

African Wildlife Foundation
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*The Isivuno Model – Rocktail Bay and Banzi Safari
Lodges*

*A Case Study in Community-based Tourism Enterprise
Development from KwaZulu Natal*

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A F R I C A N
W I L D L I F E
F O U N D A T I O N

Summary of Main Findings

This case study aims to analyze and document the experience of the Isivuno model of partnership between government, local communities and the private sector as a means of promoting conservation in South Africa's Maputaland reserves. The case study focuses on two Isivuno deals – Rocktail Bay Lodge in the Coastal Forest Reserve and Banzi Safari Lodge in Ndumo Game Reserve. The African Wildlife Foundation has undertaken this case study at the invitation of the partners in order to promote open sharing of information about lessons to be learned from current models for community-based wildlife enterprise development across southern and eastern Africa.

In the case study we document the origins of the Isivuno model, the way the deals have been structured, what the different partners have brought to the deals, and the financial and non-financial benefit flows to the different partners to date. We highlight some of the unique aspects of the Isivuno deals, including that the facilities are built on reserve not community land, that the community equity shares have effectively been “gifts” from Isivuno, and that the communities were given shares in the operating company as well as the facility-owning company.

We agree with the partners in these deals that the general concept of partnership appears to be key to securing the future of these reserves. The benefits are now beginning to flow to all partners. The communities involved in these deals have indicated a willingness to bring their own land into the reserve areas in the future. The private sector partner is satisfied that the facilities will be successful and is looking for a third facility to make a viable circuit in the region.

Isivuno has paid off its debt incurred in entering these deals and is now using the cash flow to prepare for further deals. The partners are largely agreed on how the Isivuno model should be adapted in the future, including the need for more capacity for community processes and business skills training, for ensuring benefits are matched with expectations, for turning “gifts” into real stakes in the ventures, for making sure that communities are not expected to run (e.g. through responsibility for operations) before they can walk, and for maximizing opportunities for local employment and entrepreneurial activity.

In terms of the lessons learned from how these deals have been structured, the following issues are highlighted:

- the need for care in defining “community”, given the need to ensure benefit flow to those most directly affected
- the need to investigate the scope for incorporating individual entrepreneurs within communities into the deal
- the deal structure must reflect the actual aspirations of all stakeholders, recognizing that for local communities these are likely to include jobs, participation in decision making and securing of rights as well as cash flow
- there is no ideal deal structure – the unique circumstances of each deal will drive decisions about equity shares, asset valuation, joint venture terms, training and employment and management
- building the business and entrepreneurial capacity of local communities is often a long-term resource-intensive process requiring committed capacity for training, education & facilitation
- balancing realistic expectations of the partnership with real delivery of benefits is critical – raising expectations and not satisfying them may be as dangerous as doing nothing

We identify two key outstanding issues: (i) the need to find mechanisms for establishing the conservation impact of these deals, and (ii) the need to increase the benefit flow to the local conservation authority to ensure adequate compensation for its investment in improving the tourism product inside the reserves. This is particularly important given the growing financial pressure on the newly combined KwaZulu Natal Nature Conservation Service, as on conservation authorities elsewhere in southern and eastern Africa.

Acknowledgements

In preparing this case study particular thanks are due to Robbie Roberts of KwaZulu Natal Conservation Services (KZNCS), Sakkie van der Westhuizen of KwaZulu Finance and Investment Corporation Ltd (KFC), Peter Rutsch (the lawyer working with the community partners in Maputaland) and Patrick Boddam-Whetham of Wilderness Safaris, who have provided most of the social, economic and financial data for the case study and facilitated the necessary field trips. They should not however be held accountable for the case study findings, which are the responsibility of AWF.

1. Introduction to the Case Study

The African Wildlife Foundation (AWF) has been a key stakeholder in the development of community based conservation activities across eastern Africa over the past decade. In particular, through the Community Conservation Services Center (CCSC) in Arusha, Tanzania, AWF has sought to support and promote wildlife enterprise opportunities at the local level, particularly through working with local communities to establish land and wildlife use rights and to establish enterprises to turn rights into real economic benefits. Primary enterprise opportunities include tourism and tourist-related services, wildlife ranching, cropping and hunting.

AWF has participated in several initiatives to establish closer linkages between community conservation efforts in eastern and southern Africa, including collaborative work with NGO and government partners on the ground, as well as facilitating and attending workshops and seminars. Ongoing cross-regional projects include the Community Conservation Research (CCR) project for southern and eastern Africa, in which AWF is collaborating with CASS at the University of Zimbabwe, and with the Universities of Manchester and Cambridge in the UK, to document and analyze the lessons to be learned from community conservation initiatives throughout Africa over the past few years.

Through its Conservation, Economics and Commerce (CEC) program, based in Kenya, AWF is conducting a series of case studies on the experiences of community wildlife tourism enterprises across southern and eastern Africa. At the invitation of what was then the KwaZulu Department of Nature Conservation (KZDNC)¹, AWF agreed last year to prepare a case study of the experience of the Isivuno approach to community tourism enterprise development in Maputaland, specifically Rocktail Bay Lodge in the Coastal Forest Reserve and Banzi Safari Lodge² in Ndumu Game Reserve. This case study has been prepared with two primary objectives:

- 1) To analyze and document the experience of the Isivuno model, indicating key successes, failures and lessons to be learned.
- 2) To help promote open sharing of information about the strengths and weaknesses of current approaches to forming 'partnerships' between government, local communities and/or the private sector to build and operate community wildlife tourism businesses.

In preparing this case study AWF has worked closely with representatives from KZDNC, the KwaZulu Finance and Investment Corporation Ltd (KFC), Wilderness Safaris and the lawyer representing the community partners.

¹ Now called KwaZulu Natal Nature Conservation Service, since its April 1st 1998 merger with the Natal Parks Board.

² Banzi Safari Lodge is also referred to as Ndumu Wilderness Camp in marketing and financial literature. For the purpose of the case study we shall use Banzi Safari Lodge throughout.

2. Origins of the Isivuno Model

“... To ensure that both local communities and the KwaZulu Department of Nature Conservation derive maximum benefit and involvement in the development of ecotourism within the KwaZulu Natal region, the government has initiated a Section 21 company called Isivuno to facilitate the commercialization of ecotourism development. The role of Isivuno is to facilitate the formation of joint venture companies between the local community, private developers and KZDNC.” (Nick Steele, KZDNC, 1994).

The emergence of the Isivuno model was in part a response to the general environment for conservation in South Africa and in part to the specific issues facing KwaZulu Natal. South Africa has a well-established protected area system. Wildlife living outside this system is held on private land and owned privately. Public and private sector managers of wildlife resources benefit from a well established live animal market, well-developed domestic tourism industry and rapid recent growth in international tourism. Partly because of its isolation during the apartheid era South Africa still has many pristine wilderness areas. But with the new thrust for reconstruction and development the post-apartheid environment has challenged traditional approaches to conservation. The growing priority put on alleviating poverty has led to a re-examining of the relevance and role of protected areas in the new South Africa, and to a need to find new funding sources for managing protected areas.

The development of the Isivuno model for involving local communities in ecotourism development in and around protected areas was KZDNC's primary response to the need to build appropriate partnerships that are both meaningful to local people and that work for conservation. In KwaZulu Natal, the opening of Mozambique border and significant proposed investment in infrastructure, particularly the road building associated with the new Spatial Development Initiative (SDI) to link KwaZulu Natal, Swaziland and southern Mozambique, have fuelled major economic interest in tourism development in the region.

A flood of land claims followed the election of the new government. Many of these target conservation areas, including the Coastal Forest Reserve, and appear to have some legitimacy, but most of which are yet to be resolved. Low income levels across KwaZulu Natal and the lack of local employment opportunities, combined with the existence of pristine local conservation assets, such as the Coastal Forest Reserve, have challenged local government to find the right balance between conservation and development.

In the early 1990s it was clear to KZDNC that a new “policy of sharing” was needed, to involve local conservation stakeholders in conservation benefits. This policy was developed by KZDNC with its sister non-government organization, the KwaZulu Conservation Trust (KCT)³. Initially KZDNC adopted a “handout” approach to local communities, pledging to give each affected KwaZulu Tribal Authority (TA) 25% of the gross turnover of the neighboring reserve for them to spend as they wish. However, by

³ KCT is now known as the Wildlands Trust

1993 KZDNC recognized that a move from “handouts” to “empowerment” was needed if the TAs were to become true conservation partners. This led to the promotion of joint ventures with the private sector and the forming of Isivuno, registered as a Section 21 company in 1993. Isivuno was established to be the commercial wing of KCT and both have the same Board comprised of representatives of KZDNC, local business leaders and local community representatives.

“Isivuno has been put in place to deal with the Department’s commercial activities. Any financial benefits that are generated will be redistributed to either tourism development or other approved conservation projects which will be of benefit to conservation, the KZDNC, its staff and local communities.”(KZDNC, 1994)

KZDNC’s target has been to enable each Isigodi (clan-defined districts within each Tribal Authority) bordering a reserve to have its own Tourism Development Facility (TDF) either inside or outside the reserve, and thereby to benefit directly from local ecotourism development. Alternatively, where a local community has land use rights over their own potentially attractive conservation land, KZDNC offers to work with community members to create Community Conservation Areas (CCAs), perhaps adjacent to existing reserves, and support the community in developing their own business plans for wildlife enterprises on their land.

For tourism development inside its reserves KZDNC’s strategy has been to develop low impact, low volume, high value bush lodges. Typically these have a 16-bed capacity (though up to 70-bed capacity may be allowed where appropriate) and are developed and operated through partnerships with communities and private sector, though some facilities are still government owned and operated. In principle KZDNC believes in letting the private sector do what it’s good at (operating successful lodges) and taking responsibility itself for getting affected communities participating meaningfully. This philosophy underlay the move from “handouts” to “empowerment” and the development of the first two Isivuno facilities in Maputaland – Rocktail Bay and Banzi Safari Lodges.

KZDNC has emphasized the need for planning ecotourism on a regional basis. A further 17 ecotourism sites have been identified within KZDNC reserves, of which 8 are considered to be priorities for TDFs. At the same time KZDNC and KCT/Isivuno staff have been actively involved in supporting the development of a number of CCAs in KwaZulu Natal. With the new SDI initiative there is likely to be a significant growth in demand for ecotourism facilities and nature-based recreation activities across KwaZulu Natal over the next decade, making this an attractive investment sector for the private sector and for the further development of community tourism enterprises.

3. The Facilities – Rocktail Bay and Banzi Safari Lodges

Box 1

Rocktail Bay Lodge Maputaland Coastal Forest Reserve

The Facility

Situated in northern Natal, within the Maputaland Coastal Forest Reserve and next to the Maputaland Marine Reserve. The lodge is a hundred meters from the Indian Ocean, just behind the first row of dunes. The lodge has ten wood and thatch "tree-house" rooms on stilts, with lounge/pub and dining area and plunge pool. Wilderness Safaris adapted the lodge from an existing facility, and now operates the lodge as a joint venture with Isivuno and the local community.

Recreational Activities

The lodge is on Rocktail Bay, one of the most unspoiled beaches in South Africa. Visitors can walk on the beaches, snorkel, fish, turtle-watch and birdwatch, as well as take day excursions to various local beauty spots.

Performance to Date

Rocktail Bay first opened in 1992. Recent monthly occupancy rates for paying guests have varied from a low of 31% in June 1997 to a high of 62% in October 1997 (figures available to November 1997). In the year to February 1998 the facility made an operating profit of 71,000 R (about \$24,000) compared with an operating profit of 141,000 R (about \$28,000) the previous year (source: Wilderness Safaris, 1998).

The Rocktail Bay Bar





Banzi Pan Luxury Tent

Box 2

*Banzi Safari Lodge
Banzi Pan, Ndumo Game Reserve*

The Facility

Situated in Ndumo Game Reserve in northern Natal, up on the Mozambique Border. 8 luxury tented rooms with en suite facilities raised on platforms 2.5m off the ground. Dining room, lounge and pub under thatch, with plunge pool. Designed and built by Wilderness Safaris, the lodge is run as a joint venture between Wilderness Safaris, Isivuno and the local community.

Recreational Activities

The Nyamithi and Banzi pans at Ndumo are famously beautiful and unspoiled. Ndumo is one of the finest birdwatching localities in South Africa, with over 400 species recorded. The reserve has good numbers of black & white rhino, hippo and crocodile, with red duiker, giraffe, nyala and suni also common. Main recreational activities are game drives, game walks, and birdwatching at the camp and in the reserve. The lodge is in the Wilderness Zone of the reserve, in an area not normally open to the general public.

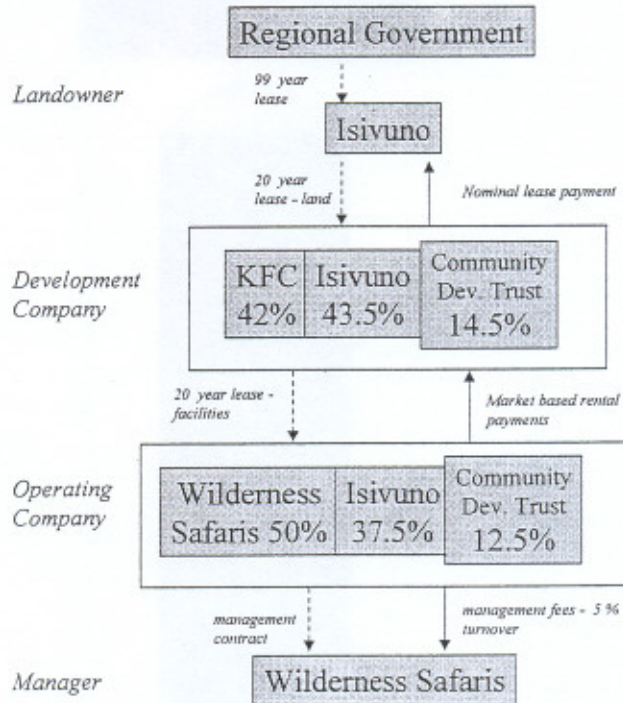
Performance to Date

The lodge first opened in March 1995. Recent monthly occupancy rates for paying guests have varied from a low of 15% in May 1997 to a high of 52% in October 1997 (figures available to November 1997). In the year to February 1998 the facility made an operating loss of 342,000 R (about \$68,000) compared with an operating loss of 285,000 R (about \$57,000) the previous year (source: Wilderness Safaris, 1998).

4. Structure of the “Deals”

Overall deal structure

Ownership Structure - Rocktail Bay and Banzi Safari Lodge Model



For the first time in KwaZulu Natal a private sector operator, Wilderness Safaris, has entered into partnership with government and local communities to develop and operate ecotourism facilities inside reserves. KwaZulu Finance Corporation (KFC) has also played a key role as lender, shareholder and facilitator of the enterprise development process. The following diagram indicates the key players and their shares in the development and operating companies for the Rocktail Bay and Banzi Safari Lodges⁴. The regional government leases the land to Isivuno for 99 years. Isivuno then leases the land to the development company, which on leases to the operating company on 20 year leases. KFC’s share in the development company will be bought out over the 20-year lease period giving an ultimate shareholding split of 51% Isivuno and 49% for the local community partner. The development company finances and builds the facility. The operating company operates the facility. The manager manages the facility on a day to day basis on behalf of the operating company.

⁴ The development company owns the facility on a leasehold basis in each case and leases it to the operating company

All development company profit is distributed as “interest” to the shareholders on a regular basis. Isivuno has been using this income to pay off the debt it incurred to KFC when buying into the operating companies, as well as to fund EIA’s and other development related aspects of Isivuno projects. Details of the cash flows to date from the deals are given in Section 5.

The operating company is owned by Wilderness Safaris, Isivuno and the local community. Isivuno chose to participate in the operating companies as well as the development companies for both deals in order to increase potential profits. The operating company in turn leases the facilities to the manager, Wilderness Safaris. The operating company pays the manager 5% of annual turnover (including labor costs but excluding agent commissions) as a fee for managing the facility. The operating company pays rent to the development company at a rate of 10% of the value of the investment, including the land value which is calculated at 20% of the establishment costs (including fixtures and fitting but excluding movables), plus 4% of turnover, both escalating at 10% p.a. over the duration of the lease. Operating company profits, in excess of that needed for reinvestment in the business, will be distributed to the shareholders as “interest” payments.

Calculating partner equity shares

Box 3 describes how the equity shares in the two development companies were calculated.

Box 3

Calculating Equity Shares in the Development Company Deals

Total capital invested in the development companies for the two deals was estimated at R2.12 m based on the following figures (note the current exchange rate is about R5=\$1).

<i>Banzi Safari Lodge</i>		<i>Rocktail Bay Lodge</i>	
KFC investment	R912,000	Value existing KZDNC facility	R900,000
Value of land (20%*)	R156,000	Value of land (20%*)	R150,000
	-----		-----
Total investment	R1.07 m		R1.05m

From the initial investment in the facilities the KFC share in the combined deal was calculated as 42% and Isivuno’s as 58%. Based on KZDNC’s previously agreed revenue sharing policy, Isivuno then allocated 25% of its share to the local Community Development Trust.

*The land value had to be imputed in this deal as there is no land market for pristine conservation land inside protected reserves. The closest would be the value of a private conservation ranch such as Pinda, which would cost about R2,000/ha to buy. The rule of thumb adopted has been to use 20% of the value of the investment in facilities. If it were possible to value all the externalities of conservation, such as biodiversity protection, a true economic assessment of the conservation value of the land would probably yield a higher percentage. However, this 20% rule of thumb has now been widely accepted. In the Kosi Bay deal recently finalized by KZDNC the private sector partner wanted to use 10%, but this was rejected and the deal structured on a percentage of turnover instead of equity ownership.

Isivuno borrowed from KFC to invest in the operating companies. Wilderness Safaris and Isivuno bought into the operating companies as equal partners, with Isivuno then passing on 25% of its share to the local Community Development Trust.

Timing and the deal process

These deals took several years to come to fruition, in part inevitable due to the fact that they represented a new model for the partners involved, but due also to the relative complexity of the deals, the necessary community processes involved and capacity constraints within the partners. Community mobilization had been gathering momentum through the early 1990s with the KZDNC and the regional Department for Economic Affairs working with the TAs and Isigodis around Maputaland's reserves to establish Community Tourism Committees, concepts for TDFs and Community Development Trusts. Community expectations were already high for the outcome of the deals process by the time that the deals were struck with Wilderness Safaris in 1995-6, and remain high for the areas targeted for TDFs where no deals have yet been done.

The local communities

A key feature of these deals is that local communities have been given equity shares in both the development and operating companies for the two lodges⁵. They have nominated their own Directors to the Boards of these companies, who include Peter Rutsch, the lawyer who has been closely involved with facilitating the communities participation in these deals. The Mqobela Isigodi owns 14.5% of the Rocktail Bay Lodge and 12.5% of the lodge operating company. The Matenjwa Tribal Authority owns 14% of Banzi Pan Lodge and 15% of the lodge operating company (Isigijimi, August 1996). These equity shares have been funded by Isivuno and are calculated as 25% of the Isivuno's own share in each deal - the percentage is taken directly from the previous 25% revenue sharing policy in KZDNC.

Isivuno's equity share in the operating companies has been debt-funded through borrowing from KFC – the revenue streams from the development companies have initially been used to repay these loans. In effect Isivuno has taken on the full risk of the debt financing while passing on 25% of the equity to each local community. The local communities have not had to make any up front capital payments or asset contributions for their equity shares. The communities have therefore taken on no risk – Isivuno carries their financial risk, which places a burden on Isivuno until the debts are paid off.

What the local communities do bring to these deals is their “goodwill” (or “tourism and conservation tolerance”) and “right to participate” given that they have an established right to a percentage of income generated from the use of land for conservation purposes. They also bring the option of extending the effective reserve area through potential CCAs on Isigodi land. Through these deals Isivuno hopes to encourage the local communities to take more responsibility for local conservation through the creation of a sense of

⁵ The community equity shares have been funded by Isivuno at no cost or risk to the local communities. The “equity” in these deals is legally termed “shareholder units (shares linked to shareholder loans)” on the balance sheets, allowing the payment of “interest” rather than dividends and reflecting underlying tax issues.

ownership and partnership. Access to community held land is not a prerequisite for partnership and is not usually discussed in initial negotiations.

KZDNC, Isivuno and the Wildlands Trust

KZDNC is responsible for the conservation of Ndumo Game Reserve and the Maputaland Coastal Forest Reserve. The Wildlands Trust is an NGO with strong links to KZDNC and Isivuno is the commercial arm of the Wildlands Trust. All three organizations have several Directors in common ensuring that they operate to similar goals and agendas.

In addition to managing the reserves, KZDNC guides facility design and drafts and monitors adherence to Codes of Conduct for operations inside the reserves. In the Rocktail Bay and Banzi Pan deals KZDNC is effectively the landowner and receives a nominal rent on the few hectares leased to the development companies. Other than these lease payments KZDNC does not participate directly in the cash flow from these deals. Guests at the facilities pay entrance fees to KZDNC to cover (a part of) the costs of managing the reserves. The deals are designed so that Isivuno provides the main channel for turning cash streams from these deals into investment in further community wildlife enterprise initiatives.

Isivuno and the Wildlands Trust bring their conservation expertise and capacity for representing local interests to these deals. Isivuno is committed to reinvesting all cash surpluses from these deals in KZDNC conservation activities once associated debts have been repaid. Isivuno provides mechanisms to bring communities on board, channels revenues to key stakeholders and provides business expertise (because of composition of its Board of Advisors).

The KwaZulu Finance and Investment Corporation Ltd (KFC)

The KFC is the provincial development finance corporation for KwaZulu Natal. Its mission is to contribute significantly to the socio-economic empowerment of the people of KwaZulu Natal, and its main activities are:-

- Financial advances for and funding of business enterprises
- The creation of employment and income-earning opportunities
- Entrepreneurial development in the industrial, commercial, agricultural and mining sectors
- Provision of appropriate business and physical infrastructure
- Establishment of major commercial undertakings and tourism facilities
- Provision of housing and the development of residential infrastructure
- Fostering personal wealth through savings
- Provision of training and consultancy services in association with the KwaZulu Natal Training Trust
- Promotion of private sector investment.

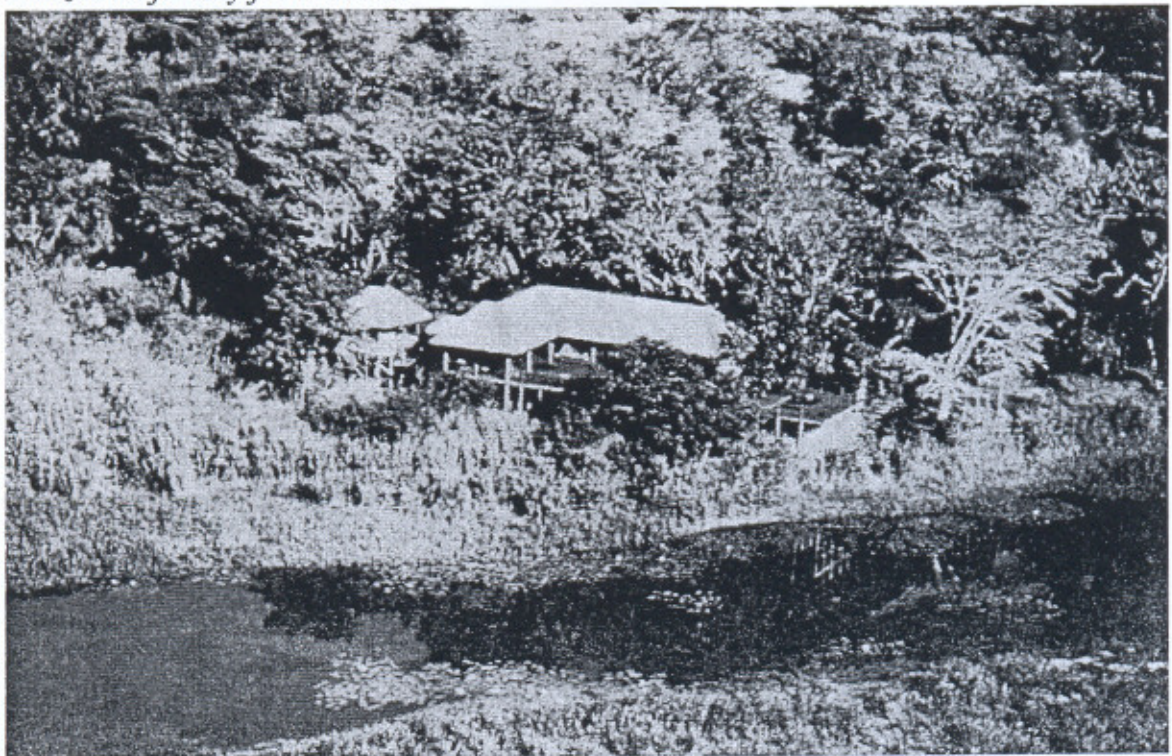
KFC has been an important partner in these deals, bringing community enterprise development expertise and the necessary loan and equity capital to make the deals work commercially. KFC has been involved in several community wildlife enterprise deals

across KwaZulu Natal and its officers have helped provide financial training and business management familiarization for community representatives. Some training has also been available through local offices of the Department of Economic Affairs and Tourism.

Wilderness Safaris

Wilderness Safaris operate a small chain of up-market ecotourism facilities across southern Africa. Their philosophy is one, which encompasses community participation, and to date they have been involved in a number of differently structured deals. Wilderness Safaris designed the Banzi Pan facility and adapted an existing facility at Rocktail Bay. Wilderness Safaris manage both facilities, taking full responsibility for marketing, financial and operating management and performance, and all aspects of customer care.

Banzi Pan facility from the air



5. Flow of Financial and Other Benefits

Enterprise performance and cash flows to date

Wilderness Safaris is a very successful specialized operator with 12 camps throughout southern Africa. On average 80-90% of its customers are international, though for Rocktail Bay and Banzi Safari Lodges this figure is about 60%. Wilderness Safari's business philosophy is pro-community participation, and this has been taken furthest at Rocktail Bay and Banzi, where community partners have for the first time taken a stake in the operating companies. Wilderness Safaris adopts conservative financial management, financing growth through internal sources and taking on no debt, and has generally experienced good overall returns on investment.

Rocktail Bay Lodge has generated net profits for the past two years. Banzi Safari Lodge is still making losses, reflecting the more specialized market segment it attracts (principally birdwatchers), but is expected to succeed. Wilderness Safaris aims to open a third site in Maputaland at some point to create a viable circuit for its international visitors. Box 4 summarizes the current financial performance of the two facilities

Box 4

Current Financial Performance of Rocktail Bay and Banzi Safari Lodges (in US\$)		
	<i>FY 97*</i>	<i>FY 98*</i>
A. Rocktail Bay Lodge		
Turnover (a)	\$328,000	\$344,000
Cost of goods sold (b)	\$ 65,000	\$ 94,000
Overheads and other expenses	\$235,000	\$236,000
<i>Net profit (loss) (c)</i>	<i>\$ 28,000</i>	<i>\$ 14,000</i>
Gross margin ((a-b)/a)	80%	73%
Net margin (c/a)	9%	4%
Capital employed (d)	\$ 92,000	\$ 82,000
Return on capital employed (c/d)	30%	17%
B. Banzi Safari Lodge		
Turnover (a)	\$185,000	\$213,000
Cost of goods sold (b)	\$ 47,000	\$ 68,000
Overheads and other expenses	\$195,000	\$213,000
<i>Net profit (loss) (c)</i>	<i>(\$ 57,000)</i>	<i>(\$ 68,000)</i>
Gross margin ((a-b)/a)	75%	68%
Net margin (c/a)	n.a.	n.a.
Capital employed (d)	\$ 93,000	(\$ 115,000)
Return on capital employed (c/d)	n.a.	n.a.
Source: Wilderness Safaris (* note financial year ends end-February)		

The operating companies have yet to pay “interest” to shareholders. New tourism facilities are rarely expected to break even within the first five years of operation. However, the operating companies pay a regular stream of rents to the development companies, and the shareholders in the development companies have been receiving regular cash payments. Box 5 summarizes the income received by the shareholders for the most recent year for which we have complete figures – the year to February 1997.

Box 5

1997 Cash Flows to Development Company Shareholders (US\$)		
	Rocktail Bay Lodge	Banzi Safari Lodge
Income received by development company:		
Interest	\$ 2,200	\$ 1,600
Rent paid	\$19,800	\$21,400
% Turnover	\$13,600	\$ 7,480
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Distributed, net of costs, as “interest” to:		
KFC	\$14,000	\$11,850
Isivuno	\$14,500	\$12,260
Communities (via Trusts)	\$ 4,830	\$ 4,100
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Rate of return on investment:	18%	14%
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Rent paid by DevCo to Isivuno which in turn pays it over to KZDNC	\$ 480	\$ 480
Source: Wilderness Safaris, KFC		

Flow of benefits to Tribal Authorities, Isigodis and community members

In terms of cash benefits, for the 1997 financial year the local communities received interest of \$4,830 and \$4,100 from the two lodges (see Box 5). The Community Development Trusts that receive the funds decide what to do with the income. We understand that the intention is to use these funds for community projects. At this point it is not known what the Matenjwa community will spend the Banzi Pan funds on. The Mqobela community currently has a total of R50,000 in its bank account from Rocktail Bay awaiting agreement on projects. The community structures for managing and spending the funds accruing from their shares in these ventures appear to be fairly weak.

In terms of other economic benefits, up to 20 local people are employed at each facility, taking home reasonable local wages. Local people were also employed during the construction phase of Banzi Pan. Wages paid to local staff in FY 98 amounted to \$48,000 at Rocktail Bay (with a further \$1,500 paid to casuals) and \$40,500 at Banzi Pan (with a further \$400 spent on casual workers and training). *The current cash benefit to*

communities from wages associated with these deals is therefore 10 times that from the equity stake in the development companies. To individual community members the prospect of a job is probably more important and significant than any other benefit associated with facility ownership. As yet, with the exception of the hippo pools at Rocktail Bay, where the community has set up a guiding operation and charges an entrance fee, there are few other spin-off income sources for the local communities associated with these facilities.

With respect to non-financial benefits, skills transfer is happening but slowly. Committee members participate in shareholder meetings where decisions are made, so are learning business processes.

Benefits to KZDNC and Isivuno

Currently KZDNC receives only a nominal cash benefit from these deals. However, Isivuno was set up by KZDNC to be the mechanism for promoting community participation in ecotourism development in the region's protected areas, and any advances made on effective community participation bring important benefits in the form of goodwill and effective partnerships for conservation, the value of which KZDNC has not attempted to estimate. Isivuno receives dividends from its investment in these deals in the form of "interest". To date these payments have only been received from the development companies, as the operating companies are yet to break even. Isivuno has used these payments to repay its debt to KFC as well as to fund EIAs and pay legal fees for new projects.

One outstanding issue is the scope for building into these deals direct payments for conservation services provided by KZDNC, such as road and trail maintenance and biodiversity protection. As KZDNC completes its merger with NPB and becomes a parastatal, it will come under increasing pressure to maximize its own earnings from these deals, with the combined agency budget already under pressure. *The challenge is how best to commercialize opportunities within the reserves without compromising on conservation goals and while ensuring maximum benefits accrue to local stakeholders.*

Benefits to Wilderness Safaris

Wilderness Safaris benefits from the profits being made at Rocktail Bay and anticipated at Banzi Safari Lodge, and from the prestige of adding two unique facilities to its network. It receives a fee for managing the facilities equivalent to 5% of turnover, which ensures that a portion of its management costs are covered irrespective of facility profitability. It is also putting into practice and learning from new approaches to community participation in tourism enterprises, and benefits from being able to market itself as one of the most socially aware operators in southern Africa.

Benefits to KwaZulu Finance Corp

KwaZulu Finance Corp expects to meet its target rates of return on these deals, and to achieve its associated social goals of fostering new business development for local job creation and the creation of locally owned enterprises in KwaZulu Natal.

1. Conservation Impact of Isivuno Model

There is enough evidence to suggest that the development goals of the Isivuno deals are beginning to be met, though there clearly are many lessons to be learned for the structure of future deals in order to strengthen the development achievements. *However, it is far harder to find actual evidence that the financial and non-financial benefits delivered through the Isivuno deals have led, or are likely to lead, to improved conservation and that they are doing so cost-effectively. This is an issue that experts and observers are struggling with across Africa - what evidence is there that increased local level benefits have had an impact on local attitudes to conservation?*

The conservation case for community participation in these deals is intuitively strong, particularly given the outstanding land claims. In terms of looking for indicators of beneficial conservation impact from these specific deals it is undoubtedly too early, given that they have only been fully operational for a couple of years. Plus community expectations of benefits appear to be higher than the two deals to date have actually been able to satisfy, given their size and scope.

The partners believe that these deals are changing attitudes to conservation among these community partners. For example, the local community partners in these deals have indicated a willingness to annex their own adjacent land to the reserves and to set up CCAs. However, where community expectations are not being met, outside these deals, there is evidence that *"some communities in the Coastal Forest Reserve are destroying the vegetation, others are cutting down the fences and individuals are attempting to build their own 'hotels' inside the protected area"* (Rutsch, pers.comm., 1998).

There is a clear need for more work to be done on developing and monitoring indicators of conservation impact, including biological (state of the resource base, ecosystem viability) and social (attitudes, behavior) indicators. This has important implications for future Isivuno deals given their combined objective of achieving both conservation and local development.

A view of the Maputaland Coast from Rocktail Bay



7. *Key Issues Arising from the Isivuno Deals*

The Isivuno deals are relatively complex. Each of the several partners brings different strengths, assets and goals to the deal. However the partners are largely agreed on the key issues that have arisen in the process of setting up and implementing these companies. The key issues are:

A. What are the development and conservation objectives of these deals and are they going to be achieved? Has community participation in these ventures led to cost-effective social, economic and conservation benefits? Can we conclude that the concept of partnership is key to securing the future of key reserves and conservation areas? The partners in these deals agree that the general concept of partnership appears to be key to securing the future of these reserves. What is clear is that there has been a fundamental spirit of cooperation in these deals. The communities have indicated willingness to bring community land into the reserve areas in the future. The private sector operator expects to operate both facilities profitably within 5 years of start-up, and is looking for a third facility in Maputaland to make viable circuit. Isivuno has paid off the debt incurred in buying into the operating companies. The conservation impacts of these deals are, however, not well understood – they are assumed to be directly related to achievement of the “development” goals of local communities i.e. to the flow of benefits and to real “empowerment” of local communities in natural resource management.

B. What mechanisms within enterprise deals are most important for real benefit flows to, and empowerment of, local communities? How much have communities really benefited from the Isivuno partnership model? How does this compare with alternative models? The Isivuno deals highlight a number of key issues underlying these questions:

- i. *Who is the “local community”?* Conflict within the communities has arisen from time to time during the process of each of these deals. In the case of Banzi Safari Lodge the community partner is the local Tribal Authority (TA) rather than the specific Isigodi immediately bordering the reserve, and the Isigodi members are disappointed with the benefits they’ve received from the TA’s share in the deal. At Rocktail Bay the partner is the local Isigodi rather than the TA, and the TA would like a greater share in the benefits. The issue of defining the community partner and of ensuring that the real stakeholders have been included is key to the successful of such deals, and is yet very difficult, even when working with stable, well-established communities with well-established community institutions and decision-making processes, as in these Zulu lands.
- ii. *Is the community adequately prepared for partnership?* Community participation is complex. Communities are only cohesive units when viewed from afar. Close up they are a disparate group of individuals, families and extended families, each with their own standpoints, information and agendas (Rutsch, pers.com.). To get a community to invest as an entity in a venture requires the setting up of processes and mechanisms to deal with these complexities. Much time is required for working

with community dynamics, mitigating negative influences, and training key people in business practices and involving community members in negotiating the deal. For example, Rutsch recommends that a percentage of the deal be made available for individual entrepreneurs within the community, with the expectation that this will help to strengthen the local economy to benefit the wider community.

- iii. ***What benefits does the community want from the deal and how are they distributed?*** In this case the communities were given equity shares in the deals by Isivuno, as well as first claim on job opportunities, as their primary benefits. It is clear that a major priority for both community partners was the creation of jobs. However, both facilities are fairly small and the direct job opportunities have been limited to a maximum of 20 at each site. From similar work elsewhere in southern Africa it is clear that community goals from enterprise deals are unlikely to be purely economic, and may include target benefits as varied as land ownership, resource use rights and “empowerment” over local resource decision-making as well as cash flow (from rent, spin-off activities, jobs and so on), enterprise ownership and direct and indirect job opportunities (for example, see Ashley 1998 a-c).
- iv. ***What advantages does an “equity” share in a wildlife enterprise confer on the community as opposed to other types of deal structure?*** There is a tendency to see equity as leading directly to empowerment because of the rights equity confers to a share in profits and decision making. However, in the Isivuno case the community brings no land or other use rights to the deal and has effectively been given equity shares in lieu of reserve revenue sharing. Elsewhere in southern and eastern Africa, where communities have negotiated or established rights to their own land, and/or enterprises on their own land, the scope for “empowerment” is clearer and need not necessarily involve equity shares in the enterprises. In this case the communities are occupying land adjacent to reserves and have no legal claim on reserve land, so the potential mechanisms for linking their livelihoods positively to conservation of the reserves has proven to be more complex.
- v. ***Should a local community be given an equity stake in an ecotourism facility or must the community invest its own assets in a deal?*** Some might argue that an equity share in a business is no different from any other form of “handout” if it is a gift. Because equity is a fairly complex financial asset for a community to manage, in some ways it might actually be more effective to give cash handouts, use rights or animal ownership rights, if these are more readily understood. In the case of the Isivuno deals this issue is complicated by the communities’ prior expectations of revenue sharing. The issue is whether communities must invest something of their own other than their time (e.g. land use rights, their own capital) in order to be “empowered” by the benefits they receive.
- vi. ***When should a local community take an equity stake in a joint venture operating company as opposed to the facility-owning company? When should a local community run its own facility?*** The risks associated with the two types of business are very different – the facility development/owning company takes on “landlord”

risk and expects an internal rate of return in line with the property market i.e. at least 20% p.a. The operating company takes on the higher risk associated with running tourist facilities and in return expects an internal rate of return of 45-50% p.a. It is clear that every wildlife enterprise deal will be different depending on the needs, assets and aspirations of the various partners. For example, in the Isivuno deals it has proved very difficult to establish real community understanding of equity ownership – the community members tend not to see a separation between part-ownership and management, and conflict resolution about key issues, particularly labor disputes, is still a major challenge. The partners now believe that in the case of these deals the communities should not have taken an equity share in the operating companies, given their higher risk and greater complexity. In deals elsewhere in southern Africa, for example the Wilderness Safaris operation in Damaraland in Namibia, the community has successfully negotiated a gradual transfer of ownership and operating responsibility to the community through the life of the lease. There's no reason why a local community shouldn't set up and operate its own facility as long as it has, or has access to, the capacity and expertise to manage the associated marketing, management and financing requirements (for example the Il Ngwesi Lodge on Il Ngwesi group ranch in Kenya, winner of the British Airways Global Ecotourism Award for 1997).

- vii. *What mechanisms are available to encourage and support the development of entrepreneurship and business capacity in participating communities? And to support negotiation of deals with the private sector?* In these deals the role of the community facilitator/advisor, Peter Rutsch, has been key to building real community participation, and the communities have nominated him as their Board Director. He has been a primary source of business training and advice on negotiations for the communities involved, as well as for mediating conflict within the communities and between the communities and other partners as the deals have progressed. KFC has also been key in building community understanding of business and financial processes through the development of these deals. However, it is clear that the communities are still struggling with their real role in these enterprises, and particularly with understanding the difference between being a part owner of a business and being responsible for day to day management. Further training and education in business development and management is key to ensuring capacity is established for commercial development at local level. Rutsch himself emphasizes that:

"an enormous amount of work is required to make participation work... and actually it is a bit of a disaster though everyone is patting themselves on the back... but meeting the community once every few months and then retreating to Durban is hopeless... what is required is a properly financed and staffed structure to do this work, and to assist communities to exploit the other commercial benefits that flow from the original investment, such as small commercial enterprises" (Rutsch, pers.comm., 1998)

"due to the environmental constraints of the area most of the developments will be relatively small in size (8-20 beds) limiting what

these developments can do for the community. If we expect too much, these developments will not happen. We should recognize that the private sector is there to make money out of these developments, not to solve all the communities problems. Who will pay for the structure proposed [as needed to do this work]?" (van der Westhuizen, pers.comm., 1998)

- viii. ***How could/should spin-off entrepreneurial activities be encouraged for community benefit in and around tourism ventures? To what extent should local entrepreneurs within these communities be encouraged to participate in these deals and in capacity building?*** Little increase in local entrepreneurial activity has been observed in either community area, with the exception of the hippo pools at Rocktail Bay where the community have established a viewing operation. This may in part be due to the fact that the community shares in the Isivuno ventures were effectively handouts, funded by Isivuno and transferred to the communities. Both ventures are within reserves and not on community land. One option would be to build training for sub-contracting into deals e.g. for laundry, cleaning, fresh produce supply, tourism add-on activities. The general level of entrepreneurship in these communities is low, yet some local community members do run successful businesses. Strengthening the role that local entrepreneurs play in enterprise deals is one important mechanism for increasing community business capacity and for ensuring that spin-off entrepreneurial activities are exploited.

C. Should the conservation authority take an equity share in ecotourism development and operation inside a reserve? If not, what other mechanisms exist to ensure a benefit stream flows to conservation resource management? KZDNC currently receives very little revenue from the structure of the deals and yet has invested much time and effort in making community conservation processes work, and in building and maintaining the tourism "product" in its reserves. Isivuno is a not-for-profit company, independent from but linked to the department. Isivuno has effectively financed the purchase of a significant equity share in the development and operating companies and then passed on 25% of this to the communities at zero cost to them. All interest paid to Isivuno so far has been used to pay off debt. Through Isivuno, KZDNC can potentially raise significant funds through these deals for reinvesting in community conservation activities as any surplus that eventually accrues to Isivuno will be used to fund further community tourism ventures. However only a minimal rental payment for the land flows directly back to KZDNC for conservation in the reserves. Future deals should incorporate proper payment to the reserves for conservation services rendered, e.g. biodiversity protection and road construction and maintenance. This could be done through an equity stake or through charges.

8. Lessons Learned and Implications for the Future

These two deals are the first in which local communities in KwaZulu Natal have taken equity stakes in ecotourism businesses linked to protected reserves. Prior to 1994 some communities in the self-governing states were involved in obtaining financial benefits from reserve operations, but without associated “rights” or “decision making power”.

The lessons learned from community based natural resource management in other parts of southern and eastern Africa suggest that there is still much work to be done to demonstrate clearly (i) which models lead to real benefit flows to communities, and (ii) how these benefit flows work to bring real incentives for conservation.

The Isivuno model demonstrates that partnership is difficult, but that it is possible to ensure that real benefits flow to community stakeholders in conservation. The Isivuno model also appears to indicate that conflict over resource management can be reduced through partnership, and that where partnership is absent, conflict is likely to be higher.

The lessons learned from these particular deals are instructive. In particular, it is clear that every deal must be structured to suit its own specific circumstances – if you like, there is no one participation model to achieve development and conservation goals. However, there are some general principles that emerge:

- the deal structure must reflect the actual aspirations of all stakeholders, recognizing that for local communities these are likely to include jobs, empowerment through participation in decision-making and securing of use rights, as well as cash flow
- there is no ideal deal structure: the decision whether or not to encourage a community to invest in a joint venture/wholly owned facility operation rather than in building and leasing the facility depends on the specific circumstances
- building the business and entrepreneurial capacity of poor, marginalized local communities is a long-term resource-intensive process requiring committed capacity for training, education and facilitation
- balancing realistic expectations of the partnership with real delivery of benefits is critical – raising expectations and not satisfying them may be as dangerous as doing nothing at all - the sooner the benefits flow the better
- the benefits should be delivered first at the local level (Isigodi in this case), with mechanisms in place to ensure appropriate levels of benefit spin out more widely (in this case, to the TA)
- finding the right private sector partner is important, and may be difficult – there are not many Wilderness Safaris around

- being able to establish the success of a deal depends not just on being able to demonstrate the commercial success of the enterprise and the associated flow of local level benefits, but also on being able to demonstrate the positive impact these have on conservation of key natural resources

Finally, it is clear that there is a real need and growing opportunity for community conservation enterprise initiatives across southern and eastern Africa to learn from each other. This process is helped greatly by opportunities for exchange visits by community representatives and other deal partners and for attending workshops and seminars on community tourism. We hope that the widespread circulation of case studies like this one will also provoke discussion and comparison of experiences in order to strengthen the scope for enabling deals such as those promoted by Isivuno to meet their development and conservation goals.

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