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OF ECONOMICS AND
POLITICAL SCIENCE ■

Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement

Case Study: Tourism ■ May 2021



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Table of Contents

Executive summary	6
1. Introduction	7
2. Overview of the tourism sector in the ESA5 countries	7
3. The importance of the tourism industry for economic development and the SDGs	10
4. COVID-19 and the tourism sector	11
4.1 COVID-19 and the tourism sector in the ESA5 countries	11
4.1.1 Comoros	11
4.1.2 Madagascar	12
4.1.3 Mauritius	12
4.1.4 Seychelles	12
4.1.5 Zimbabwe	12
5. Post COVID-19 tourism	12
6. Policy considerations within the deepened EPA to support the post-COVID-19 recovery in the ESA5 tourism sector	14
6.1 Tourism in the EU ESA5 EPA: Past and Present	14
6.2 Interviews with specialists	14
6.3 Further input from stakeholder consultations	16
7. Conclusion	17
References	18
Appendix I: Stakeholder interviews	19

List of Tables

Table 1: Overview of Travel and Tourism's share of the EAS5 economies	8
Table 2: Tourism impacts according to sector	19
Table 3: Environmental impacts according to sector	20
Table 4: Priority sectors of the ESA5 EPA negotiations	22
Table 5: List of stakeholders	24

Boxes

Box 1: Tourism's Role in Economic Development in General and Africa in particular	10
Box 2: COVID-19, the SDGs, and Vaccination	13
Box 3: Mauritius on the European Commissions' list of high-risk third countries	15
Box 4: Local policy suggestions for building back better	16

Abbreviations

AML	Anti-Money Laundering
CBT	Community-Based Tourism
CBBT	Community-based Boutique Tourism
CFT	Countering Terrorist Financing
CSO	Civil Society Organization
EDF	European Development Fund
EPA	Economic Partnership Agreement
ERI	Economic Resilience Indicators
ESA	Eastern and Southern Africa
EU	European Union
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ITC	International Trade Centre
MSMEs	Micro, Small and Medium-sized Enterprises
RoO	Rules of Origin
SIA	Sustainability Impact Assessment
SDG	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
TSA	Tourism Satellite Accounts
TSD	Trade and Sustainable Development
UK	United Kingdom
UNWTO	United Nations World Tourism Organization
USA	United States
WTO	World Trade Organization

Executive summary

The tourism sector is important in all the Eastern and Southern Africa (ESA) 5 countries. Among the group of countries, the economic development trajectory of Mauritius and Seychelles are proof that tourism is a powerful tool for economic development and that a strong focus on tourism holds the potential to create jobs and to assist in poverty alleviation. Given the right policy, international tourism can offer opportunities for growth in general and the service sectors, maximising the contribution of trade in services to development, job creation, and the achievement of the 2030 Agenda for Sustainable Development Goals and Sustainable Development Goals (SDGs).

The deepening of the EU ESA5 EPA is strongly relevant to the tourism industry with regards to trade in services liberalisation; attracting foreign direct investment (FDI) through leveraging the Economic Partnership Agreement (EPA) to create investor confidence; promoting the use of international labour standards and labour rights; promoting equality in gender opportunities as well as in promoting internationally acceptable quality controls.

The ESA5 countries are highly heterogeneous concerning geographical size, population, and economic development. With Africa's highest gross domestic product (GDP) per capita, Seychelles is a high-income country and Mauritius, with Africa's second-highest GDP per capita, is an upper-middle-income country. Comoros and Zimbabwe are lower-middle-income countries, and Madagascar is a low-income country. While the tourism sector has been recognised as an important sector for growth and development by the governments in all the ESA5 countries, as could be expected from the underlying heterogeneity of the economies, the actual importance and development of the sector differ significantly.

The COVID-19 pandemic and measures taken to control the spread of the virus have forced the world to a literal standstill, and the effects have been severe for the tourism sector. According to the African Development Bank (2021), the pandemic induced a 98 per cent drop in the number of international tourists arriving in Africa between April and June 2020, compared to the same period in 2019. The recovery of the tourism sector will depend on several variables including, but not limited to, how long COVID-19 measures and border restrictions remain in place when air travel resumes, the tourist's appetite for international travel, and most crucially, when COVID-19 vaccines are made widely available across the world in general and in Africa in particular.

The interim EU ESA5 EPA did not focus on the tourism sector. Deepening the EPA and including trade in services, including tourism, will intensify the economic ties of ESA countries with the European Union (EU). The EPA is an important tool for not only recovery but also building back better. For the Seychelles and Mauritius, this means providing support to reimagining pre-COVID-19 offerings and cooperate to meet the new demands of international travellers in the post-COVID era. For the tourism sector in Madagascar, Zimbabwe, and Comoros, the EU can offer assistance to develop the tourism sector in a sustainable and potentially instrumental way in the economic development of these countries. However, it will take clear incentives and insightful policies to make it happen.

1. Introduction

The tourism sector is important in all the ESA 5 countries. Among the group of countries, the economic development trajectory of Mauritius and Seychelles are proof that tourism is a powerful tool for economic development and that a strong focus on tourism holds the potential to create jobs and to assist in poverty alleviation. The deepening of the EU ESA5 EPA is strongly relevant to the tourism industry with regards to trade in services liberalisation; attracting FDI through leveraging the EPA to create investor confidence; promoting the use of international labour standards and labour rights; promoting equality in gender opportunities as well as in promoting internationally acceptable quality controls. Given the right policy, international tourism can offer opportunities for growth in general and the service sectors in particular. The purpose of this case study is to explore how EPAs can strengthen the sector and promote economic growth, how to assist ESA5 countries in liberalising the trade in the services sector, how to increase the number of EU tourists into the ESA5 countries, and how to reduce poverty and strengthen the implementation of the SDGs, especially in the aftermath of the COVID-19 crisis.

“Tourism can be a true driver for African nations as they strive to reach the 2030 Sustainable Development Agenda. UNWTO projects that Africa’s international tourist arrivals will reach 134 million in 2030. Africa’s tourism potential is undeniable, and I see a very bright future for tourism across the continent if we all work together to make tourism a pillar of development in Africa.”

Zurab Pololikashvili, Secretary-General, United Nations World Tourism Organization (UNWTO)

Generally speaking, there are two types of countries: Seychelles and Mauritius, high and high middle-income countries respectively, number 1 and 2 in GDP per capita in Africa. These two small island economies have managed to harness their natural endowments and chartered their way as tourist paradises, where tourism is an integral part of the economy in general and comprises a large share of exports. Mauritius and Seychelles have well-established tourist destinations with visitors worldwide, intending to keep developing, specialising, and expanding their economies.

Zimbabwe, Madagascar and Comoros are low-income countries characterised by a less-developed tourist sector. Here, the increased cooperation with the EU will have another role to fill, namely, to help in the start-up and help find the balance between growing and growing sustainably, inferring confidence, as these economies grapple with other issues and develop tourism in turn.

With the pandemic currently ranging, it is impossible to leave out the effects of COVID-19 when analysing the effects of the tourism sector in the ESA5. Hence, this chapter will have a particular focus on that as well. The pandemic has particularly hard hit tourism, and the economies with large share attributable to these sectors have been especially vulnerable to the cancellation of vacations, flights, etc., that the social distancing measures have imposed. The scarcity of COVID-19 vaccines in Africa is another factor that will imply the effects of the pandemic will not only go deeper but also last longer here.

2. Overview of the tourism sector in the ESA5 countries

The ESA5 countries are highly heterogeneous concerning geographical size, population and economic development. Seychelles, with Africa’s highest GDP per capita of (16,434 US\$ in 2018), is placed in the World Banks high-income country group¹ and Mauritius with 11,239 USD in the so-called upper-middle-income country group with Africa’s second-highest GDP per capita. Comoros (1,415 US\$ per capita) and Zimbabwe

¹ How does the World Bank classify countries? Available at <https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>

(2,147 US\$ per capita) are defined as lower-middle-income countries. Moreover, due to political instability, Zimbabwe's total economic output is expected to have declined significantly during 2019. At the other end of the spectrum, Madagascar is a low-income country, with a GDP per capita of 528 US\$ in 2018.

While the tourism sector has been recognised as an important sector for growth and development by the governments in all the ESA5 countries, as could be expected from the underlying heterogeneity of the economies, the actual development of the sector differs significantly. The table below summarises the importance of the tourist sector in each of the ESA5 regarding the share of GDP, jobs, in-visitors spending as a share of total exports and top 5 countries of origin of inbound tourists.

Table 1: Overview of Travel and Tourism's share of the EAS5 economies

Travel and Tourism's share of national (in per cent)	Comoros	Madagascar	Mauritius	Seychelles	Zimbabwe
GDP	10	12	19	41	6
Jobs	10	12	19	44	6
In-visitor spending as a share of total exports	60	35	35	41	4
Top 5 inbound tourist countries	France Reunion Madagascar UK Italy	France Reunion Italy Mauritius USA	France UK Reunion Germany South Africa	Germany France UAE Italy UK	South Africa Malawi Zambia Namibia Mozambique

Source: World Travel and Tourism Council, WTTC, 2020. <https://wtccweb.on.uat.co/Research/Economic-Impact>

As can be seen from the table, the tourism sector is of massive importance to the Seychelles economy, where more than 40 per cent of GDP and jobs are directly attributable to the industry, and an even larger share of the economy is involved in the tourism value chain. The money tourists spend during their vacation in foreign countries – which counts as services exports for the destination country and imports for the country of residence – account for 41 per cent of total export. Among arriving tourists, Europeans are an important group accounting for 42 per cent of arrivals (Germany 15 per cent, France 13 per cent, Italy and United Kingdom (UK) 7 per cent respectively).

The Seychelles Tourism Master Plan (updated in 2018) stated that “*Tourism in Seychelles shall continue to be developed to the highest standards to achieve the optimum social and economic benefit for the Seychellois people*”. While reaffirming and further developing the commitment to sustainable, responsible and ethical tourism at every step of the supply chain, the focus is also to balance economic empowerment, cultural and environmental conservation/protection, and socio-cultural integration. Although Seychelles has developed steadily, the World Bank points out that Seychelles is highly dependent on tourism, and climate change poses long-term sustainability risks.² In order to ensure long term growth, the Seychelles economy needs to address income inequality, foster productivity growth, improve institutional barriers to open and operating business.

² The World Bank in Seychelles. Available at <https://www.worldbank.org/en/country/seychelles/overview>

However, the most significant challenges to the tourism sector are climate change adaptation, including strengthened disaster preparedness systems and enhanced coastal management.

In Mauritius, tourism is the third most important part of the economy, after manufacturing and agriculture. The service industry has grown significantly in the last decade since the EPA with the EU was signed.³ Tourism is a crucial engine of economic growth and has been a key factor in the overall development of Mauritius. As shown in the table above, the tourism sector accounts for about 19 per cent of GDP and jobs. In visitors spending account for more than one-third of exports. Europe is the most important source of tourists where France (21 per cent), UK (11 per cent) and Germany (9 per cent), together account for more than 40 per cent of tourists arriving. Despite the general improvements in the overall economy and outlook, the World Bank lists Mauritius' biodiversity as highly threatened and, despite high readiness, defines Mauritius as vulnerable to climate impacts.⁴

Comoros, a lower-middle-income country, grapples with a high population density, which involves intense pressure on natural resources and the environment as a consequence. Here, biodiversity is severely degraded, and its islands are prone to natural disasters and vulnerable to climate change impacts. Comoros faces challenges in providing adequate drinking water and sanitation. As could be expected, the tourism industry in Comoros is an important, albeit not yet a driving force of the economy, with 10 per cent of jobs and GDP attributable to the tourism sector. Based on the low share of exports in the economy, the tourist spending nevertheless amounts to no less than 60 per cent of exports. Looking to the future, the tourism sector has been identified by the government as a priority growth sector and part of the government's economic diversification programme. Comoros is well-positioned to harness the effects of deepening the economic cooperation with the EU through increased tourism flows since France is currently the most important tourist country of origin, accounting for 52% of incoming tourists alone.

Tourism in Madagascar has, since 2002, been badly affected by several bouts of political instability. However, in 2020, 12 per cent of jobs and GDP were still attributable to the tourism sector, with 24% of incoming tourists originating from France. As a low-income country, poverty affects social conditions and malnutrition and causes severe degradation to biodiversity and severe deforestation, restricting the tourism industry's potential. Moreover, Madagascar is one of the African countries most severely affected by climate change impacts and experiences an average of three cyclones per year.

The Zimbabwe National Tourism Policy (implemented in 2014) stated that the country would become "the destination of choice and leader in Africa's development and sustainable tourism by 2018". Despite the "natural wonders" Zimbabwe offers,⁵ including the Big Five in safaris and 70 per cent of the views of Victoria Falls, as can be seen from the table above, the tourism sector plays a limited role in the Zimbabwean economy, with only 6 per cent of jobs and GDP stemming from tourism. The economy, social conditions and environment in Zimbabwe have suffered from a political crisis. The World Bank reports that rights to food, housing and health are extremely poor.⁶ Although about one-quarter of the country has been protected, biodiversity is threatened, and deforestation continues. The country is highly vulnerable to climate change and has a low readiness score.

³ *The World Bank in Mauritius*. Available at <https://www.worldbank.org/en/country/mauritius/overview>.

⁴ *In addition, man-made disaster can pose a threat to nature*. In July 2020, a Japanese cargo ship hit the ground and lost oil close to the East coast of Mauritius. For a while, this threatened the neighboring coral reef.

⁵ *Zimbabwe - A World of Wonders*. Available at <https://www.zimbabwetourism.net/>

⁶ *The World Bank in Zimbabwe*. Available at <https://www.worldbank.org/en/country/zimbabwe/overview>.

3. The importance of the tourism industry for economic development and the SDGs

Over the last decades, the tourist sector has become one of the world's fastest-growing and critical economic sectors. According to the International Trade Centre (ITC) (2015), tourism has a particular impact on job creation in developing countries since it offers a direct and accessible entry point into the workforce, particularly for women and youth in both urban and rural communities, and small and medium enterprises (SMEs). More specifically, tourism enables the informal unskilled sector in developing countries to become services exporters, e.g., by selling craft items and offering tour guide services or community, heritage and cultural experiences. Accordingly, the sector should be viewed as a binding force and powerful tool for economies looking to harness sustainable economic development.

Hence, tourism has a particular role in maximising the contribution of trade in services to development, job creation, and the achievement of the 2030 Agenda for Sustainable Development and the SDGs. Tourism's interlinkages with other economic activities combined with relatively low entry costs and potential benefits for local and often marginalised communities is reflected in the fact that it is the sole services sector singled out in the SDGs. However, the sheer complexity of the tourism value chain requires coordinated and robust action around tourism export strategies that take all of the different frameworks governing the flows of travellers, services, goods and FDI into consideration in order to unleash the potential embedded in tourism (see the quote in Box 1).

Box 1: Tourism's Role in Economic Development in General and Africa in particular

"Tourism's main comparative advantage over other sectors is that visitor expenditures have a "flow-through" or catalytic effect across the economy in terms of production and employment creation. During the construction phase of tourist accommodation and services, tourism creates jobs in that sector. If the country is sufficiently developed, the investment can generate demand locally for furniture and furnishings and even capital equipment. Tourism also generates a demand for transport, telecommunications, and financial services by consuming local products in tourist accommodation, restaurants, food markets, and additional expenditures outside the accommodation. Tourists also stimulate demand for agriculture, fisheries, food processing, and light manufacturing products, such as the garment industry and handicrafts and the goods and services of the informal sector. Estimates of such expenditures vary according to the local circumstances but can range from half to nearly double expenditures in tourist accommodation. Similarly, tourism can act as a catalyst for developing small businesses in related production and service sectors. Notably, tourism can provide an economic base for a region whose only development options are its cultural and natural resources, whether coastal, mountain, or wildlife or a combination of these. However, tourism's catalytic effect on an economy and its multisectoral nature is also a reason for its complexity. Tourism is dependent for its success on numerous actors, both domestic and international, with very different interests in the sector, including, in most cases, the international visitors that determine its success."

Source: World Bank, Tourism in Africa- Harnessing Tourism for Growth and Improved Livelihoods (2013)

4. COVID-19 and the tourism sector

The COVID-19 pandemic and measures taken to control the spread of the virus have forced the world to a literal standstill, and the effects have been severe for the tourism sector.

According to the African Development Bank (2021), before the pandemic, the tourism sector accounted for 8.5 per cent of Africa's GDP, employed about 24 million people and was the second-fastest growing tourism sector in the world. However, with the arrival of the pandemic and the pandemic-induced restriction, international tourism to the continent came to a halt, resulting in a 98 per cent drop in the number of international tourists arriving between April and June 2020, compared to the same period in 2019.

The pandemic's economic impact varies across countries, and some countries have already experienced a partial rebound. Tourism-dependent economies in Africa are projected to recover from a 12 per cent decline in 2020 to grow 6 per cent in 2021. However, the African Development Bank (2021) does not expect passenger traffic to reach pre-COVID-19 levels before 2023. More importantly, the aftermath of the pandemic has left economies in disarray, with a risk of people sliding back into poverty and jeopardising the progress made concerning the SDGs. Moreover, the pandemic has hit sectors with a higher proportion of SMEs and has severely affected women's employment. Women often work in contact-intensive sectors, such as retail services or labour-intensive manufacturing activities, with fewer opportunities to socially distance or work from home.

Kampel (2020) argues that there are several features of the tourism sector, making it more vulnerable to the COVID-19 pandemic than other sectors of the pandemic. First, unlike other services (e.g., insurance, finance, and telecoms), the delivery of tourism services hinges crucially on physical proximity. Here, global travel restrictions, border closures, and other contingency measures to contain COVID-19 have had an immediate negative impact on tourism and related sectors because fewer people are travelling or gathering. Second, by the very nature of the service, as opposed to the consumption of a non-perishable good, which can still be produced, stored and consumed at a later stage, a halt to services trade means that lost revenues and income cannot be recouped at a later time.

The decline of tourism also has other more dire knock-on effects on the economy since tourism depends on the availability and capacity of infrastructure along the tourism supply chain. Once lost, they are almost impossible to reinstate. This impact is particularly true for smaller, more vulnerable economies. Furthermore, since it is a crucial source of foreign exchange, tourism is also a critical sector for many countries.

4.1 COVID-19 and the tourism sector in the ESA5 countries⁷

In order to gauge the long-term effect of the COVID-19 induced shock to the economy, the African Development Bank developed the Economic Resilience Indices (ERI), which refers to an economy's policy-induced ability to recover from, or adjust to, the negative impacts of adverse exogenous shocks and to benefit from positive shocks. The ability to recover is often associated with an economy's flexibility. That flexibility could be limited, depending on the country's room for policy maneuverer. Despite their position among the World Bank's "Tourist Dependent" country grouping, Mauritius and Seychelles are among the most resilient economies in Africa, while Zimbabwe and Madagascar are ranked at the bottom.

4.1.1 Comoros

The economy of Comoros was hit hard by the adverse effects of COVID-19 in 2020, while not yet recuperated from being hit by Cyclone Kenneth in 2019. The economic isolation led to a decline in real GDP of -1 per cent,

⁷ For more information and data see World Bank (2021 a-e).

compared with 2 per cent growth in 2019, stemming mainly from a decrease of exports of cash crops and tourism. The service sector, which represents more than 50 per cent of GDP, was strongly affected by restricted international travel.

4.1.2 Madagascar

The COVID–19 pandemic stopped Madagascar’s four-year economic growth streak in 2019. The country went into recession in 2020, with real GDP declining 4 per cent. Manufacturing, mining, and services were hardest hit because of containment measures.

4.1.3 Mauritius

Drastic and fast action by the government of Mauritius to lock down and isolate the island allowed the country to record only 315 cases and ten deaths from COVID–19 between January and December 2020. However, the same protocol that allowed the island nation to escape the worst of the pandemic also resulted in high economic costs. In just one year, Mauritius lost 18 percentage points of growth. Real GDP was estimated to contract by 15 per cent in 2020, against positive real GDP growth of 3 per cent in 2019. The tourism and hospitality industry, which traditionally contribute around 24 per cent of GDP and 22 per cent of employment, had significant spill-over effects on the whole economy. Sectors including transport, agriculture, wholesale and retail trade, and administrative and support services incurred an estimated 75 per cent loss in value added. The current account deficit is projected to decrease starting in 2021 because of a gradual recovery in tourist receipts (i.e., services exports) as air links resume between Mauritius and Europe, which is the primary source of tourism.

4.1.4 Seychelles

The African Development Bank estimates that the economy of Seychelles will contract by an estimated 12 per cent in 2020, after growing 4.7 per cent in 2019. The contraction was the result of the COVID–19 pandemic, which significantly damaged both tourism earnings and fisheries because of disruptions to supply chains and weaker external demand.

4.1.5 Zimbabwe

Before the COVID–19 pandemic, Zimbabwe’s economy was already in recession (-6 per cent in 2019) due to economic instability, the removal of subsidies on maize meal, fuel, and electricity prices, suppressed foreign exchange earnings and excessive money creation. The onset of the COVID–19 pandemic and continued drought led to a 10 per cent contraction in real GDP in 2020. Inflation soared, averaging 622.8 per cent in 2020, up from 226.9 per cent in 2019.

Zimbabwe has been in default since 2000. A Staff Monitored Program with the International Monetary Fund to help Zimbabwe implement economic policies from May 2019 to March 2020 collapsed in September 2019. The government and the Fund have not agreed to a new arrangement, which would be aimed at helping Zimbabwe clear its arrears. As a result, the country will have to continue to rely mainly on domestic resource mobilisation and borrowing from non-Paris Club members like China. The international financial institutions will not resume lending until debt arrears are cleared.

5. Post COVID-19 tourism

The recovery of the tourism sector will depend on several variables including, but not limited to how long COVID-19 measures and border restrictions remain in place when air travel resumes as well as tourist’s appetite for international travel and most crucially when COVID-19 vaccines are made widely available across the world in general and in Africa in particular (see Box 2). Although the African Development Bank expects a rebound in travel during 2023, it is still too early to project the speed or magnitude of the recovery and to what

extent tourism will revert to “normal” once the restrictions have been lifted. The COVID-19 induced tourism crisis has also proven to be fertile ground for rethinking tourism offerings and innovative funding ideas for recovery.

Box 2: COVID-19, the SDGs, and Vaccination

COVID–19 risks reversing hard-won gains in poverty reduction that have taken place over the past two decades. The African Development Bank estimates that up to 39 million more Africans could slide into extreme poverty in 2020–21, pushing up the total to 465 million people, or 34 per cent of the African population, in 2021. Moreover, inequality is likely to increase, and school closures could have long-lasting consequences for human capital accumulation and productivity growth.

While lockdowns have been effective in curbing COVID–19 infections in Africa, they have been at the expense of economic activities. African countries with more stringent lockdown restrictions have experienced fewer COVID–19 cases than others.

On the downward side of the prognosis for recovery, the African Development Bank list a sluggish rebound in tourism, remittances, and commodity prices, which could constrain public finances for tourism-dependent and oil-dependent economies.

Universal access to adequate and affordable treatment and vaccines is critical to halt the course of the COVID–19 pandemic. At the end of December 2020, more than half of all advance market commitments for COVID–19 vaccines had been made by high-income countries, possibly leaving African countries hard-pressed to obtain much. Accessibility for low-income groups requires collaboration among governments, the private sector, global health and multilateral agencies, and local communities. The COVAX initiative – a cost-sharing global alliance of more than 170 countries for COVID-19 treatment – aims to accelerate the development, production, and equitable access to COVID-19 vaccines for low-income economies that otherwise could not afford them. Other multilateral and global health agencies such as the United Nations and the Bill & Melinda Gates Foundation are stockpiling medical equipment, such as syringes and glass vials, to ensure effective vaccination programs in Africa. Nevertheless, challenges remain, most importantly, producing vaccines fast enough for equitable distribution, which requires clockwork-like production, top-notch distribution networks, and efficient global coordination.

Source: African Development Bank (2021).

Seychelles’ Marine Protected Areas is an inspiring example of such an initiative.⁸ In March 2020, the government of Seychelles and The Nature Conservancy partnered to construct the world’s first debt refinancing for ocean conservation, which covers close to a third of Seychelles’ ocean. The Marine Protective Areas was also the world’s first sovereign blue bond, which raised \$15 million from international investors.⁹ The forming of the Marine Protected Areas enabled the government of Seychelles to finance Seychelles’ marine protection policy objectives and demonstrate the potential for using international capital to finance the sustainable use of countries’ natural resources, which also benefits the tourism sector.

⁸ UNEP: *In Seychelles, an innovative approach to marine protection*. Available at <https://www.unep.org/news-and-stories/story/seychelles-innovative-approach-marine-protection>

⁹ The Nature Conservancy Press (2020) *Seychelles Hits 30% Marine Protection Target After Pioneering Debt Restructuring Deal, Shielding ecosystems and economy from climate change and unsustainable development*, March 26, 2020.

6. Policy considerations within the deepened EPA to support the post-COVID-19 recovery in the ESA5 tourism sector

6.1 Tourism in the EU ESA5 EPA: past and present

The interim EU-ESA5 EPA had no provisions on trade in services, except for a general remark on the objectives of economic and development cooperation to services, including tourism.¹⁰ Therefore, it is impossible to judge the effects of the interim EPA on the tourism sector in Mauritius and the Seychelles. The Ex-post Evaluation to this Sustainability Impact Assessment (SIA) shows the relevance of the tourism sector for the two countries, as already mentioned in Chapter 2 of this case study.

It also showed that Mauritius is the most attractive destination for FDI in ESA5 countries. It can be regarded as a stable legal environment and has a reliable reputation for banking structures and its financial sector. These environmental factors also explain the relatively significant level of EU FDI stock in Mauritius compared to other ESA4 countries. In 2019, Mauritius's global gross direct investment flows have been estimated at 536 million EUR, the most important being real estate activities, accounting for 405.3 million EUR, followed by financial and insurance activities (13.4 million EUR) and manufacturing (9.1 million EUR).¹¹ There were no reports about the adverse effects of tourism on human rights, social and environmental issues.

Despite its relevance for Mauritius and Seychelles, the tourism sector is not among the controversial issues. The negotiations on services and investment within the deepened EPA started only in November 2020. There are no reports so far that the tourism industry is the focus of the negotiations. Similarly, the negotiations on trade and sustainable development (TSD) did not concentrate on tourism. There is an increasing awareness of the necessity of sustainable tourism in the two countries. The following two sections show where and how the negotiations nevertheless could harness the tourism sector in the two countries.

6.2 Interviews with specialists

We conducted interviews with Mauritian experts to get more specific information about the current situation in the tourism sector in the ESA5 countries, the important steps to recovery after the COVID-19 pandemic, and insights into the potential of the deepening EPA with the EU. The interviews reflected on the potential of the EU-ESA5 EPA, i.e., “How to make the most of the EPA for Mauritius and Seychelles.” We first offer a summary of an interview with an independent consultant.¹²

The stakeholder stressed the overall importance of understanding the interlinking of the tourist industry in conjunction with the economy when looking for ways to assist the tourist sector to recover from the COVID-19 induced crisis and making the most of the deepening of the EU-ESA5 EPA. Now is the time to think creatively about how to build back better, build back in more sustainable ways and consider ways to make it easier for tourist to make the leap to come and to stay longer –and for that, you need to adopt an “umbrella approach”.

First, she recognised the increased opportunity that the deepened EPA could have for Mauritius regarding the increased inflow of foreign direct investment. However, she expressed concern that the incentives brought on by the EPA could well be counteracted by the hesitance to invest in brought on by the European Commission's

¹⁰ European Council (2012), Council Decision of 13 July 2009 on the signing and provisional application of the Interim Agreement establishing a framework for an Economic Partnership Agreement between the Eastern and Southern Africa States, on the one part, and the European Community and its Member States, on the other part (2012/196/EC).

¹¹ LSE (2021), Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement, Ex-post Evaluation, Chapter 4. A closer breakdown of the FDI data is not available.

¹² Interview conducted via Zoom, May 12th, 2021- Independent Trade and Investment Consultant, previously Market Analyst ITC (UN); Trade Expert for ACP/EU TCII; Counsellor, Mauritius Ministry of Foreign Affairs, Regional Integration and International Trade

decision to place Mauritius on the Financial Action Task Force's (FATF's) grey list in February 2020 (see Box 3). The greylisting is an important signal, which can act as a deterrent for international firms and investors looking to invest in Mauritius and may very well stifle the positive effects of the EPA unless the EU and Mauritius can work swiftly together to solve the issue to support investor confidence and retain the potential inflows of foreign investment.

Box 3: Mauritius on the European Commissions' list of high-risk third countries

On 7 May 2020, the European Commission adopted a new delegated regulation concerning third countries which have strategic deficiencies in their AML/CFT regimes that pose significant threats to the financial system of the Union ('high-risk third countries').¹³ Identification of such countries is a legal requirement stemming from Article 9 of Directive (EU) 2015/849 (4th Anti-Money Laundering Directive) and aiming at protecting the Union financial system and the proper functioning of the internal market. Mauritius was added to the list on 1 October 2020.

Second, the stakeholder suggested using the increased cooperation to investigate whether there were ways to offer incentives for European tourists to come and stay for longer periods of times, such as the recent initiatives to offer so-called Premium Travel Visas that allow tourists, retirees or professionals working remotely to stay for up to one year in Mauritius and Seychelles.¹⁴ The Premium Travel Visas initiated during the COVID-19 pandemic to offer people from colder climates another place to wait out the pandemic could also include soft medical tourism (rejuvenation/ post-operation recovery, etc.) or, for example, for students to study remotely.

Third, the stakeholder pointed to using European expertise and investments to improve the quality of tourism offerings and develop more eco-focused tourism as well as initiating interregional tourist offering such as combining a beach vacation on Seychelles with a safari in Zimbabwe, making more extensive use of the ESA5 community for European tourists.

In a second step, we summarise the written input from a *Mauritian consultant in human resources and tourism* on the same question of "How to make the most of the EPA for Mauritius and Seychelles". The stakeholder argued: "*We prescribe that secured region tourism is 'built back better' than some time recently COVID-19, by not returning to commerce as normal, by taking into consideration climate change, biodiversity loss and by being more comprehensive, even-handed and coordinated with feasible advancement standards*".

He echoes the point that the policy initiatives to rebuild tourism must be made in partnership with other sectors. As put forward by another stakeholder and using the downtime to strategise and collaborate on how to do it: "*No one can foresee how the widespread will advance, nor the recuperation timeline, but partners can distinguish conceivable scenarios and make activity plans that work towards maintainable tourism. Recuperation requires the collaboration among flourishing businesses, solid biological systems, flexible employments and maintainable tourism economies*".

In particular, the stakeholder proposes the following five-step policy strategy for the Mauritian government and tourism sector to work together to build back better after COVID-19 (see Box4).¹⁵

¹³ Commission Delegated Regulation (EU) 2020/855. Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0855>

¹⁴ <http://edbmauritius.com/premium-visa/>

¹⁵ "Building up the Resilience in the Tourism and Travel Industry", *Le Mauricien*, May 10th, 2021.

Box 4: Local policy suggestions for building back better

Safety and hygiene: In the post-pandemic world of travels, tourists will be more diligent in checking that the crisis response is in place and hygiene standards are up to code. He suggests that all customers, employees, vendors and other stakeholders in the tourism ecosystem receive public health and safety training,

Effective tourism marketing plan: Tourists' attitudes and behaviours will have changed after the pandemic, and the packages offered should reflect that. The tourism industry should be encouraged to go beyond the traditional offering of the "3S," i.e., sun, sea and sand and, based on stakeholder consultations, develop new attractions that focus on quality over quantity.

Excellence customer care/Human capital development: Invest in continuing training to improve the quality of service and invest in human capital to retain employees longer.

Digitalisation in tourism: Empower different businesses in the tourism ecosystem to embrace digital solutions and encourage them to come up with ways to co-create tourism encounters.

Law and order for tourism destinations: Invest in ensuring that safety and security are up to code; potential tourists must research before making their bookings.

6.3 Further input from stakeholder consultations

In addition to the interviews primarily conducted for the case study, we refer to stakeholder consultations. This section summarises the respondents' views on potential effects of the deepened EU-ESA5 EPA on tourism and related issues. The Report on the responses is available in Appendix I.

Responses from government, civil society, and private sector actors highlighted the tourism sector as an important sector for the region since tourism is a key source of revenue for the ESA5 States. However, the stakeholder consultations confirmed that the COVID-19 pandemic and measures to contain the spread of the virus had harmed the tourism sector in general and the SMEs since they have fewer opportunities to diversify their activities.

In addition, and with specific reference to the deepened EPA, SME tour operators expressed concern that hotels and resorts in the ESA5, which are owned by foreign transnational hotel chains, have a propensity to import personnel, technologies, and food and drink. This propensity hinders the flow-through or catalytic effect discussed above, which is critical for tourism to work as an engine to overall economic development across the society.

Therefore, several practical suggestions made by stakeholders to support growth in the tourism sector should be addressed in the negotiations of the deepened EU-ESA5 EPA. These suggestions included:

- Assistance in upgrading national accounting systems, which is important at both the national and regional level.
- Assistance in capacity building for environmental management to support the sustainable development of the tourism sector.
- Development of Internet marketing strategies for SMEs in the tourism sector to develop their ability to market themselves.

- Ensuring the participation of ESA5 States in international standard-setting bodies, focused on sustainable tourism standards development and regulatory cooperation. In addition to developing programmes to achieve and ensure equivalency between national/regional and international standards for sustainable tourism, programmes aimed at increasing the level of compliance with sustainable tourism standards by regional tourism suppliers.
- Support for tourism exchange programs and training with the EU.
- Improving the export capacity of service suppliers of the ESA5 States, with particular attention to the marketing of tourism and cultural services, the needs of SMEs, franchising, and the negotiation of mutual recognition agreement.
- Increased focus on the negotiation and signing of the agreement and efforts for the last mile, i.e., to the implementation of the agreement.
- Continuing dialogue on tourism cooperation for development since this is one of the first sectors expected to have financial support in the first five years of the EPA implementation.
- Assistance in efforts to promote Intra-ESA5 tourism and diversification of tourism.
- Luxury community-based Tourism Model: consider adopting the concept of luxury community-based tourism, which could be used as a mechanism to localise the ownership of hotels, address inequality, and promote social justice.
- Support the reform of the tourism facilitating infrastructure in the ESA5, such as the establishment of a tourism revolving fund to support investments in the sector, improvement in internal airline connections, reforming the visa system, human resources development, and improvement in the marketing coverage to both domestic and international tourists.

These requests are mainly addressing issues pertinent to development cooperation. In the last years, Mauritius and Seychelles already closely work with the EU on development issues.¹⁶

7. Conclusion

COVID-19 has been disastrous to the ESA5 countries, and the blow to tourism has been particularly hard. While there have been signals of recovery and some inspirational uses of the crisis, the fact remains that the path to recovery will be long and difficult. Moreover, the recovery of the tourism sector is crucial to the overall recovery of the ESA5 economies, particularly Mauritius and Seychelles. Deepening the economic ties with the EU is an essential tool towards recovery and building back better. For the Seychelles and Mauritius, this means providing support to reimagining pre-COVID-19 offerings and cooperate to meet the new demands of international travellers in the post-COVID era. For the tourism sector in Madagascar, Zimbabwe and Comoros, the EU can aid develop the tourism sector in a sustainable and potentially instrumental way in the economic development of these countries. However, it will take clear incentives and insightful policies to make it happen. Integrating stakeholders in the negotiations may well help.

¹⁶ LSE (2021), *Sustainability Impact Assessment in Support of Negotiations with Partner Countries in Eastern and Southern Africa in view of Deepening the Existing Interim Economic Partnership Agreement, Ex-post Evaluation, Chapter 8 and respective Appendices.*

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Appendix I: Stakeholder interviews

This Appendix presents additional perceptions/responses of the already interviewed **18 respondents** on the EU-ESA deep EPA negotiations, as per the table below.

1. Importance of the tourism sector to the ESA5

Responses from both government, civil society and private sector actors agreed to a common argument that the Tourism Sector is of particular importance as a key source of revenue for the ESA5 States. *“For Seychelles, Tourism is the lifeblood of the economy”*, retorts the Director for Trade, Ministry of Foreign Affairs and Tourism.

Competition from hospitality conglomerates: SME tour operators stressed that currently, most hotels and resorts in the ESA5 are owned by foreign transnational hotel chains with a propensity to import personnel, technologies, food and drink. The consequences have been stunted by the growth of local businesses and precarious employment. Interviews from the Chambers of Commerce Seychelles, Mauritius and Madagascar revealed that there had been an increase in high levels of foreign ownership of hotels and leakages, focusing on luxury tourism, huge expatriate salaries and questionable impacts on overall local development. Most, if not all, foreign-owned hotels are high-end and large. These franchises also import their furniture, technologies, and luxury food and drink to cater for their foreign clients. This promotes heavy economic leakages, suppresses local entrepreneurship, and may have profound adverse effects on Seychelles’ economic sustainability. Respondents pointed out that the implications of this are that while tourist spending can contribute to wealth transfer, the predominance of foreign-owned transnational hotel chains and cruise ships, which provide all-inclusive packages, means that ESA5 countries do not derive much revenue from these activities.

The liberal development policy has also played a critical role in facilitating one-sided reaping of benefits accruing to the tourism industry in ESA5. *“Neoliberal approaches to opening up the economy, inviting FDI and promoting private sector investment are suggested, which may work against the majority of ESA 5 Citizens as they lose control of their resource. One would also question the quality of the jobs created by multinational firms that tend to be menial”* stressed a Zimbabwe Tour Operators Association stakeholder.

How would you rate some of the Tourism impacts of the existing interim EPA in your sector/in the overall economy?

Table 2: Tourism impacts according to sector

	Extremely positive				Moderately Positive				Slightly positive				Slightly negative				Moderately negative				Extremely negative			
	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD
Government					■	■	■	■																
Private sector					■				■	■	■													
Micro, small and medium-sized enterprises (MSMEs)																								
Chamber of Commerce									■	■	■	■												
CSOs													■	■	■	■								

Source: Authors compilation from fieldwork; M = Mauritius; ZW = Zimbabwe; S = Seychelles & MD = Madagascar

Regarding the economic impacts of the existing interim EPA on tourism and related aspects in ESA5 economies, both respondents were largely acknowledged to be moderately positive, with the private sector having varying perceptions. Largely, SME actors in the tourism sector remain reserved on the implications of EPA on their welfare enhancement.

How would you rate some of the environmental impacts of the existing interim EPA in your sector/in the overall economy?

Table 3: Environmental impacts according to sector

	Extremely positive				Moderately Positive				Slightly positive				Slightly negative				Moderately negative				Extremely negative			
	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD
Government					■	■	■	■																
Private sector																					■	■	■	■
Micro, small and medium-sized enterprises (MSMEs)																					■	■	■	■
Chamber of Commerce																					■	■	■	■
CSOs					■	■	■	■																

Source: Authors compilation from fieldwork; M = Mauritius; ZW = Zimbabwe; S = Seychelles & MD = Madagascar

Under the category of implications of the interim EPA on the environment (climate change), only respondents from government and CSOs showed affirmation on the moderate positive impact of interim EPA on their environment due to provisions of trade, environment, and sustainable development; stringent provisions on Sanitary and phytosanitary measures (SPS) of exports to EU; and the European Development Fund (EDF) which has aspects of pro-sustainable development projects. Lack of knowledge was recorded among respondents from the private sector, MSMEs and Chambers of Commerce on the subject given their focus on increased utilisation of the EPA market access offer. Nonetheless, they revealed strong affirmation of the need to promote environmentally sustainable economic activities to ensure the thriving of the tourism sector.

COVID-19 and its implications to the Tourism sector have resulted in low utilisation of EPA opportunities by ESA5 Countries: According to respondents, since many economies of ESA5 depend on Tourism, COVID-19 pandemic and measures to contain the spread of the virus resulted in hurting the tourism sector and hurting the small actors who could not diversify the most. Respondents revealed that the slowdown led to increased vulnerabilities, and the stimulus packages have not focused on supporting them to recover.

2. Priority tourism-related issues that need to be addressed in the deepening negotiations from the perspective of your sector/field of expertise?

Respondents were interviewed on how the deep EU-ESA EPA can be structured and used to support the growth of the tourism sector in all ESA5 countries and increase tourist arrivals, tourism receipts, job opportunities. Respondents revealed that the EU and ESA5 should cooperate to advance the tourism sector in the ESA5 States, given the inherent asymmetries in respective levels of development of the parties. More specifically, the parties should cooperate in:

- The upgrading of national accounting systems to facilitate the introduction of Tourism Satellite Accounts (TSA) at the Regional and local level.

- Capacity building for environmental management in tourism areas at the regional and local level.
- The development of Internet marketing strategies for SMEs tourism enterprises in the tourism services sector.
- Mechanisms to ensure the effective participation of ESA5 States in international standard-setting bodies focused on sustainable tourism standards development; programmes to achieve and ensure equivalency between national/regional and international standards for sustainable tourism; and for programmes aimed at increasing the level of compliance with sustainable tourism standards by regional tourism suppliers.
- Tourism exchange programs and training, including language training, for tourism services providers.
- Improving the export capacity of service suppliers of the ESA5 States, with particular attention to the marketing of tourism and cultural services, the needs of SMEs, franchising, and the negotiation of mutual recognition agreements.
- The modalities related to cultural industries and the tourism sector, once negotiated, should be implemented by ESA5. For example, large firms should be prevented from anti-competitive business practices, as this will enhance the development of the smaller players in the region. There should also be enabling provisions relating to mutual recognition of qualifications and technical assistance to help improve the sector's competitiveness.
- Continuing dialogue on Tourism cooperation for development is essential to facilitate the implementation of the EPA. The tourism sector is one of the few that is likely to have access to financing in the first five years of EPA implementation. Moreover, the EU has opened up in business services, communication, construction, distribution, environmental, financial, transport, tourism and recreation services.
- Respondents from Mauritius, Madagascar and Seychelles noted that the tourism sector is still sensitive and should be protected for progressive liberalisation in the comprehensive EPA negotiations. Therefore, regarding services, the private sector and civil society perceived that ESA countries should not make any services commitments in the EPAs that go beyond their World Trade Organization (WTO) commitments. Besides, EU partners should not push for extensive liberalisation that does not recognise the absolute need for a carefully managed sequencing of services liberalisation, preceded by the establishment of robust regulatory frameworks.

3. Specific documented key issues in the negotiations for the comprehensive EPA as per respondents from ESA 5 countries

According to the Directorate of Trade in Mauritius, all the issues as agreed under the Scoping Paper, mainly trade in services, Investment and Rules of Origin (RoO), should be atop the agenda of the comprehensive EPA. For all the ESA5 countries, Tourism features strongly on the EPA Agenda, given the increased growth in the services sector. The table below shows the choices of the ESA5 in preferences of issues of focus in the comprehensive EPA negotiations.

Table 4: Priority sectors of the ESA5 EPA negotiations

	High priority				Low priority				No need to be negotiated				I don't know			
	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD	M	ZW	S	MD
Tourism	■	■	■	■												
RoO	■	■	■	■												
Customs and trade facilitation	■	■	■	■												
SPS	■	■	■	■												
Technical Barriers to Trade	■	■	■	■												
Trade defence mechanisms					■	■	■	■								
Trade in Services	■	■	■	■												
Investment liberalisation and investment facilitation (and private sector development)	■	■	■	■												
Public procurement					■	■	■	■								
Intellectual Property Rights	■	■	■	■												
Competition					■	■	■									
TSD		■	■	■	■											
Agriculture		■		■	■	■										
Dispute avoidance and settlement;		■	■	■	■											
Institutional Structure	■	■	■	■												
Economic Development Cooperation	■	■	■	■												
Fisheries	■		■	■		■										

Source: Authors compilation from fieldwork; M = Mauritius; ZW = Zimbabwe; S = Seychelles & MD = Madagascar

Need to put into consideration efforts to promote Intra-ESA5 Tourism at the core of EPA negotiations:

The government of Seychelles makes an important observation that whereas the interim EPAs, to some extent, caused disintegration among ESA5 members, it is strategic for ESA5 countries to continue negotiating. This is because it is crucial to consolidate intra-ESA5 trade and integration, which requires harmonised positions on negotiating free trade agreements (comprehensive EPA) with third parties like the EU.

4. Recommendations

- 4.1. **Adopt luxury community-based tourism (CBT) Model:** Respondents proposed that the EPA Negotiations should adopt the concept of luxury CBT, which could be used to localise the ownership of hotels and address inequality and promote social justice. Luxury CBT would involve a novel community-based boutique tourism (CBBT) industry that considers the ESA5 economies.
- 4.2. **Diversification of tourism:** Respondents noted that diversification of tourism products could attract more tourists. Therefore, tourism should not be the only economic sector upon which the major ESA5 countries rely but should complement other sectors and products. Diversification would enable a long-term shift towards CBT as the main product of the economies. As argued by the Mauritius Chamber of Commerce, *“product diversification encourages repeat visits, increased spending and longer stays. It also calls for increased participation by local entrepreneurs and for strategies to encourage tourists*

to support indigenous businesses...this suggests a multi-pronged approach, which should be led by the government, as markets are reluctant to embrace fundamental change that threatens private investment and profits". Community-based tourism should not play a marginal role in development but should be supported to ensure that communities own and control the industry. Moreover, community-based tourism enterprises can occur almost anywhere; from the creation of a street-crafts district in an urban or rural area to running a guesthouse that belongs to the community or a cultural performance group, and can exist in various subsectors of the tourism industry and includes different accommodation types, activities and attractions.

Reforms in the tourism facilitating infrastructure in ESA5: Interviews revealed that tourism is an export product consumed at source; hence key to growth is the need to ensure accessibility by improving air and road connectivity. Whilst tourists are often wealthy; they lack time. These circumstances make it imperative to ensure the smooth passage of tourism at ports of entry and en route to the various resorts. Therefore, it is critical to reform the visa regime and rehabilitate the road network and reduce needless delays on police roadblocks. Furthermore, it was noted that positioning the tourism sector on a sustainable growth path requires: a conducive and well-co-ordinated institutional framework and policy environment, the establishment of a tourism revolving fund to support investments in the sector, improvement in internal airline connections, reforming the visa system, human resources development, and improvement in the marketing coverage to both domestic and international tourists.

Sustaining CBT would require increased funding from the government towards the development and resuscitation of these projects. There is also a need to improve access through improving the road network linking them with major highways. Accessibility constraints haunt most CBT because of their remote location, there are no roads that connect them to major highways, and in many instances, the roads are in a deplorable state. In cooperation with the private sector, the government should provide funding for the construction of roads or engage communities to mobilise local resources to develop access routes.

Furthermore, tourism growth is driven and supported by a coherent system that drives the tourism agenda forward. These systems are enabled by the existence of government policy that supports and regulates their operation. Discussion with stakeholders in the tourism industry identified six priority areas that government policy must address for sustainable growth of the tourism sector. These are lack of internal airline connectivity, poor marketing, lack of institutional coordination, limited skills and experience, domestic tourism promotional activities and an unfriendly visa policy among ESA5.

- 4.3. **Lack of institutional coordination:** Interviews revealed that the tourism sector is affected by policies originating from the ministries that govern the sectors it is linked to. Lack of effective inter-ministerial policy coordination has hampered the growth of the sector. Stakeholders in the industry expressed concern about the lack of intergovernmental policy coordination. The different government institutions promulgate policies and regulations without considerations of their impacts on other sectors. This approach has negatively affected the sustainable growth of the tourism sector because of its close linkages with different facets of the country's economy.

Table 5: List of stakeholders

Institution
Association of Inbound Operators of Mauritius (AIOM)
Tourism Promotion Association-Mauritius
Association des Hotels de Charme
Les Mariannes Wellness Sanctuary
Mauritius Tourism Authority
Ministry of Tourism
Green Islands Foundation
Department of Tourism-Seychelles
Department of Industry- Enterprise Agency Seychelles
Seychelles Chamber of Commerce
Environmental Protection and Conservation Organisation
Ministry of Foreign Affairs and International Trade
Tourism Business Council of Zimbabwe
The Zimbabwe Tour Operators Association
Cactus Tours Madagascar
Madagascar Tour Operators Association
Zimbabwe Cross Border Traders Association
Confederation of Zimbabwe Industries

Source: Authors own compilation