



# **TOURISM, DIGITAL AND THE CREATIVE ECONOMY**

# Contents

<b>1</b>	Executive Summary	<b>3</b>
<b>2</b>	Tourism, Digital and the Creative Economy	<b>4</b>
<b>3</b>	Factors Contributing to the Decline in the Tourism sector	<b>6</b>
<b>4</b>	Factors Contributing to the Decline of the Creative Economy	<b>9</b>
<b>5</b>	Investments and Initiatives in the Tourism and Creative sector	<b>13</b>
<b>6</b>	Opportunities for Growth in the Tourism sector	<b>17</b>
<b>7</b>	Opportunities for Growth in the Creative Economy	<b>21</b>







# **Tourism, Digital and the Creative Economy**

## Executive Summary

The tourism industry in South Africa has experienced a significant decline due to the COVID-19 pandemic. The number of non-resident tourists dropped by 73.65% from 14.8 million in 2019 to 3.9 million in 2020.

The sector experienced severe job losses within the same period amounting to 41% decrease in the workforce. The inbound tourism expenditure declined by 70.5% in 2020 compared with 2019 and the sector lost R195.4 billion in revenue. Other factors that contributed to the decline in the tourism sector include, the water crisis in Cape Town, crime and safety concerns, economic challenges, and visa regulations.

Similarly, the creative economy has also been experiencing a decline which was accelerated by the COVID-19 pandemic. Some of the factors that have contributed to the decline of the creative economy include event cancellations and postponements, closure of venues, reduced customer spending, disruptions of creative supply chains, insufficient government support, digital shift, lack of investment, intellectual property challenges, fragmented industry structure and a skills gap in addition to capacity constraints.

Despite these challenges and factors, there have been significant investments and initiatives to support the creative economy and tourism sector, such as the South African Investment Conference. The South African

Investment Conference in 2022 received R332 billion in investment pledges. Included in that figure is R929 million investment pledge from Netflix, R7.5 billion from VideoVision Entertainment and R650 million from PFN, and these investment pledges will have a profound impact on the creative economy. When it comes to the tourism sector, various initiatives have been put in place to help the sector bounce back, these include the Tourism Equity Fund, the Tourism Relief Fund, South African Incentive Programme and rebates from the Department of Trade, Industry and Competition (DTIC) directed at the film and television industry.

The South African tourism sector holds significant potential for growth by leveraging digital opportunities and focusing on emerging trends, such as digital marketing and social media, virtual reality and augmented reality, big data and analytics, personalization and customization, online booking, and sustainable and responsible tourism. Similarly, the creative economy has enormous potential for growth if it can leverage on digital transformation, virtual events and experiences, collaborations, and partnerships, focusing on local and cultural content, skills development and capacity building, government support and policy interventions.

**South Africa has long been a popular destination for tourists from around the world, thanks to its rich cultural heritage, breath-taking natural beauty, and abundant wildlife.**

## **Tourism, Digital and the Creative Economy**

However, the tourism industry and creative economy in South Africa has experienced a significant decline in recent years, primarily due to the COVID-19 pandemic, but also as a result of other contributing factors. We shall explore some of these factors, look at some interesting investments that have been earmarked for the South African creative economy and then lastly, we shall explore opportunities that exist for growth in the tourism sector as well as the creative economy.

# Factors Contributing to the Decline in the Tourism sector





**The COVID-19 pandemic has been the most significant factor contributing to the decline of the tourism sector in South Africa.**

## **COVID-19 Pandemic Impact**

The unprecedented global health crisis led to strict travel restrictions, lockdowns, and border closures. This resulted in a substantial drop in international and domestic tourism, affecting businesses and employment in the industry.

In 2019, South Africa welcomed approximately **14.8 million** non-resident tourists. However, in 2020, the number of international arrivals dropped by a staggering **73.65% to around 3.9 million**, according to data from the Tourism Satellite Account (TSA) for South Africa report. This decline affected not only the tourism sector but also the broader South African economy.

The tourism industry contributed around **3.7% to South Africa's GDP** and provided employment for **around 780 096 people** before the pandemic in 2019. In 2020, the tourism sector employed **459 533 jobs**, a staggering decline of **41%**. With the significant reduction in travel, many businesses in the industry faced severe financial challenges, with some closing down permanently. As a result, thousands of jobs were lost, exacerbating the country's high unemployment rate which now stands **at 32,7%** according to the latest statistics released in 2023.

The decline of tourists visiting our shores had a ripple effect across the tourism sector. The immediate impact was less inbound tourism expenditure (the much-needed foreign currency that non-resident tourists spend during their stay). Inbound tourism expenditure declined by **70,5% in 2020** compared with **2019**. Domestic tourism expenditure also decreased in 2020, with resident visitors spending **32,8% less** than they did in 2019. Internal tourism expenditure decreased from **R455,8 billion in 2019 to R260,4 billion in 2020**. The tourism sector therefore lost **R195,4 billion in tourism spend in 2020**.

## Factors Contributing to the Decline in the Tourism sector

### 01

#### Water Crisis in Cape Town

Another factor contributing to the decline in South Africa's tourism industry was the water crisis in Cape Town, which started in 2015 and continued until 2018. This period of severe drought led to strict water rationing and fears of a potential "Day Zero," when the city's taps would run dry. The water crisis received extensive international media coverage, which deterred potential tourists from visiting the city and the Western Cape region.

### 02

#### Crime and Safety Concerns

Crime and safety concerns have also negatively impacted South Africa's tourism industry. The country has a relatively high crime rate, with incidents of robbery, assault, and theft being common. While most tourists enjoy safe and incident-free visits, media reports of crimes involving tourists have contributed to a perception that South Africa is an unsafe destination. This perception can deter potential visitors and hinder the growth of the industry.



### 03

#### Economic Challenges

South Africa has been facing several economic challenges in recent years, such as high unemployment, inflation, and a weak currency. These economic difficulties have also played a role in the decline of the tourism industry. A weak currency can make it more expensive for South Africans to travel internationally, resulting in a decline in outbound tourism. At the same time, a struggling economy can affect domestic tourism, as locals may have less disposable income to spend on leisure travel.

### 04

#### Visa Regulations

In the past, South Africa's visa regulations have been criticised for being overly restrictive and complex, making it difficult for potential tourists to visit the country. In particular, the requirements for travellers from key markets such as China and India were seen as cumbersome and a barrier to entry. While the South African government has made efforts to improve and streamline the visa process in recent years, the impact of previous regulations may still be felt in the industry.

**The COVID-19 pandemic has had a devastating impact on South Africa's tourism sector, causing a substantial decrease in international and domestic tourism, and negatively affecting businesses and employment in the industry. The decline in tourist arrivals and subsequent expenditure losses have had significant repercussions on the broader South African economy. The water crisis in Cape Town, crime and safety concerns, economic challenges, and past visa regulations have also contributed to the decline in the tourism industry. It is crucial for South Africa to address these challenges and implement strategies to revive and sustain the tourism sector, as it plays a vital role in the country's economic growth and job creation.**

# Factors Contributing to the Decline of the Creative Economy

## The COVID-19 pandemic accelerated the decline of the creative economy.

### Factors Contributing to the Decline of the Creative Economy

The various lockdowns and measures in response to the pandemic had a devastating impact on the creative economy. Several factors have contributed to this decline and some of these factors are listed below.

#### 01

Event cancellations and postponements

The COVID-19 pandemic led to the cancellation of many events in South Africa. The 2020 National Arts Festival, for instance, shifted to a virtual format for the first time, with a significant reduction in revenue and audience size. Live events are a primary source of income for many artists, and the lack of events impacted their financial stability.

#### 02

Closure of venues

Entertainment venues closed temporarily or permanently during the pandemic. According to the South African Cultural Observatory, **58%** of cultural and creative businesses reported temporary closures, while **9%** reported permanent closures during the lockdown in 2020.

### 03

Reduced consumer spending

The economic downturn caused by the pandemic led to reduced consumer spending on creative products and experiences. South Africa's **GDP contracted by 7%** in 2020, and the unemployment rate reached **34.4%** in the second quarter of 2021, affecting spending on non-essential goods and services.

### 04

Disruption of creative supply chains

The pandemic disrupted global supply chains, affecting creative businesses' ability to access materials, equipment, and services. Global trade volumes fell by **approximately 9.2%** in 2020, indicating the scale of the impact on supply chains.

### 05

Insufficient government support

The South African government allocated **R150 million to the Department of Sports, Arts, and Culture for relief efforts in 2020.** However, many artists and creative businesses found it challenging to access these funds due to bureaucratic barriers and eligibility criteria.

### 06

Digital shift

With the pandemic accelerating the transition to digital platforms, many artists and creative professionals moved their work online. The rapid digital shift increased competition and led to financial challenges for those unable to adapt quickly.

### 07

Lack of investment

Historically, the creative sector in South Africa has been underfunded and undervalued. In 2018, the South African Cultural Observatory reported that the sector contributed **1.7% to the national GDP** but received only **0.08% of public funding.** This lack of investment has hindered the sector's growth and development.



08

Intellectual property challenges

The creative sector in South Africa faces intellectual property protection and enforcement issues. For instance, the South African music industry loses an estimated **R250 million annually due to piracy**, impacting artists' revenue streams.

09

Fragmented industry structure

The creative sector in South Africa is fragmented, with numerous independent artists and small businesses. This has hindered the sector's ability to advocate for policy changes, secure funding, or develop a cohesive growth strategy.

10

Skills gap and capacity constraints

The creative economy in South Africa faces skills gaps and capacity constraints, with limited access to professional development opportunities and mentorship. A 2019 study by the South African Cultural Observatory indicated that skills development was a top priority for 56% of creative businesses surveyed.

**The COVID-19 pandemic has severely impacted the creative economy in South Africa, with various factors contributing to its decline. Event cancellations, venue closures, reduced consumer spending, supply chain disruptions, insufficient government support, and the rapid digital shift have all negatively affected the financial stability of artists and creative businesses. Additionally, the industry faces challenges from a lack of investment, intellectual property issues, fragmentation, and skills gaps. To revive and sustain the creative economy, it is vital for South Africa to address these challenges by implementing strategies that foster growth, provide support, and promote development opportunities for artists and creative businesses.**

# Investments and Initiatives in the Tourism and Creative sector

**It is not all gloom and doom, there have been incredible investments, pledges and initiatives undertaken to cushion the blow that the creative economy has been dealt with. due to the pandemic.**

## **Investment Pledges aimed at the Creative Economy from the South African Investment Conference**

The South African Investment Conference (SAIC) is an annual event initiated by President Cyril Ramaphosa in 2018. The conference is part of the broader efforts to attract and mobilise both domestic and international investment in the country. The aim is to stimulate economic growth, create employment opportunities, and address various socio-economic challenges in South Africa.

The SAIC serves as a platform for the South African government, business leaders, investors, and other stakeholders to engage in dialogue, discuss investment opportunities, and showcase the country's potential across various sectors, such as manufacturing, agriculture, tourism, renewable energy, and technology.

The conference has seen significant commitments made by both local and international investors. For instance, during the inaugural conference in 2018, investment pledges of around **R300 billion** were made. In 2019, the conference attracted investment commitments of over **R360 billion**. The 2020 conference, held virtually due to the COVID-19 pandemic, resulted in investment commitments of around **R109.6 billion**.

President Cyril Ramaphosa announced that the 80 investment pledges received at the South African Investment Conference on the 24th of March 2022 amounted to **R332 billion**.

To date, **R1.14 trillion investment pledges** have been made and this translates to 95% of the initial investment mobilisation drive target of **R1.2 trillion** that was set out to be achieved within a five-year period. Some of the investment pledges made for the tourism and creative sector include a **R929 million pledge** from Netflix, **R7.5 billion** from Videovision Entertainment, **R650 million** from PFN, R350 million from Warner Media and **R390 million** from Compagnie Mauricienne De Textile LTEE.

## Initiatives aimed at supporting the Tourism sector

01

Tourism Equity Fund (TEF)

Launched in January 2021, is a collaboration between the South African government, the Department of Tourism, and the Small Enterprise Finance Agency (SEFA). The TEF aims to promote transformation and support black-owned enterprises in the tourism sector. The fund has an allocation of around **R1.2 billion over three years**, providing financial support in the form of grants, loans, and equity financing to eligible businesses.

02

Tourism Relief Fund

Launched in response to the COVID-19 pandemic by the South African government provides financial assistance to small, micro, and medium-sized enterprises (SMMEs) in the tourism sector. The fund offered a once-off capped grant of **R50,000** to eligible businesses to help them navigate the challenges posed by the pandemic.

03

South African Tourism Incentive Programme

(TIP) is an initiative aimed at providing financial support to tourism businesses for market access, product and experience development, and quality assurance. Through the TIP, tourism enterprises can receive assistance in attending international trade shows, obtaining grading assessments, and implementing sustainable practices, among other things.



### 04

#### South African Tourism Incentive Programme

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### 05

#### Department of Trade, Industry and Competition

The Department of Trade, Industry and Competition offers a rebate of up to **35%** of qualifying production expenditure for international productions, while local productions and co-productions can receive a rebate of up to **50%**. Additionally, the Emerging Black Filmmakers Fund, administered by the Industrial Development Corporation (IDC), provides financial support to black-owned production companies for the development and production of feature films.

### 06

#### Craft and Design Institute

The Craft and Design Institute (CDI) is a non-profit organization focused on supporting the development of the craft and design sector in South Africa. The organisation offers various programs and services, including business support, market access, product development, and training. The CDI has supported thousands of enterprises and entrepreneurs over the years, contributing to the growth and sustainability of the creative sector.

**Despite the challenges faced by the creative economy due to the pandemic, there have been significant investments and initiatives aimed at supporting and revitalizing the sector. Investment pledges made during the South African Investment Conference have demonstrated a commitment to the creative and tourism sectors, with substantial amounts pledged by companies such as Netflix, Videovision Entertainment, PFN, Warner Media, and Compagnie Mauricienne De Textile LTEE. Additionally, the Tourism Equity Fund, Tourism Relief Fund, South African Tourism Incentive Programme, film and television production incentives, and the support provided by the Craft and Design Institute all contribute to the growth and sustainability of the creative sector. These efforts highlight the potential for the creative economy to recover and thrive, creating employment opportunities and stimulating economic growth in South Africa.**

# Opportunities for Growth in the Tourism sector

**South Africa's tourism sector holds significant potential for growth, despite the recent challenges posed by the COVID-19 pandemic and other factors.**

Leveraging digital opportunities and focusing on emerging trends can help drive the sector's recovery and foster long-term growth. Various growth opportunities in the South African tourism sector, with an emphasis on digital advancements and innovations are outlined below:

01

Digital Marketing and Social Media

One of the most significant growth opportunities in the South African tourism sector lies in the effective use of digital marketing and social media. These platforms enable businesses to reach a global audience, promote their offerings, and engage with potential travellers in a cost-effective manner. Social media platforms, such as Instagram, Facebook, and Twitter, can be used to share captivating images, videos, and stories that showcase the country's unique attractions and experiences.

Influencer marketing, where popular online personalities promote destinations and experiences to their followers, can also help generate interest in South Africa as a travel destination. Collaborating with travel bloggers, vloggers, and other influencers can help businesses tap into new markets and reach audiences that might not have considered visiting South Africa.

### 02

#### Virtual Reality and Augmented Reality

Virtual Reality (VR) and Augmented Reality (AR) technologies are revolutionising the tourism industry by offering immersive experiences that can help travellers plan their trips and explore destinations before they even arrive. South African tourism businesses can leverage these technologies to create virtual tours, interactive maps, and augmented experiences that showcase the country's attractions and provide potential visitors with a taste of what they can expect.

For instance, a VR tour of a game reserve could allow users to "experience" a safari, while an AR app could enhance a visit to a historical site by providing additional information and multimedia content. By adopting these technologies, the South African tourism sector can differentiate itself from other destinations and attract tech-savvy travellers.

### 03

#### Big Data and Analytics

Big data and analytics can help South African tourism businesses gain valuable insights into traveller preferences, patterns, and behaviour. By analysing large volumes of data, such as social media posts, online reviews, and booking information, businesses can identify trends, optimise their marketing efforts, and improve their offerings to better meet the needs of their target audience.

For example, businesses can use data analysis to identify popular travel times, preferred activities, and common pain points among travellers. This information can then be used to create tailored experiences, improve customer satisfaction, and increase repeat visits.



### 04

#### Personalisation and Customisation

As travellers increasingly seek unique and personalised experiences, the South African tourism sector has an opportunity to differentiate itself by offering tailored products and services. Businesses can use digital tools, such as customer relationship management (CRM) systems and data analysis, to gain insights into individual traveller preferences and design experiences that cater to specific interests and needs.

For example, a tour operator could offer customised itineraries based on a traveller's interests, such as wildlife, adventure, or cultural experiences. By providing personalised services, South African tourism businesses can enhance customer satisfaction and encourage word-of-mouth marketing.

### 06

#### Sustainable and Responsible Tourism

Sustainable and responsible tourism is a growing trend, as travellers become more conscious of their environmental and social impact. South African tourism businesses can capitalise on this trend by adopting eco-friendly practices, promoting local culture while catering the value system of modern travellers.

The South African tourism sector possesses significant growth potential despite recent challenges. Capitalising on digital opportunities and emerging trends, such as digital marketing, social media, influencer marketing, virtual and augmented reality, big data and analytics, personalisation, online booking platforms, mobile applications, and sustainable and responsible tourism, can help drive the sector's recovery and promote long-term growth. By embracing these digital advancements and innovations, the South African tourism industry can differentiate itself from other destinations, attract a wider range of travellers, and adapt to the changing needs and preferences of modern tourists.

### 05

#### Online Booking and Mobile Applications

The rise of online booking platforms and mobile applications has significantly changed how travellers plan and book their trips. To remain competitive, South African tourism businesses need to embrace these technologies and provide seamless online booking experiences.

By offering user-friendly websites and mobile apps, businesses can make it easy for travellers to research, plan, and book their trips. In addition, integrating payment gateways and offering secure online payment options can help build trust and confidence among potential visitors.

# Opportunities for Growth in the Creative Economy



The COVID-19 pandemic has led to a decline in the creative economy in South Africa, primarily due to event cancellations, venue closures, reduced consumer spending, disrupted supply chains, insufficient government support, and the rapid digital shift. However, despite these challenges, there are opportunities for the creative sector to bounce back and grow in the post-pandemic world.

### Some of these opportunities include:

#### 01

##### Digital transformation

The pandemic has accelerated the adoption of digital platforms and technologies, and this presents an opportunity for creative professionals to expand their reach and explore new markets. Artists can showcase their work on online galleries, musicians can stream live performances, and filmmakers can release their content through streaming platforms. Embracing digital technologies can help the creative sector build resilience and adapt to the evolving market landscape.

### 02

#### Virtual events and experiences

As in-person events were cancelled during the pandemic, there has been a growing interest in virtual events and experiences. Creative professionals can capitalise on this trend by developing immersive online events such as concerts, theatre performances, exhibitions, and conferences, utilising technologies like virtual reality, augmented reality, and live streaming to engage audiences in innovative ways.

### 04

#### Focus on local content and cultural heritage

The pandemic has highlighted the importance of local culture and heritage. South Africa has a rich and diverse creative landscape, and there is an opportunity to leverage this by promoting local content and celebrating the country's unique cultural identity. This can help drive demand for local creative products and services and contribute to the growth of the creative economy.

### 03

#### Collaboration and partnerships

The creative sector can benefit from increased collaboration and partnerships, both within the industry and with other sectors. Partnerships with technology companies, for example, can help develop new tools and platforms that facilitate the creation, distribution, and monetization of creative content. Collaboration between creative professionals can also lead to innovative projects that combine different disciplines and perspectives, resulting in unique and compelling offerings.



### 05

#### Skills development and capacity building

There is a need for continuous skills development and capacity building within the creative sector to ensure that professionals can adapt to the changing market dynamics and embrace new opportunities. This can involve training in digital skills, entrepreneurship, and project management, as well as providing access to mentorship and networking opportunities.

### 06

#### Government support and policy interventions

The creative sector can benefit from targeted government support and policy interventions that facilitate growth and development. This may include tax incentives, grants, and low-interest loans, as well as policies that promote intellectual property protection, cultural exchange, and international collaboration.

**While the COVID-19 pandemic has negatively impacted South Africa's creative economy, there are opportunities for the sector to recover and grow in the post-pandemic world. By embracing digital transformation, creating virtual events, fostering collaboration and partnerships, promoting local content and cultural heritage, investing in skills development and capacity building, and advocating for government support and policy interventions, the creative sector can build resilience and adapt to the evolving market landscape. This will not only help the industry bounce back from the challenges of the pandemic but also contribute to the growth and sustainability of South Africa's creative economy in the long term.**

## Opportunities for growth in the Creative economy



# Conclusion

In conclusion, the COVID-19 pandemic has dealt a heavy blow to both the tourism industry and creative economy in South Africa, resulting in a significant decline in revenue, employment, and overall growth. However, through strategic investments and initiatives such as the South African Investment Conference, the Tourism Equity Fund, and the Tourism Relief Fund, there is a renewed focus on rebuilding these sectors. By embracing digital opportunities, emerging trends, and leveraging collaborations, South Africa's tourism and creative industries can not only recover from the setbacks caused by the pandemic but also unlock their full potential for growth and economic contribution. The future of these sectors relies on innovative approaches, skills development, and effective government support and policy interventions to ensure a sustainable and thriving industry landscape.



## About COOi Studios

COOi Studios is an innovation accelerator partner to corporates, start-ups and government organisations. We help enterprises accelerate innovation to deliver exponential growth using our highly-tuned innovation methodologies. We work with business leaders to drive innovation culture and rapidly deliver emerging technology innovations (AI, VR, AR, IoT, Robotics and 3D printing).

We look forward to hearing from you and partnering with you in an exciting, innovative journey.

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