based in White River, Les Carlisle is a professional Game Catcher who was commissioned by CC Africa to develop the reserve from scratch. He subsequently took on the role of General Manager at Phinda where he was based for six years before taking on broader responsibilities within CC Africa. Les still operates at both a regional and community level and spends one week of every month at the Phinda reserve

#### *The Africa Foundation*

Time of interview: 11h00 – 13h30  
Date of interview: November 26, 2002  
Respondent: Isaac Tembe

Isaac Tembe is a Field Manager for the Africa Foundation. He has been with the Organization since 1994 when the Africa Foundation was still known as the Royal Investment Fund (RIF) and was owned by CC Africa. The Africa Foundation is now a separate legal entity to CC Africa, with its own fund number and its own board of trustees; however, the two organizations still work very closely.

### **The Greater St. Lucia Wetlands Park**

#### *The St. Lucia Wetlands Authority*

Time of interview: 10h40 – 11h45  
Date of interview: November 25, 2002  
Respondents: Bronwyn James and Terry Castis

Bronwyn James heads the social orientation unit known as SEED and Terry hold responsibility for the commercial development of the Park. The Authority is a National Body answerable to the Minister of Environmental Affairs and Tourism. The Authority is also responsible for running the Park as a World Heritage Site.

### *The St. Lucia Tourism and Publicity Association*

Time of interview: 14h00 – 15h30

Date of interview: November 26, 2002

Respondents: Con Vermaak, Louw Kloppers, Petrus Viviers, *et al.*

The St. Lucia Tourism and Publicity Association is a group of small business people operating in and around the town of St. Lucia. Present at the meeting were: Con Vermaak, the head of the Association; Louw Kloppers, a local Councillor; Petrus Viviers, a local businessman; and other self-catering and catered accommodation owners.

### *KZN Wildlife*

Time of interview: 14h00 – 15h30

Date of interview: November 27, 2002

Respondent: Jean Harris

KZN Wildlife was previously known as the Natal Parks Board and shares responsibility with the St. Lucia Wetlands Authority for the maintenance and development of the GSLW Park.

## **Amadiba Adventures**

### *Amadiba Coastal Community Development Association (ACCODA)*

Time of interview: 11h00 – 12h00

Date of interview: November 28, 2002

Respondents: Velaphi Ndovela and Christopher Ngcwele

ACCODA is the community trust for the Amadiba region and thus makes decisions on how monies earned from Amadiba Adventures will be allocated, what projects will receive their support, as well as liaison with government bodies on local infrastructure and community development issues.

### *PondoCROP*

Time of interview: 09h00 – 10h00

Date of interview: November 28, 2002

Respondent: Rone Visser

Time of interview: 19h00 – 20h00

Date of interview: December 1, 2002

Respondent: Travis Bailey

PondoCROP is a regional NGO, initially involved with development projects surrounding the rehabilitation of the Wild Coast hiking trail. Their interest is in providing support before the

eventual transfer of all responsibilities to Amadiba and other coastal communities as the latter gain momentum in business self-sufficiency.

### *Community Participants*

Date of interviews: November 28, 2002 – December 1, 2002

Respondents: Bernard Mbele

The research team actually went on the trail to see first-hand how the system worked and to have a chance to interact with the community participating in the trail (trail guides, cooks, camp keepers, ferrymen, etc.). These meetings were ad hoc and less structured than the other discussions but were equally valuable to the overall understanding of the project.

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