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Weathering the Storm: Securing Tourism Investment in Mozambique during a Global Economic Downturn

It had been a challenge to attract high-quality investment in Mozambique's emerging tourism sector, but the Mozambique Tourism Anchor Investment Program was beginning to see exciting results. The crash of the global economy over the last few months, however, has severely impacted the program's ability to deliver on its promises and forced it to adopt different approaches for securing increasingly scarce investment. This SmartLesson provides some insights into the effect the financial crisis has had on this Investment Generation program and how the program responded.



Investors visit an Anchor Site in northern Mozambique in June 2008. (Photo by Hermione Nevill)

country's vast and relatively untouched tourism potential into real developments.

In its third year, the Anchor Program had already delivered promising results: It had identified and secured four Anchor Investment Sites, conducted the country's first-ever professional international tourism investment promotion campaign, and drafted new legislation to enable large-scale investment in tourism resorts and eco-investments in protected areas. By February 2009, the program had

Initiated in 2006, IFC's three-year Mozambique Tourism Anchor Investment Program proactively identifies, plans, packages, and markets investment-ready Anchor Sites in selected tourism zones, while clearing the administrative and regulatory constraints to tourism investment. The program is a partnership with the Ministry of Tourism, represented by INATUR (the National Tourism Institute), which requested IFC's assistance in transforming the

launched an international tender for one of the Anchor Sites and was in the middle of a direct negotiation process for another. Everything was on track. Then, on the morning of the day that a memorandum of understanding (MoU) for the first of the Anchor Sites was to be publicly signed, committing a large Kuwaiti investor to develop a \$200 million integrated resort as the first of several projects in the country, the investor pulled out. The glob-

al economic crisis had struck the Mozambique Tourism Anchor Investment Program.

The Anchor Sites

The Anchor Program had selected and marketed four Anchor Investment Sites. Two of them—Inhassoro Site in southern Mozambique, and Crusse/Jamali Site in the north—were earmarked for large-scale integrated resort developments. The other two—the Maputo Elephant Reserve in the far south of the country, and Gilé Anchor Site in the north—were ecotourism developments. Following the successful launch of the Maputo Elephant Reserve tender, the government of Mozambique and a consortium of donors requested that IFC include a fifth site in its portfolio: the Limpopo National Park, a highly marketable protected area adjacent to the Kruger National Park in South Africa and previously outside the scope of the program.

The Economic Crisis



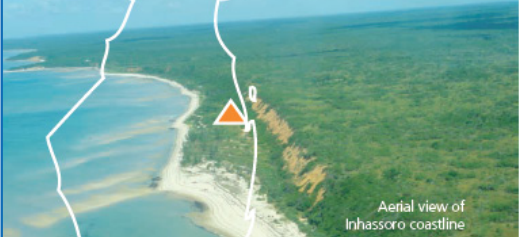

We expect the current crisis to have far-reaching consequences for Africa and for tourism. The IMF and groups such as Business Monitor International (BMI) predict that Sub-Saharan Africa will probably avoid the full ravages of the recession, and that with a predicted growth rate of

2.2 percent it will outperform Latin American and emerging European countries. But the region will still be hard hit by the collapse in external demand, the slump in commodity prices, and an acute shortage of foreign capital. BMI predicts that major tourist destinations such as Kenya, Tanzania, and Mauritius are likely to be confronted with a noticeable decline in service exports as the global recession cuts travelers' spending power, and that there are significant risks that Sub-Saharan Africa will not be able to attract the same levels of foreign capital as over the past few years. For tourism as a sector, the United Nations World Tourism Organization (UNWTO) expects a fast downturn and a slow recovery, with impacts affecting both emerging and mature destinations. The UNWTO anticipates that: 1) tourism traffic to closer destinations (including domestic travel) will be favored over long-haul travel; 2) segments such as visiting friends and relatives, repeat visitors, special-interest, and independent travelers will be more resilient; 3) the decline in average length of stay as well as in expenditures will be more pronounced than in the overall volume; and 4) destinations offering value for money and with favorable exchange rates (such as South Africa) will have an advantage as price becomes a key issue.

Effect of the Crisis on Investor Appetite

The residential-led integrated resort style development

that has dominated the tourism industry for the last few years in markets such as Dubai, South Africa, and Mauritius has been deeply affected by the crash of the international property market and rendered less viable. Most of the larger, international tourism development companies have found themselves suddenly burdened with a portfolio of underperforming assets, partly constructed resorts, pipeline commitments, and a scarcity of credit. Their strategy going forward appears to be the consolidation of existing assets, and almost non-existent expansion. Investors that had hitherto been extremely committed to the Anchor Sites pulled out, and no interest could be found elsewhere (Box 1). However, our experience in the ecotourism market suggests that ecotourism investors are still buoyant, especially in the South African market, which has yet to feel the direct impact of the crisis (Box 2).

ANCHOR INVESTMENT SITES	ANCHOR INVESTMENT SITE DESCRIPTIONS
 <p>Aerial view of Jamali Island</p>	<p>Name: Crusse/Jamali Anchor Site Model: Tourism Resort Location: Mossuril District, Nampula (Greater Ilha de Moçambique area)</p> <p>A 1,750Ha greenfield site of scalloped bays, coral reefs and two islands has been selected to develop an exclusive tourism resort with the potential to create: clusters of boutique hotels, a marina, stilted chalets, tented camps and a select number of high-end residential units.</p>
 <p>Aerial view of Epidendron Island</p>	<p>Name: Gilé Anchor Site Model: Eco-tourism development Location: Gilé and Pebane Districts, Zambézia</p> <p>The protected reserve of Gilé in combination with two pristine islands close by; Epidendron and Casuarina has been identified for a low-impact and environmentally sustainable bush/beach development.</p>
 <p>Aerial view of Inhassoro coastline</p>	<p>Name: Inhassoro Anchor Site Model: Integrated Tourism Resort Location: Inhassoro District, Inhambane (Greater Vilanculos/Bazaruto area)</p> <p>A 2,500Ha of elevated beachfront land (5.7km of beach frontage), overlooking the renowned Bazaruto Archipelago has the potential to be developed into an integrated resort to include: residential, 18-hole golf course/s, hotels, entertainment, retail and recreation facilities.</p>
 <p>Aerial view of the Maputo Elephant Reserve</p>	<p>Name: Maputo Elephant Reserve Anchor Site Model: Eco-tourism development Location: Maputo Special Reserve, Maputo Province</p> <p>The 70,000Ha Maputo Special Reserve has been chosen to accommodate a limited number of small, exclusive, environmentally sensitive eco-tourism developments with a strong community and conservation focus.</p>

Box 1: Anchor Program Case: Large Resort Sites

Two integrated resort Anchor Sites were marketed to an international audience of thousands of potential investors during 2008 and were well received. Interest narrowed to a select few, followed by several site visits, and a relationship quickly developed between one particular Kuwaiti-based leading developer and the Ministry of Tourism. The investors were extremely interested in the northernmost resort site and within days of their visit had formally expressed interest and met with the President of Mozambique in July 2008. The Anchor Team and various technical government officials were then invited for a four-day familiarization trip to one of the South African properties, at which time an MoU was drafted. By February 2009, after weeks of revision, both teams were ready to sign the agreement. Moments before the signing, the deal was off, with one of the investors advising the team, "...integrated resorts are dead. There is no market for these developments, and won't be for a few years to come."

Box 2: Anchor Program Case: Ecotourism Developments

The southernmost Anchor Site, a protected area known as the Maputo Elephant Reserve, is close to Maputo and the South African border and contains three relatively small ecotourism concessions. It was marketed widely to regional and international ecotourism developers and then put to tender in December 2008. After a launch, advertisements, and targeted investment promotion, the Ministry of Tourism received over 100 inquiries about the opportunity over a three-month period. February 27, 2009, the day the MoU for the larger resort site was canceled, was also the deadline for formal Expressions of Interest in this site. The Ministry of Tourism received 15 Expressions of Interest from a variety of domestic, regional, and international investors, 7 of which met the criteria to proceed to the next stage of the process.



View of Maputo Elephant Reserve from the air. (Photo by Irene Visser)

Lessons Learned from the Anchor Program's Response

1) Smaller, less risky investments are still viable.

Even though most large-scale investors are consolidating their assets and curbing their expansion plans, it has been our experience that some limited investor appetite still remains. It is important to recognize, however, that these remaining investors are likely to be cautious and somewhat risk-averse, and that packaged investment opportunities should reflect that reality. Smaller investment sums, more attractive sites with quicker returns, greater facilitation support, aftercare, and guarantees will all help to secure these investments.

With the resort model rendered unviable, the Anchor Program was faced with a dilemma regarding two of its Anchor Sites. There were three options:

- "freeze" the sites for better times
- abandon them and find new, more market-ready sites
- repackage them into more viable development alternatives

Having made commitments at the local level, consulted communities, and engaged politicians, it was felt that simply walking away from the resort sites and waiting for economic times to turn was not an option. Having learned from the program's experience with the ecotourism model, the team decided to: 1) "freeze" the largest of the resort sites (Inhassoro); 2) break up the second resort site (Crusse/Jamali) into smaller pieces, repackage them as ecotourism developments, and present them to the market again; and 3) reduce the area for the second protected area (Gilé) to include only the highly marketable tropical islands in the package, and leave the terrestrial component outside the scope of the program.

2) Roll out tried and tested methods.

In the volatile investment climate, the team recognized that it was more prudent to replicate investment-facilitation models that were successful and had proven investor interest (smaller-scale ecotourism investments in protected areas), than to push models that had not yet been tested or that had failed (resort sites). With investor appetite for ecotourism development still alive, and donors as well as government keen to develop the Limpopo National Park, it was decided that IFC would support this additional process, previously outside the scope of the Anchor Program. The "concession toolkit"—with its technical bid documentation, key administrative structures, and investment outreach tools developed during the Maputo Elephant Reserve process—will be applied to a second protected area and further refined in the process.

3) Only include sites with strong local leadership and clear land-titles.

With fewer investors in the market, competition to secure investment increases. Having gone through the various stages of the program with sites spread across four provinces

and 2,500 kilometers, the team has encountered all types of local issues that could undermine the marketability of the sites. Now, more than ever, it is vitally important that the highest care is taken to ensure that sites are free of any land or other disputes. Within the limited time frame still available to us, IFC can only engage in the investment outreach and investment procurement process where strong leadership is demonstrated by our local implementing partner, INATUR, to ensure that local stakeholders are coordinated and any potential issues resolved. This committed leadership, sealed with a site-specific MoU between INATUR and IFC that details roles and responsibilities, will be a condition for launch of the remaining procurement processes.

4) Focus on capacity building in IFC's core areas of expertise.

Reduced investment activity provides an opportunity to invest in building a competitive edge for the long term. The program is focusing on restructuring and strengthening the institutional capacity of INATUR, and in particular on the development of investment promotion skills. This approach complements the impressive results the program already achieved with its Investment Outreach campaign, and leverages IFC's proven expertise in this area. When the global economy begins to climb back, the implementation unit will be in a better position to attract and secure investment.

5) Focus on closing deals.

In a climate with fewer and more nervous investors, it is crucial to effectively translate tentative interest into firm deals without delays, confusion, and other deterrents. For the Maputo Elephant Reserve tender and the management of the Kuwaiti deal, the Anchor Program needed to decide whether to hand over the negotiation to the client or remain involved as technical advisors. At the request of the client, and to manage potential reputational risk, IFC decided to remain involved but not formally undertake the full procurement process.

A transactional advisor was contracted on behalf of the client and reports directly to the client, with some direction and support from IFC. The transactional advisor—leading a team that also comprises a legal advisor, concession specialist, and tender coordinator—has proved to be indispensable in supporting our counterpart through this process. The advisor has drafted all of the necessary contractual and technical bid documentation, structured the negotiation process, and

drawn up templates and manuals in a concession toolkit that can be replicated in future deals. This structure contrasts sharply with the first negotiation that this program undertook in 2006 with a well-known UK-based entrepreneur, which was spearheaded by the client without a rigorous structure and dragged on for over two years before being terminated.

Conclusion

Facilitating multimillion-dollar tourism investments in the sudden reality of the economic downturn seemed like an impossible task to the Anchor Team. However, responding to market trends, and building upon the core achievements and expertise of the Anchor Team, the Anchor Program formulated a set of realistic alternative actions—of a smaller scale—to still secure quality investment in Mozambique's tourism sector.

Time will prove whether the revised investment procurement strategies can be executed in a time frame of just over a year—and if indeed the Anchor Program could be the much-needed catalyst in translating Mozambique's amazing tourism potential into tangible investments.



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