JOINT VENTURE DECISION MAKING FRAMEWORK

FOR COMMUNITY-BASED NATURAL RESOURCE MANAGEMENT AREAS

July 2002

CONTOUR PROJECT MANAGERS
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TABLE OF CONTENT

1 PROJECT OUTLINE

1.1 Project Brief

1.1.1 Purpose

The purpose of the study is to develop a database & decision-making framework for establishing joint venture (JV) partnerships.

1.1.2 Objective

The objective is to use the framework as material and tools for:

- Awareness and capacity building (workshops, courses, manuals) for partnerships
- Refining contractual relationships and financial models for evaluating proposals and for negotiating or renegotiating JV partnerships.

1.1.3 Scope

The intention is to learn from experiences in all southern African countries where JV partnership have been formed between the state, communities and the private sector for nature-based tourism concessions.

1.1.4 Outputs

The expected outputs from this study include the following components:

- Establishment of a database in a matrix format of all recorded JV partnerships, reflecting the most important elements of each contract.
- Analysis and interpretation of the data.
- Formulation of recommendations for the Namibian situation.
- Applying the recommendations to a financial model that can be used for future assessment of financial and economic aspects related to projects.
- Identifying challenges and finding appropriate solutions.
- Present the findings to stakeholders in a workshop to obtain their participation and inputs.
- Summarise all of the above into a concise report.

1.2 Methodology

The methodology followed the following process:

- A field orientation trip to the Omihana, Torra and #Khoadi//Hôas Conservancies to experience the identified sites and to meet with community representatives (see **Images 1 – 3** below).
- Data was collected from all known and available sources and stored on Microsoft Works Database software.
- All the data was analysed and interpreted.
- A presentation was made to stakeholders on 14 May, during which workshop inputs were made regarding certain recommendations and options.
- All of the above was then compiled into this final report.

Images 1-3: Conservancies Visited During the Orientation Trip

Omihana Conservancy *Torra Conservancy* *#Khoadi//Hôas Conservancy*

1.3 PROGRAMME

Table 1 below reflects the programme followed:

Table 1: Project Programme

Activity	17 – 23 Mar	24 – 31 Mar	30 Mar – 6 Apr	7 – 13 Apr	14 – 20 Apr	21 – 27 Apr	28 Apr – 4 May	5 – 11 May	12 – 18 May	19 – 25 May	26 – 31 May
Orientation											
Collect data											
Store data											
Interpret data											
Present results											
Brainstorm											
Final report											
Present report											

2 DATABASE

2.1 Data Collected

The data collected from the various agencies includes the following components:

- Procurement or Request for Proposals (RFP) Procedures
- Structuring of Agreements
- Concessions Allocated
- Details of agreements relating to the key elements reflected in **Section 2.4**:
- Financial models
- Lessons learnt

2.2 Data Procured

The data that was eventually obtained and included in the analysis are reflected in **Table 2** below:

Table 2: Data Procured

Region	Source	RFP Process	Concession Data (and number of contracts)	Generic Contract	Financial Models
Namibia	WWF		9		
Botswana	Mafisa & Contour		32		
SA Maputaland	Mafisa		2		
SA National Parks	SAN Parks		10		
SA NW Parks	NW Parks & Mafisa		51		
Zambia	Luangwa Valley NP				
Zimbabwe					
SA Government	SA Treasury				
SDI	Contour & Seaton Thomson				
Makuleke	Mafisa		1		

2.3 Problems Experienced

The following problems were experienced:

- Information was not always readily available and some of the responsible people were not available.
- Information was not always complete.
- Particularly tourism operators and some of the agencies were reluctant to release "confidential" information.
- The information collected were all in different formats and therefore not always fully compatible.
- Due to all of the problems above, direct comparisons could not always be made, thus reducing the ability to interpret the full range of aspects across the entire sample.

2.4 Components of Analysis

The most important aspects that were analysed include the following:

- Structure of agreement.
- Period of agreement.
- Level of remuneration.
- Benefits to communities and government.
- Main roles and obligations.
- Other important or unique aspects peculiar to a specific agency, region or contract.

2.5 Systems Used

The technical analysis was done by using the following software:

- Ms Works Database Matrix
- Ms Works Database Report

The printouts of this information are attached as **Annexure A**.

2.6 Database Summary

The data and results recorded in **Annexure A** are summarised in **Table 3** below:

Table 3: Summary of Database Results

	Botswana	**Namibia**	**SA NW Parks**	**SAN Parks**	**SA Maputaland**
Sample Size	**32**	**30**	**51**	**10**	**2**
Structure	All Lease plus Royalties	Various: • 3 Leases • 6 Royalty	Various • 20 Lease • 12 L & R • 1 Royalty • 18 Traversing	All Royalties with minimum lease (65% of bid royalties)	Lease plus Royalties
Level of Remuneration	Leases: • Min P35000 • Max P850000 • Av P230045 Royalties: • Min 4 % • Max 10% • Av 4,5%	Leases: • Min N$3000 • Max N$80454 • Av N$32261 Royalties • Min 0% • Max 12,5% • Av 5,9%	Leases: • Min R36000 • Max R48207 • Av R193974 Royalties • Min 0% • Max 10% • Av 4.8% Traversing (per vehicle) • Min R12000 • Max R115200	Royalties: • Min 4% • Max 22.3% • Av 10.8%	Leases: • 10% of property value Royalties: • 4% of Gross

	Botswana	Namibia	SA NW Parks	SAN Parks	SA Maputaland
Period of Agreement	Min 3 yrs Max 5 yrs Av 4,73 yrs	Min 5 yrs Max 30 yrs Av 18 yrs	Min 15 yrs Max 99 yrs Av 51 yrs	All 20 yrs	Comm. 99 yrs Devco 20 yrs Opco/Manco 15 yrs
Benefits to Communities	Income (Concession) Employment Training Crafts Meat (from hunting)	Income (concession) Employment Training Camp Contracts	Income (concession) Employment Training Shareholding Education	Employment Training Shareholding Contracts	25% of leases & royalties Shareholding Employment Training

3 RESULTS

3.1 Structure of Joint Venture Agreements

The most important findings in terms of the structuring of JV agreements are as follows:

- All concessions (rights to tourism facilities and/or operations) were given out on a Build Operate and Transfer (BOT) basis. The lessee builds (or renovates), operates the facilities for a period and then transfers it back to the lessor.
- The most recent thinking is to have a firm prescribed structure as a basis for all tenders.
- Most agreements make provision for a fixed lease plus a royalty (% of turnover), or only a royalty with a guaranteed minimum, plus provision for further increments as

The term of agreements in Botswana is fixed at five years, renewable for a further two cycles of five years, provided that the conditions of the agreement are met – thus effectively meaning a period of 15 years. The facilities are always of a temporary nature, thus reducing the capital cost and the requirement for a longer lease.

The South African National Parks (SANParks) originally fixed the period of lease for Kruger National Park at 15 years, but the industry convinced them to increase it to 20 years to allow a more reasonable period over which to recover fairly large capital costs. There is no renewal clause.

In Maputaland, the lease period is fixed at 20years for the developer and 15 years for the operator.

3.3 Level of Remuneration

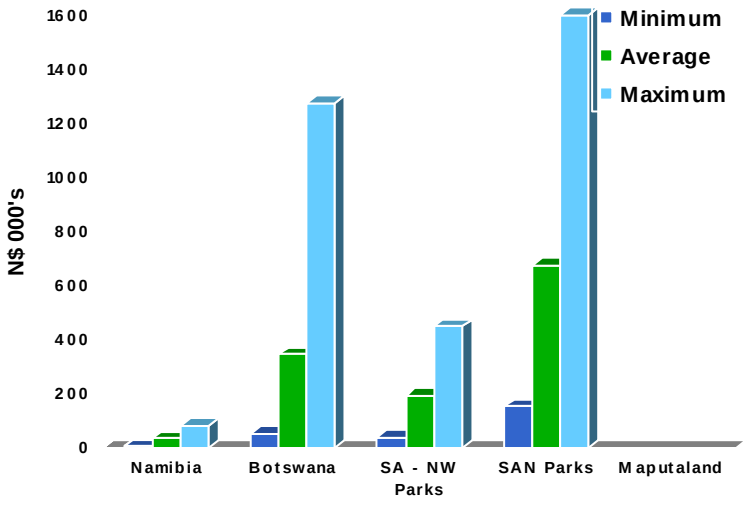
The level of remuneration is compared at four levels:

- Minimum lease fees per site guaranteed by the operator, whether it is a fixed amount or a pre-determined portion of a predicted royalty amount.
- An extrapolation of the aforementioned minimum lease fee to determine a minimum lease fee per bed.
- A comparison of royalties expressed as a percentage of turnover.
- An interpretation of the total remuneration expressed as a percentage of turnover.

3.3.1 Minimum Lease Fees per Site

The minimum lease fees per site are compared in **Diagram 2** below. It is recognised that the remuneration per bed is more valuable than the return per site. This comparison therefore only has significance due to the fact that the number of beds for most concessions on the database is unknown.

Diagram 2: Minimum Lease Fees per Site



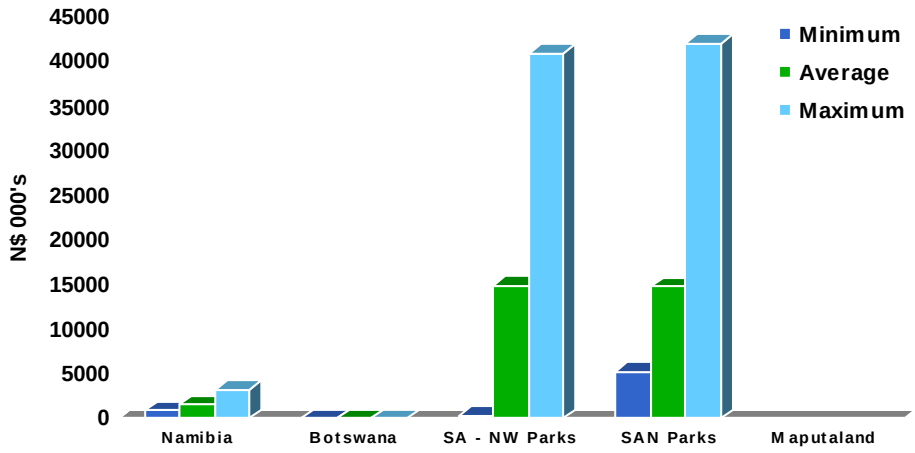
It is however important to note that Namibia yields much less per site than any of the agencies on the database. Considerations that are expected to have a bearing are:

- Maturity and recognition of a branded destination in the market.
- Distances from markets, support services and supplies.
- Level of sophistication in respect of procuring proposals and negotiating agreements.

3.3.2 Minimum Lease Fees per Bed

The minimum lease fees obtained from each concession by year five is compared in **Diagram 3**. Unfortunately the number of beds for the concessions in Namibia, Botswana and Maputaland were not yet available at the time of finalising this report. It will be worthwhile to obtain and incorporate such information. It is however in the meantime interesting to note from **Diagram 3** that the average return per bed for SA – NW Parks and SAN Parks both average in the order of N$15 000 per bed per annum. For the three sites in Namibia that charge a fixed lease, the annual return per bed varies from N$ 914 to N$ 3 352 (average N$1673).

Diagram 3: Minimum Lease Fees per Bed



In the case of SA – NW Parks the minimum lease represents approximately 50% of the total revenue and in the case of SAN Parks exactly 65% of predicted revenues. One could therefore expect a total average return per bed of N$30 000 or more per annum. For three of the Namibian examples the fixed lease is the only income.

In both the aforementioned SA examples, the products are pitched at the extreme upper end of the market. It is suspected that the Botswana returns per bed may be in the same order or slightly lower, as they are also focussed on the same markets, whilst the expectation for Namibia should be much less, due to the fact that they are an emerging market and not necessarily exclusively pitching for the same upper end of the market.

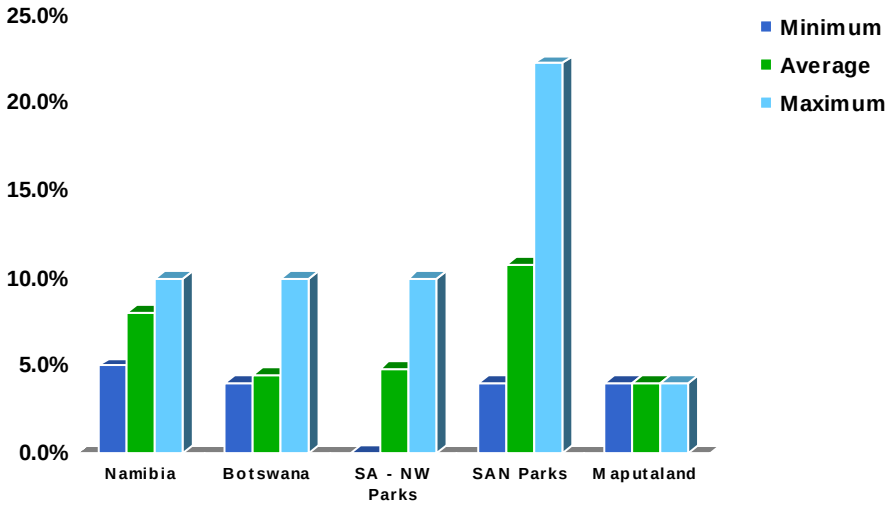
3.3.3 Royalties

The royalties received from operators, expressed as a percentage of the operator's turnover, are compared in **Table 4**. In most cases, turnover is calculated on all revenues (accommodation, food, beverages, activities, etc) after deduction of trade commissions. The allowable deduction for trade commissions should however be fixed.

It must also be born in mind that in most cases, the SA – NW Parks and Botswana concessions pay other fixed and variable payments over and above the royalties reflected in the graph, whilst the SAN Parks royalties reflect the total remuneration.

In Botswana and SA – NW Parks, the royalties make up approximately half of the total remuneration. In the case of Namibia, those that have a combination of fixed and royalty payments, the royalty payments are between 5% and 6%.

Diagram 4: Royalties Based on Turnover



3.3.4 Considerations

Before drawing any conclusions, the following considerations are important:

- Botswana lessees also have conservation management responsibilities.
- Botswana & SA - NW Parks lessees pay leases as well as royalties.
- SAN Parks lessees only pay a royalty (no other lease amounts) with a minimum guarantee calculated as 65% of predicted royalty fees.
- Most Namibian lessees either pay a fixed lease or a royalty, or in some cases they pay both.

3.3.5 Conclusions Regarding Remuneration

The most important conclusions are:

- A combination of a fixed minimum and a variable royalty based on performance appears to achieve a good balance between minimising risk and sharing in the success of the operator.
- A reasonable expectation of total remuneration would be in the order of 8% - 10% of turnover, approximately half of which should be payable as a fixed commitment and the other half payable as a percentage of the operator's total turnover, after having deducted trade commissions (an agreed limit to trade commission is necessary).

- New products in unbranded and remote areas can however expect to receive much lower remuneration, due to high fixed operating costs and low occupancies. Similar products in Botswana only yield remuneration in the order of 6% - 8%.
- New products should start with low expectations but should build in the opportunity for increased royalty percentages once operations become more profitable.

3.4 Value of Freehold Land

The study also analysed the value of freehold land – refer **Table 4**. This data will be used in a benchmark model based on the cost of developing a lodge on self-purchased freehold land to make comparisons with existing or proposed concessions by the private sector.

Table 4: Value of Freehold Land in North Western Namibia

Classification	Undeveloped	Attractive with some Game	Standard Game Farm	Game Farm with good infrastructure	Fully Developed with Game Lodge
Price per hectare	**< 100**	**101 - 300**	**301 - 500**	**501 - 1000**	**> 1000**
Khan 6 800 ha				809	
Otjandau 9 600 ha				573	
Epaku 5 208 ha		259			
Khorixas 5 500 ha	100				
Etosha 30 000 ha		300			

The following conclusions are made regarding the value and revenue earning potential of freehold land that is used for an exclusive nature-based tourism concession:

- Land value for an open area with game varies between N$100 and N$300 per ha.
- An exclusive concession area of 5,000 ha could carry 24 beds (3 vehicles).
- The value of 5,000 ha of free hold land will be:
- At $100 = $0,5 million
- At $200 = $1,0 million
- At $300 = $1,5 million
- A 24 Beds Lodge at a total royalty of 10% of turnover @ $600 per day (net rate after trade commissions) operating at a 30% bed occupancy will pay $157 680 pa.

This equals the following annual return on the value of land:

- At land value of $0,5 million – 32%
- At land value of $1,0 million – 16%
- At land value of $1,5 million – 11%

3.5 Benefits to Communities and Government

The concessions in the database all reflect at least some if not all of the following additional benefits to communities and/or government:

- Income as per the abovementioned leases, royalties and levies.
- Employment from local communities.
- Training of staff.
- Local procurement of produce and services.
- Service contracts with local entrepreneurs.
- Business partnerships with black empowerment companies.

3.6 What Influences Income?

3.6.1 Complications

- It is rather difficult to scientifically and technically determine the proportionate contribution of different factors to the level income that a lessor can expect, due to the incompatibility of available information and the multiplicity of different factors.

Possible the most important factor is however the success of the operator. Without a successful business, there is no income or benefits to share with anyone. It is therefore suggested that consideration is rather given to what is necessary for a business to be successful.

3.6.2 Influences that Impact on Business Success

The recognised elements that contribute towards the success of a tourism enterprise is listed below:

- Management (Marketing, standards, operations, relations)
- Location (proximity to markets and established destinations / routes = volumes)
- Quality of product (unique selling features & standards)
- Confidence / security and peace-of-mind re lessor / agents (govt / comm. mandates, policy, legislation, processes, agreements, capacities, attitudes)
- Size of concession (beds, traversing area, quotas, etc)
- Access to infrastructure and support services (also skilled labour)
- Duration of agreement (correlation between length of contract and the investment made or to be made and therefore income potential)
- Structuring of agreements (pre-structured terms seem to draw better responses & are easier to compare)

3.7 Roles and Obligations of Different Stakeholders

Another element which was analysed is the role and obligations of the various role-players. The results are reflected in **Table 5**.

Table 5: Roles and Obligations

ROLES AND	NAMIBIA			BOTSWANA			SAN PARKS			SA NW PARKS			SA MAPUTALAND		
OBLIGATIONS	Govt	Comm.	Pvt	Govt	Comm.	Pvt	Govt	Comm.	Pvt	Govt	Comm.	Pvt	Govt	Comm..	Pvt
Natural resources															
Procurement process															
Tourism infrastructure															
Support infrastructure															
Provision of labour															

Table 6: Comparison of Procurement Processes

Activity	Botswana	SAN Parks	NW Parks	SA Govt	SDI
Recommend Process					
Approve Sites & Process					
Scoping Report each Site					
Feasibility Study each Site					
Draft Tender Process					
Draft Standard Contract					
Appoint Evaluation Committee					
Brochures, Web Site, etc					
Advertise Tender Process					
Distribute Terms of Reference					
Receive Pre-qualification Responses					
Evaluate Bidders					

4 RECOMMENDATIONS

4.1 Proposed Basis of Procurement

4.1.1 Preferred Process

The NW Parks and Botswana processes are preferred. The most important aspects are:
Pre-qualification, financial and technical proposals are submitted in a single phase.
A tenderer only has to pre-qualify once, provided there is no material change in relation to the pre-qualification conditions.

[redacted]

					NTH 5	MONTH 6
Recommend Process						
Approve Sites & Process						
Scoping Report each Site						
Feasibility Study each Site						
Draft Tender Process						
Draft Standard Contract						

It is recommended that the structure of the agreement is based upon the following standard conditions:

- The lease periods should be fixed at ten years with the opportunity to renew for a further two cycles of ten years provided all the conditions of the agreement are adhered to by the lessee. This means an effective period of 30 years.
- A royalty based on a proposed percentage of the operator's net turnover (after trade commissions) on all activities should be offered by the tenderer. Total trade commissions should not be allowed to exceed 25% of rack-rate turnover.
- The proposal should make provision for increments in the royalty rate (%) to ensure that the lessor benefits from the business as it grows and becomes more profitable. The standard agreement may dictate fixed periods for increasing or reviewing the royalty percentage.
- An upfront payment should be stipulated for each site as a token of commitment by the successful tenderer. A performance security bond should also be obtained from each successful tenderer.
- The tenderer will submit predictions on turnover over the full period of the lease and will also reflect the predicted royalty payments.
- A fixed minimum portion of the predicted royalty contained in the tender should be payable as a minimum lease. It is suggested that this be fixed at 50% of the predicted royalty payments.
- Some phasing-in over time can be allowed, but royalties must be payable within one year of signing the agreement.
- The standard terms of the agreement should contain minimum (or negotiated) requirements for empowerment, including black business partnerships, local procurement of employees and services, transferring of skills and upward mobility of employees. The operator can not be held responsible for trained staff resigning.
- The Benchmark Financial Model will be used to ensure that proposals are fairly tested and compared for their financial and economic benefits.
- An incentive to communities for the proper management of the conservancies can also be considered as an option.

4.2 Important Challenges

4.2.1 Site Selection and Packaging

The quality of the tenders will largely depend on the quality of the sites and the information available to the tenderers. A few critical issues should be considered when selecting sites for nature-based tourism and packaging it in the final promotional and tendering documentation for potential tenderers:

- Sites must be realistically assessed in terms of their real tourism potential.
- The tourism demand for the identified site and product must be quantified in terms of market segmentation, required facilities and the expected number of visitors and number of beds for a particular market that can be sustained.
- Each site must be properly scoped in terms of its physical and environmental attributes and constraints.

- The correct approaches are necessary for each specific site in terms of timing, phasing in of the project, the most appropriate type of partner and the potential role that the local community can play.

4.2.2 Appropriate Tools

The following tools are necessary to facilitate the process:

- Centralized technical project management and secretariat capacity.
- A mandated and decision-making team that can make rapid decisions during the process.
- Site description and scoping report for each site.
- Tourism demand analysis with market segmentation and expected volumes.
- A generic contract.
- A well thought out and documented procurement (RFP) process.
- An evaluation team.
- An evaluation guideline with clearly pre-defined evaluation criteria and evaluation system for the evaluation team.
- Evaluation support tools such as the benchmark financial model and a tender ranking model.
- Well prepared documentation and up-to-date information available at a central location and on the web with a slick disseminating capacity.
- Cost-effective marketing and procurement materials and tools (brochures, adverts, web site, etc).
- Presentation material and capacity for creating awareness and for the bidding conference and site visits.
- Negotiating team for finalizing negotiations with preferred bidders.

4.2.3 Capacity

It is important that the necessary capacities are created and are in place before the process proceeds:

- Awareness and buy-in by key community, government, NGO and private sector role-players.
- The necessary mandates must be obtained.
- The necessary policies and legislation must be in place.
- The necessary skilled and equipped manpower must be in place to manage the process.
- Appropriate technical support must be procured.
- The relevant documentation and information must be easily accessible to all affected parties in accordance with the agreed process.

4.3 Workshop

A workshop was held on 14 May 2002, with the participation of government, NGO and private sector stakeholders. The following issues were discussed and the findings have been incorporated in this report where conclusions were reached:

- Structure of Agreement (Leases, royalties)
- Period of Agreement
- Level of Remuneration
- Benefits to Communities & Government
- Main Roles and Obligations

- Phasing-in Period vs. the short-term expectations from communities

The following issues were also discussed. The recommendations and discussions are listed with each issue:

- Community Benefits and its allocation (still to be debated)
  - How is it structured (in the case of state land)?
  - How is it utilised / allocated / spent?
- How do we re-negotiate with current concessions
  - Look at concessions as well as conservancies
  - Where possible or likely, re-negotiate
  - Focus on informal agreements
  - Joint effort between MET and NGO's
- Shareholding
  - Local shareholding – investment by the community is not recommended. There are too many risks: deferred returns, obligations, distraction from core business, becoming both player and referee. A specific workshop is needed.
  - Black Empowerment Shareholding
- Tax and other incentives are necessary
  - Tourism-specific capital investment incentives (RSA model with set parametres)
  - Liaise with Investment Centre
- Liabilities of landowner iro of dangerous game, etc
  - Insurance
  - Contractual protection
- BOT
  - Determine level of dev. at date of transfer (contract) – also clean-up where necessary
  - Refurbishment policy (contract)
  - Lessor can renovate at cost of lessee
  - Retaining trading names
- **NB: Urgently establish (or identify existing) committee to assist & manage the process in partnership with the conservancies.**

5 ACKNOWLEDGEMENTS

5.1 Contributors

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