Report
Case study: Mkhambathi Nature Reserve Tourism Development

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1. Background
In 2012, Vumelana was approached by the Eastern Cape Parks and Tourism Agency to assist the Mkhambathi Land Trust to develop their land in the northern part of the Mkhambathi Nature Reserve. A team of advisors was appointed to identify potential investors and to see if agreements could be made that would attract investment to undertake a development on the Trust’s land.

As part of the Vumelana supported process, an agreement was negotiated with the potential to provide significant benefits for one of the poorest communities in South Africa. The following sections describe the land claim, the community profile, the project and its likely impact.

2. Land claim
Mkhambathi Nature Reserve is situated on the coast of north-eastern Pondoland in the Eastern Cape Province. It lies between Port Edward (30 km to the north east) and Port St Johns (59 km to the south west). The Reserve currently covers an area of 7 720 hectares.

It is part of the Pondoland Centre of Endemism, one of 235 “environmental hotspot” sites identified world-wide as being critically important for global biodiversity. The Reserve thus has regional and national conservation significance and contains an unusual combination of plant species, many of which are either rare or endemic to the area.

Key points in the background to the land claim by the communities making up the Mkhambathi Land Trust are shown below:
• In 1922 people were moved out of the area and a leper colony and hospital was established on 18 000 hectares of rolling coastal grassland. When leprosy was cured, the facility became a Tuberculosis hospital.
• In 1977 the eastern seaward, third of the 18 000 hectares, was proclaimed as a provincial nature reserve.
• In 1994 three hundred and twenty six (326) households launched a land claim for the
restitution of their land rights over the Mkhambathi Nature Reserve as well as 4 000 hectares adjacent to the Reserve under the auspices of seven Communal Property Associations.

- In 2004 the seven Communal Property Associations constituted themselves into the Mkambathi Land Trust and the claim was settled by the South Africa Government on the condition that the communities would maintain the Mkhambathi Nature Reserve as a conservation area and that they would enter into a co-management arrangement with the Eastern Cape Parks and Tourism Agency for the management of the Reserve.
- Today the Mkambathi Land Trust owns 18 000 hectares of both the Mkhambathi Nature Reserve and the adjacent TRACOR lands. The only developments allowed in the Reserve are low density nature-based tourism developments - subject to Environmental Impact Assessments or sustainable resource uses consistent with the conservation objectives of the Reserve.

3. Community profile

The socio-economic conditions of the OR Tambo District of the Eastern Cape Province, in which this project area falls, are characterised by extreme poverty. Malnutrition and lack of basic medical facilities have resulted in high child mortality. The majority of work seekers are required to travel to major urban areas to find employment causing significant rupture in the social fabric of the area and woman and child headed families are the norm rather than the exception. The GDP per capita for this node has grown at a much lower rate than that for the province. The same has occurred for the total GDP.

The Mkhambathi Nature Reserve falls within the Ingquza Hill Local Municipality in the OR Tambo District, which covers 80% of the former Transkei (a “homeland” reserve created by the apartheid government).

- The Municipality has a population of 279 791 people; 47.35% male and 52.65% female.
- The HDI index for the OR Tambo District increased by only 2.3% between 1999 and 2003. The Ingquza Hill Local Municipality had the lowest HDI at 0.39\(^1\) in South Africa (the HDI for Sudan is 0.41\(^2\)).
- The Local Economic Development strategy for the Ingquza Hill Local Municipality describes the situation thus:

  “Ingquza Hill Local Municipality is characterised by deep and intractable challenges, which in

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\(^1\) OR Tambo SDF 2009/2010
\(^2\) Sudan Tribune 18 March 2013
large part, are as a result of years of neglect, which has characterised many of the rural municipalities especially those located in the former homelands. Poverty rates are particularly high among women, children and youth precisely because these categories comprise a large proportion of the Ingquza Hill population.”

An analysis of the Local Municipality’s demographic profile indicates that children, youth and women comprise the majority of the population. It further reveals that the population is experiencing high levels of negative net-migration, which is largely induced by economic factors. Like the rest of the country, Ingquza Hill Local Municipality faces the daunting challenge of combating the scourge of HIV/AIDS.

- The project is focussed on the seven villages in the vicinity of the Mkhambathi Nature Reserve represented by the seven Communal Property Associations that make up the Mkambathi Land Trust namely Mtshayelo, Rhamzi, Khanyayo, KwaCele, Thahle, Ngquza and Vlei Communal Property Associations.

- Statistics South Africa estimates that of the nearly 9 000 people in these villages, only about 500 are employed (see accompanying table; B = Black; C = Coloured, I = Indian, O = other).

<table>
<thead>
<tr>
<th></th>
<th>B</th>
<th>C</th>
<th>I</th>
<th>W</th>
<th>O</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed</td>
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<td>4</td>
<td>2</td>
<td>1</td>
<td>506</td>
<td></td>
</tr>
<tr>
<td>Unemployed</td>
<td>652</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td>659</td>
</tr>
<tr>
<td>Discouraged</td>
<td>384</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td>389</td>
</tr>
<tr>
<td>NEA</td>
<td>7200</td>
<td>44</td>
<td>5</td>
<td>2</td>
<td></td>
<td>7251</td>
</tr>
<tr>
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<td>8735</td>
<td>60</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>8805</td>
</tr>
</tbody>
</table>

These factors, combined with the level of poverty in the area, result in an extremely limited ability to provide capital or raise debt for projects. This provides an ideal opportunity to develop businesses through grant funding. Each job created has a major impact in the community with up to 10 people deriving direct benefit from each employment opportunity.

4. Attracting an investor

4.1. Challenges

The development of economic activity in poor areas like the former homelands and poverty nodes is hamstrung by weak demand, poor skills and a lack of capital. In order to address these constraints investment must be attracted to generate growth of economic activity and targeted programmes developed to make the growth inclusive of local communities.

Vumelana sets out to do this by establishing Community Private Partnerships.

4.2. Community Private Partnership contracts

Community Private Partnership contracts are structured to ensure that the partners are able to meet their obligations and exercise their rights in a manner that supports the profitable operation of the business venture they enter into.

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3 IH LED Strategy Final Report KDBS Consulting (Pty) Ltd
4 Stats SA Labour force survey: Geography and Official employment by population group.
What is a Community Private Partnership (CPP)?

A partnership is an arrangement in which two or more individuals or organisations agree to co-operate to advance their interests. The 3R’s of the partnership building process are concerned with striking an appropriate balance in respect of the manner in which the partners share Resources, Risks and Rewards.

Community Private Partnerships are established between communities that acquired land under the land reform programme and private parties. Typically the communities bring their land and labour and the private partner brings capital and skills to the partnership.

Community Private Partnerships differ from management agreements in so far as the partners share the risks and the rewards. In management agreements the land owner typically carries all the risk and the private manager earns a fee whether or not the venture succeeds.

They also differ from typical joint ventures that demand 50/50 shareholding and risk taking. Community Private Partnerships are based on an assumption that the partners are unlikely to be equally capable of carrying risk and that the balance of risks, resources and rewards must be negotiated in the context of the particular circumstances of each case.

Typically, the structuring of these contracts requires the parties to answer the following questions

- **Term**: What is the duration of the contract?
- **Rate**: How much rent does the business pay to the community? How much of the profit made by the business must be paid to the community?
- **Shares**: Who owns the shares in the business? Does the community own shares from the outset or can it acquire shares in future?
- **Investment**: How much money will be invested in the development, running and maintenance of the property? Who will provide that capital?
- **Skills transfer**: What training programmes will the private investor provide for the community and for how long?
- **Management**: Will the partnership provide opportunities for the community to get involved in the running of the business?
- **Employment**: What will be the policy to ensure that members of the community have the opportunity to obtain jobs in the business and develop businesses to supply goods and services to the partnership?
- **Transfer**: How will the business be transferred to the community when the contract ends?

### 4.3. Process of development

#### Investor mobilisation

The investor mobilisation process went through the following steps:

- Held an initial meetings between Mkambathi Land Trust, the Eastern Cape Parks and Tourism Agency and the team of advisors
- Tested interest in the market
- Held an inception workshop with Trust and established a Bid Evaluation Committee
- Held a Request for Proposals (RFP) workshop and agree the details of the partnership
- Issued the RFP
- Evaluate the bids and select the preferred bidder
- Negotiated the agreement with the preferred bidder
- Prepared legal documentation
- Signed the agreement
Structuring the Request for Proposals (RFP)
The RFP set out the following requirements for interested parties to submit a proposal to the Trust:
- The development opportunity
  - Development of up to 110 beds at Gwegwe and Mosquito Bay
  - Development, operation and maintenance of all required accommodation and infrastructure
- Project objectives
- Project elements
- Proposed business model
- Risk allocation principles
- Desired benefit flows (financial, employment/wages, SME opportunities, training and capacity building, maintenance of assets)
- Criteria to be applied in selecting a private partner
- Contents of the bids
- Evaluation of the bids
- Scoring
- Evaluation
- Selection of preferred bidder
- Questions, bid date, opening of bids, timetable

Target agreement requirements
Respondents were required to present proposals which included the following:
- Minimum investment: at least R65 million
- Minimum permanent employment: 100 direct permanent (estimate) and 200 indirect
- Deal structure: Community Public Private Partnership and Build-Operate-Transfer to community at the end of the lease
- R1 000 000 Performance Guarantee to be paid by the investor to demonstrate the commitment to proceed with the project
- The construction of the TRACOR land game fence within 6 months of signature date
- Advance payment on turnover of R250 000 to the Trust
- R150,000 up-front payment of base rental

Indicative economic impact
Having assessed the proposals the advisors estimated the impact of the eventually accepted proposal of the preferred bidder as follows:
- The initial lease: 49 years
- Fixed investments: R 20 million
- Employment (direct): R132 million
- Employment (indirect): R170 million
- Construction wages: R 10 million
- SMME contracts (construction): R 10 million
- Maintenance contracts: R 34 million
- Base rentals: R 7,35 million
- Turnover fees: R 93 million
5. **Independent cost-benefit analysis**

The independent cost-benefit analysis undertaken once the agreements had been negotiated showed the net present value (see table) of benefits as follows:

- Community R41.8m
- Government R27.9m
- Investor R12.8m
- ECPTA R6.4m

The primary benefit to the community will be from lease fees and salaries. In addition, the community will benefit from training, food supply and income earned from guiding and excursions. The deal structure of Build-Operate-Transfer to the community means that the long-term benefits are likely to be even greater.

The split of benefits to be received by the community is shown in the figure on the right.

A range of additional benefits would be available to the community through the demand created for other services (not included in the initial cost benefit analysis) such as cattle breeding, vegetables, transport and security.

6. **Potential future development**

A number of further developments are possible within the Mkambathi Nature Reserve. Vumelana is working on a second phase of development for the Mkambathi Land Trust. This is targeted to attract R15m investment, establish a new 50 bed lodge and create at least 40 permanent jobs.

There are also significant SME opportunities as a result of the project including crafts, additional accommodation, tourist activities (horse riding, guided tours, etc.) and the provision of supplies to the lodges (fresh vegetables, laundry services etc.).
7. **Strengthening the Mkambathi Land Trust**

7.1. **Assessing community needs and securing basic operations**

Following the conclusion of an investment agreement between the Mkambathi Land Trust and an investor, Vumelana agreed to work with the Trust to improve its governance, organisation and management as part of the Vumelana Communal Property Institution Support Programme. The Mkambathi Support Project was launched in July 2013.

Typically these projects include support for the following:

- Member Management
- Financial Administration
- Property Portfolio Management
- Governance Management
- Contract Management

The support project started by assessing the Trust’s needs and securing basic operations. This included:

- Developing a governance and administration strategy and implementation plan
- Establishing basic financial management policies and procedures
- Developing and operationalise a Trust office (see below pictures on the next page for before and after pictures of the Trust’s office)

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**The challenge of building stable communal property institutions**

Participants in the land reform programme are required to manage some form of common property institution (CPI). These face the challenges of incentivising individuals to work in the common interest and of creating sufficient authority to hold the group together and protect its rights. They also, typically have limited resources, few sanctions for non-compliance with administrative requirements and little incentive to do so.

The Communal Property Association (CPA) Act requires CPA’s to hold an annual general meeting and submit basic information to the Director General of Rural Development and Land Reform. However, most CPA’s are unable to comply with these requirements. For example, a survey done by the Department in 2010 showed that fewer than one third held Annual General Meetings and only 59 of nearly 900 CPA’s reviewed had financial statements.

The establishment of communal property institutions (CPAs/Trusts) has been the most substantive move to enhance inclusion of previously excluded/marginalised groups in the rural home land context. It has however been a large-scale failure.

There are approximately 3000-3500 CPIs in the country and many are recipients and overseers of high value productive land as a result of the government’s land reform policies. However they are mired with challenges of institutional weakness, lack of statutory obligations performance, and poor governance. This exposes the land reform process at huge risk for communities and for the government as well.

For Vumelana, willingness to cooperate in the CPI Admin support programme is a requirement for support. This is because CCP contracts entail obligations for the landowner (CPI) which have direct implications for the community’s skills development, employment, management participation, and eventual ownership of the operation. It is therefore critical that CPI’s are capacitated because their failure to meet these requirements can significantly compromise the deal, exposing investors to unnecessary risk, and undermining the potential short and long-term socio-economic benefits to the community.
Offices established

Standard after renovations Oct’ 2013

Standard before renovations July 2013

Website established

http://www.mkambathilandtrust.co.za/deals/dealssummary.html
7.2. Establishing policies
This included the drafting, adopting and implementing of policies and codes to guide the operations of the Trust. Policies signed off include the following:

- Trustee Remuneration Policy
- Procurement policy
- Financial recording policy
- Office use rules
- Petty cash policy
- Code of conduct
- Financial Recording procedure
- Requisition Forms and claims procedure
- Expenditure Policy
- Procurement and Contracts policy

7.3. Establishing financial controls and developing a business plan
An audit of the Trust’s 2013/14 financial statements has been completed and they are now in the process of planning the audit for the 2014/15 financials. A business plan was developed for the 2015/16 financial year. Annual Reports were developed and an Annual General Meeting held to report to its members.

8. Conclusion
The dispossession of the Mkambathi community took place over nearly 100 years (between 1899 and 1994). It took 10 years (between 1994, when the claim was lodged, to 2004) to settle the claim. Eight years went by before Vumelana was asked to help the community attract investors to develop their reclaimed land.

By 2014 an investment agreement had been signed, the first payments were made by the investor to the community and the process of securing administrative approvals to build a lodge was started.

It is hoped that building work will start before the end of 2015 and that further developments that the community has in mind will be triggered by this success.