

**TOURISM ASSETS AND THE MARKET:
EVALUATING OUTCOMES AT MADIKWE AND MAKULEKE**

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ABSTRACT

Tourism enterprises based on natural attractions are today regarded as important drivers of development, particularly in remote areas with rich resource endowments but few other formal economic opportunities. In these settings, however, the local poor typically provide only unskilled labour with external interests supplying other factor inputs in the form of land, capital and skilled labour as well as other goods and services. This results in a skewed distribution of returns that does little to advance local economic development.

Several interventions have attempted to improve the integration of the poor into the tourism market. One widely advocated option is for the poor to make land available for tourism development. The ability of the poor to trade in land has however been widely constrained by a variety of factors, including insecure tenure and the lack of institutional capacity. This has often led to suboptimal outcomes in which communal resources are effectively privatised with little common gain. Part of the solution to this problem is located in tenure reform that devolves resource rights to those denied them under colonialism. This has, in some cases, led to promising results, with rural residents acquiring tradable rights over one of the principal factors (land) of the ecotourism market.

These programmes have however rarely targeted Africa's core protected areas, more often focusing on adjacent lands where the rural poor are resident. Typically, ownership of public conservation assets remains vested in the state and commercial development is outsourced to the private sector. However, in a few recent cases, poor rural communities have acquired formal land rights in core protected areas and used these rights to achieve high levels of participation in the tourism industry.

The paper considers two such examples from the north of South Africa. In the first case, the Balete and Batlokwa communities obtained lease rights to a prime tourism concessions in the Madikwe Game Reserve. In the second, the Makuleke community acquired ownership of a portion of the Kruger National Park through post-apartheid land restitution. The paper critically examines the terms on which these communities integrated their newly acquired assets into the market. In both instances, a clear rights framework, strong commercial orientation, competent technical advice and responsiveness to local institutional conditions contributed to strong outcomes. And, in both cases, broader structural reform created conditions seemingly conducive to an application of the approach at scale.

The paper notes these successes but also questions whether the outcomes have been optimal from a community perspective. There are indications that, while the communities have benefited considerably from their ownership of valuable resource rights, especially the Makulekes may not have optimised the integration of their land into the market.

Much has been written about the two cases. The paper draws on this wide-ranging literature but also on the author's extensive personal experience as a facilitator intimately involved in both cases over a period of more than a decade.

1. INTRODUCTION

Tourism enterprises based on Africa's natural attractions – including small accommodation establishments widely known as 'safari lodges' – are today generally regarded as important drivers of development, particularly in remote areas with rich resource endowments but few other formal economic opportunities¹. There is a plethora of data indicating that the rural poor in these areas already benefit from the tourism market, mainly as sellers of labour to safari lodges.² But the involvement of the poor is curtailed by a number of factors. In rural African settings – often characterized by a shortage of skills, insecure land rights and a high degree of informality – external interests typically capture a large proportion of the benefits generated by the tourism market. The local poor often provide only unskilled labour with outside suppliers meeting the industry's other requirements. These include factor inputs in the form of land, capital and skilled labour as well as various intermediate goods and services. This results in a skewed distribution of returns that does little to support social and economic advancement in the remote rural areas where the tourism destinations are located.³

Simply promoting tourism growth in underdeveloped settings is clearly not a guarantee of sustainable advances for the poor and disadvantaged of such regions. This poses an important challenge to policy makers, local residents, the private sector, donors and development practitioners: to devise strategies that simultaneously promote market-led tourism growth *and* enhance the capacity of the local poor to benefit from that growth.

Recognising that wages are a key source of revenue flow, several development interventions have attempted to improve the integration of the poor by building the skills they are able to offer the industry, thereby positioning them to capture a greater proportion of the more lucrative employment opportunities created by the tourism market.

¹ Certain commentators, while recognising the important potential of tourism in certain localities, have cautioned against excessive expectations pointing out that tourism is not a development panacea: "The extent to which the tourism industry can fulfil these expectations is questionable: in terms of its overall potential for expansion, the distribution of that potential and the pronounced constraints facing the industry." The ComMark Trust, 2005: 17.

² See, for example, Massyn and Koch, 2004; Massyn and Koch, 2005; and Poultney and Spenceley, 2004.

³ "In the tourism sector, national governments and donors have generally aimed to promote private sector investment, macro-economic growth and foreign exchange earnings, without specifically taking the needs and opportunities of the poor into account in tourism development. Donor-supported tourism master plans often focus on creating infrastructure, stimulating private investment and attracting international tourists. Investors are often international companies and local elites, whose profits are generally repatriated abroad or to metropolitan centres. Links with the local economy are often weak, with the possible exception of employment." Ashley et al, 2000: 1-2.

These programmes hold great promise for the advancement of the local poor up the employment hierarchy as sellers of skilled labour and have, in some instances, substantially improved the participation of the poor in the tourism market.⁴

Another option is for the poor to obtain formal land rights and to make the land thus acquired available to the tourism market. In Africa, the ability of the poor to trade in land has however been widely constrained by the lack (or insecurity) of formal tenure rights especially in the communal sector. In general, tourism investors require secure rights to land and associated resources for periods that enable reasonable returns on the capital and expertise invested in their businesses. Reputable investors tend either to avoid areas with insecure tenure or, if they do invest, to select only those opportunities that offer the prospect of a quick return on a limited investment. In such circumstances, development outcomes are characterised by the proliferation of small, often precarious, operators who are generally unable to obtain rights within more formalised land frameworks (such as on private land or in public parks) because they are unable to compete against better resourced rivals. They flourish in conditions of informality relying on personal relationships with local – often tribal – elements and the lack of enforceability typical of the areas within which they function. Their operations are mostly small-scale, undercapitalised, vulnerable and of limited benefit to all but a handful of local employees.⁵

Part of the solution to this problem is located in tenure reform that devolves resource rights to those denied them under colonialism. Various African countries have, for example, experimented with the transfer of rights to resources that are valued by commercial users. These so-called 'community based natural resource management programmes' (CBNRM) have, in some cases, led to promising results, with rural residents acquiring tradable rights over one of the principal factors (land) of the nature-based tourism market. These programmes have however rarely targeted Africa's core protected areas, more often focusing on adjacent lands where the rural poor are resident. Typically, ownership of public conservation assets remains vested in the state and commercial development and management – primarily lodge tourism – are outsourced to the private sector.⁶

⁴ Wages are a key source of revenue flows from formal tourism enterprises, especially safari lodges, to local people. In most cases, the wage bill generates by far the biggest single flow of benefits to rural households. In addition, these enterprises provide employment opportunities for women and other vulnerable groups in rural society. This allows poor households to receive direct payments from the firms whereas lease fees or rentals are often intercepted by local elites or government structures before they reach the household. Massyn & Koch, 2003: 26 – 28.

⁵ This is a classic instance of a weak and fragmented property rights system creating conditions under which private sector activity is "informal, fragmented and local" (Prahalad, 2005: 79).

⁶ Under this arrangement, which has become widespread in a context of economic liberalization, rentals generated by commercial enterprise in state-owned protected areas are used by the state in an effort to

However, in a few recent cases, poor rural communities have acquired formal land rights in core protected areas and used these rights to achieve high levels of participation in the tourism industry. This paper considers two such examples from the north of South Africa. In the first case, the Balete and Batlokwa community obtained lease rights to a prime tourism concessions in the Madikwe Game Reserve. In the second, the Makuleke community acquired ownership of a portion of the Kruger National Park through post-apartheid land restitution. The paper critically examines the terms on which these communities integrated their newly acquired assets into the market. In both instances, a clear rights framework, strong commercial orientation, competent technical advice and responsiveness to local institutional conditions contributed to strong outcomes. And, in both cases, broader structural reform at the national level created conditions seemingly conducive to an application of the approach at scale.

The paper notes these successes but also questions whether the outcomes have been optimal from a local perspective. There are indications that, while the communities have benefited considerably from their ownership of valuable resource rights, especially the Makulekes may not have optimised the integration of their land into the market.

Much has been written about the two cases. The paper draws on this wide-ranging literature but also on the author's extensive personal experience as a facilitator intimately involved in both cases over a period of more than a decade.

2. THE MADIKWE EXPERIENCE⁷

2.1 Background

During the late 1980s, the former South African government expropriated farmlands belonging to white commercial interests along the Botswana border for incorporation into the then "independent" Bophutatswana. Based on a comparative land use study that argued the relative merits of market-based wildlife tourism as the most efficient economic use of the land, the bantustan government opted to establish a major new game reserve

optimize cost recovery. The new approach to public conservation thus sees the state seeking to offset the costs of protected area management through the optimal harvesting of returns from commercial development on the land. A critical consequence of the approach is reluctance by the state to cede resource rights – and rentals – in core protected areas to local rural residents. On the contrary, the state often insists that local interests compete in an open market for access to commercial opportunities and pay competitive rents for the use of the land.

⁷ The author was involved in the Madikwe Initiative as a director of the initiative's implementing agency. The case study draws on personal experience and various related publications.

on the expropriated land and began implementation of what was at the time the largest reintroduction of wild animals ever undertaken. In its very genesis, Madikwe was therefore viewed as an economic asset rather than a biodiversity preserve; its primary objective – unlike most other nature reserves – was not biodiversity conservation but the efficient generation of economic benefit under a market-based approach that relies heavily on private sector investment and expertise.

cial :⁸

Structural arrangements at Madikwe

	Wildlife Estate	Commercial Infrastructure
Ownership	State	State *
Development	State	Private
Management	State	Private

* The private concessions are on a BOT (build, operate & transfer back) basis. Technically, the commercial infrastructure – although funded, developed and operated by the private sector during the period of the lease – vests in the state as the owner of the land.

In line with the reserve’s emphasis on economic benefit, a programme designed to build the capacity of the Madikwe communities to benefit from the development of the reserve was launched in 1998. Known as the Madikwe Initiative, it was funded by a range of local and international donors and reported to a committee of key stakeholders including elected representatives of the reserve’s neighbouring communities. The purpose of the initiative was to “strengthen local communities so that they [could] maximise returns from Madikwe.”⁹

At the outset of the Madikwe Initiative, there were essentially two sets of property interests in Madikwe: the land and its service infrastructure were state-owned and managed but the commercial lodges were developed and managed by the private sector in terms of negotiated leases involving build-operate-and-transfer-back (to the state) arrangements. Unlike some cases in South Africa – such as the Richtersveld, the Makuleke Region of the Kruger National Park and the Kgalagadi National Park where local people collectively hold title to parts of the protected areas – residents of the neighbouring settlements did not hold any formal land or resource rights in Madikwe.¹⁰ One of the key innovations of the NWPTB – negotiated within the framework of the Madikwe Initiative – was an agreement to grant local residents commercial rights in the protected area. This effectively created a third property interest in the game reserve – neighbouring

⁸ See Relly, 2004, for a discussion of the economic impacts of Madikwe.

⁹ Massyn & Koch, 2003: 21-31.

¹⁰ Massyn & Koch, 2003: 23.

'communities' structured as legally constituted collectives obtained long-term lease rights on terms substantially similar to those available to private firms. This allowed neighbouring residents to participate in the mainstream of the nature-tourism led economy as if they were private investors.

The first such development, Buffalo Ridge Safari Lodge, opened its doors to trade in December 2004. It is owned by the Balete community who live in a village called Lekgophung just west of Madikwe. A second lodge, trading as Thakadu River Camp and owned by the Batlokwa community of Molatedi, became operational in August 2006. The NWPTB has offered similar leases to two other neighbouring communities but these projects have stalled due to intra-communal conflicts.

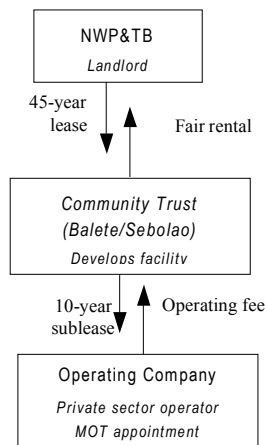
2.2 Objective

According to the Buffalo Ridge and Thakadu business plans, the core aim of the lodge projects was "to optimise the flow of benefits to the community without compromising the commercial viability and long-term sustainability of the lodge as a high value tourism enterprise."¹¹ The projects were thus conceptualised from the start as an experiment in which the southern African region's current stress on wildlife tourism as a strategic industry is fused into a community-owned enterprise that maximizes jobs, wages, lease fees and other forms of tangible benefit to rural people. Importantly, the approach was rooted in a market-friendly orientation, focusing on improving the participation of a group of rural poor in the high value tourism market.

2.3 Structural and legal arrangements

The structural arrangements underpinning the projects are illustrated in the following diagram:

¹¹ Balete Ba Lekgophung Development Trust, 2003: 1.



Legal vehicles representing the communities of Lekgophung (the Balete) and Molatedi (the Batlokwa) were established at the outset of the project. The Balete Ba Lekgophung Development Trust then entered into a 45-year lease agreements with the NWPTB for the development, maintenance and operation of a 16-bed lodge at a prime site in the west of Madikwe. The Sebolao Development Trust (representing the Batlokwa) entered into a similar agreement for a 24-bed lodge at a site in the southeast of the park. In addition, the trusts acquired traversing rights over the entire game reserve. At the end of the lease period, the trusts are obliged to transfer back the lodges to the NWPTB “free of charges, liens, claims or encumbrances of any kind whatsoever, free of any liabilities, and in good condition”.¹² The deeds of lease are closely modelled on the standard agreement used by the NWPTB in its dealings with the private sector. The trusts thus obtained sets of rights and obligations similar to those acquired by private enterprises under the public-private partnership rules governing state-owned assets such as Madikwe. In effect, the communities, represented by properly constituted legal structures, stepped into the position of the private sector for the purposes of implementing the projects.

In terms of the lease agreements, the trusts are responsible for the development, maintenance and operation of the lodges. After careful deliberation based on technical advice provided under the Madikwe Initiative, the trusts decided to retain responsibility for the funding and development of the fixed infrastructure but set themselves the task of raising the capital required to develop the lodges (see below). But from the outset the trusts recognised that they did not have the specialised capacity required to manage and operate the lodges once they were developed. They therefore decided to contract in a suitably qualified private partner to maintain and operate the lodge for an initial ten-year period. In order to identify a suitable partner, the trusts called for proposals and selected

¹² North West Parks and Tourism Board & the Balete Ba Lekgophung Development Trust, 2004: 14.

an established private sector company with a proven record of accomplishment in the marketing and operation of tourist lodges. Interestingly, the two trusts selected the same company, which thus gained an important economy of scale and branding opportunity in Madikwe.

During the early stages of the projects, the operating company was expected to establish the lodges as brands in the market and achieve prescribed social goals, such as the employment and training of local staff as well as the use of local entrepreneurs for the procurement of a range of goods and services. These goals are contractually entrenched in the operating agreements between the trusts and the private partner. They therefore form part of a clear rights framework, which the trusts can enforce should the operator fail to discharge its empowerment obligations.¹³

Upon termination of the contract, the operating company must transfer back the facilities to the trusts, which will either reappoint the operating company, or make alternative arrangements for the future management and marketing of the lodges.

2.4 Capital funding

In both cases, the NWPTB insisted on a competitive rental for the long-term lease rights acquired by the trusts. With support from the Madikwe Initiative, the trusts used these rights as a bargaining platform from which to secure an advantageous set of arrangements with a private operating partner. But it meant the trusts could not use land rentals to gear the loans they required to develop the lodge. Under these circumstances, the trusts made application to the Community Equity Fund (CEF) of Khula Enterprise Finance Limited, a parastatal grant-making facility designed to assist the historically disadvantaged poor with the capitalization of initial equity in high value agriculture and tourism ventures. These grants were disbursed in conjunction with deferred repayment loans originating in Khula's Land Empowerment Credit Facility (LECF) but extended via

¹³ The following extract from the operating contract provides an example of the affirmative obligations imposed on the operator: "Where Members of the Balete Ba Lekgophung with the necessary skills required by the Operator are not available, the Operator shall train Members of the Balete Ba Lekgophung to acquire, develop and build such skills. In this event, the Operator shall submit to the Tenant a training programme in writing, including a realistic timetable and quantified targets, designed to prepare Members of the Balete Ba Lekgophung to acquire, develop and build the skills necessary to operate and maintain the Lodge. Upon approval in writing by the Tenant, the Operator shall commence implementation of the training programme. The Operator shall be responsible for the cost of the training programme, provided that the Operator shall have the right to raise funds for this purpose from third parties. Any failure to implement the training programme according to the timetable and targets contained in the programme shall be deemed a material breach of this Contract." Balete Ba Lekgophung Development Trust & The Nature Workshop (Pty) Ltd, 2004: 8.

risk-bearing commercial intermediaries. The LECF was thus a wholesaling facility that extends loans via credit-rated banks that were expected to carry the risk associated with the loans. In effect, the combination of the CEF and LECF assisted the poor with the initial capitalisation of equity which then allowed them to raise a risk-bearing loan via ordinary financial institutions.

In the case of Lekgophung and Molatedi, South Africa's Industrial Development Corporation (IDC) acted as the intermediary for the Khula transactions. The IDC screened and approved applications from the trusts, which involved grants of approximately R4 million and loans of R4.5 million respectively¹⁴. The rights of the trusts in terms of the lease and operating agreements were ceded to the IDC in security for the debt. Importantly, the arrangement involves a risk-bearing outside financier (in the form of the IDC) that satisfied itself of the probable commercial viability of the enterprises. In both cases, however, the IDC required shareholders' contributions of at least 50% of the total capital expenditure on fixed improvements. The CEF grants were insufficient to fully cover this requirement and both trusts received recoverable grants from the Ford Foundation to boost their equity contributions to the projects.

Under its agreement with the trusts, the operating company funded the fittings, furnishings, equipment, pre-opening expenses and operating capital required by the enterprises. The operator therefore did not simply acquire management contracts over already fitted and furnished facilities. Instead, it acquired operating subleases requiring a sizeable own investment – estimated at approximately R4-million per lodge – that exposed it to significant financial risk. This was seen as a crucial further mechanism to safeguard the market-based integrity of the projects: the willingness of the private operator, based on its own assessment, to bear substantial risk in the venture was taken as an indication of a serious commitment to the business by a seasoned tourism entrepreneur.

2.5 Financial arrangements

In terms of the lease agreements, the trusts pay competitive rentals to the NWPTB comprising:

- a fixed fee of R40,00 per year (escalating at an inflationary index); and
- 6% of the annual gross revenue generated by the lodge.

In terms of the operating agreements, the operating partner:

- pays the rental due to the NWPTB, and

¹⁴ The South African Rand has maintained a value of approximately R6 to the US\$ for the last two years.

- posts a performance bond required in terms of the lease agreement between the trust and NWPTB.

In addition, the operating partner pays the trusts:

- R5,000 per commercial bed (the fixed component) annually in advance (escalating at an inflationary index); and
- 10% of the annual gross revenue generated by the lodge (the variable component) in quarterly instalments paid within 30 days of the end of each quarter.

Proponents of market liberalisation often caution against direct subsidies such as those used in the Balete and Batlokwa cases because they risk distorting the market by undermining incentives for private sector actors (who do not receive such subsidies). It is however important to note that the arrangements sketched above should not lead to price distortion because commercial rates are paid for the major factor inputs (land and capital). The land rentals due to the NWPTB were benchmarked against typical rentals achieved in agreements with the private sector and the fees payable by the operating partner were designed to give the trusts a commercial return on the capital invested in the lodge over the duration of the agreements. The capital subsidies (in the form of a grant to the trusts) were used to fund the communities' equity contribution (allowing them to leverage additional loans) but the subsidies did not affect the price paid by the operator for use of the capital assets. *The grants did not reduce the cost of capital to the private partner: over the life of the operating agreements, the operator pays a full commercial rate for the capital assets employed in the businesses.* The private firm's cost structure – and therefore the pricing of its product in the market – is unaffected by the subsidy; the operator is therefore on equal terms with other private firms that have sourced their investment in the commercial capital markets.

2.6 Economic returns

During the construction phase of the Balete project, which was completed in November 2005, residents of Lekgophung received approximately R1.3 million in the form of remuneration for labour and various small construction contracts. At maturity, it is estimated that the lodge will deliver more than R2.2-million per annum in sustainable income to rural households in the acutely impoverished Lekgophung village. This will be made up of employment benefits of approximately R950,000; operating fees of approximately R1,000,000 and small business contracts of approximately R250,000 per year.

Residents of Molatedi received benefits of approximately R1.55 million during the construction phase. Thakadu River Camp is estimated to deliver approximately 25% more

benefit than Buffalo Ridge to its local owners over the lifespan of the project. This is due mainly due to the larger size of the lodge.

These figures illustrate that this arrangement – where a community-owned entity holds clearly defined commercial rights – has the potential to significantly improve returns to the local poor. In the Balete and Batlokwa cases, this impact is enhanced by the relatively small size of the beneficiary groups. For example, during the time of the most recent survey, the village of Lekgophung had a total population of about 2,300 persons in just over 600 households. The total disposable income generated in the village was estimated at less than R600,000 per month, with average household income around R900 per month. This means that the benefits captured from the single lodge enterprise will boost average household income in the village by about R3,600 per annum and overall disposable income by more than 30%.

The predicted performance of Buffalo Ridge, as well a recent survey of its *actual* performance since becoming operational, also show that the community-owned lodge outperforms similar private lodges in terms of returns to the local poor. Based on a survey of several lodges in Madikwe, Massyn and Koch conclude: “The figures show that the 16-bed Lekgophung Lodge generates a greater total flow of benefit than the 60-bed Tau Lodge. This reflects the importance of community-ownership of the commercial infrastructure (which in the Lekgophung case has been converted into very significant gains for its rural beneficiaries).”¹⁵ More recently, the operator reported tough trading conditions, especially during the first half of 2006 when the lodge performed somewhat below the levels predicted in the original business plan. This led to some concern that the Balete Trust might struggle to meet its debt servicing commitments in 2007/8. However, in August 2006, the operator – with the consent of the trust – amalgamated its business with The Madikwe Collection, a group with a significant economy of scale in Madikwe. The most recent figures from Buffalo Ridge indicate that the lodge’s performance has improved with record occupancies and revenues in the course of 2007.

Thakadu River Camp was launched under the new operating arrangement described above. The lodge has done extremely well during its opening months, performing above predicted levels and generating a profit during its first six months of operation. The lodge is also the first in Madikwe to be fully staffed from the local community with all positions – including top management – filled by residents of Molatedi. Early indications are therefore that Thakadu will exceed the local benefit levels anticipated in the planning stages of the project.

¹⁵ Massyn & Koch, 2004: 78.

A word of caution is perhaps appropriate here. It is often argued that the sectoral attributes of the tourism industry create significant risks for the sustainability – or indeed the achievability – of high levels of community benefit. Tourism generally, and nature tourism specifically, is a large and highly competitive global industry with complex linkages at the local, national, regional and international scales where supply and demand conditions are often shaped by external factors beyond the control of local actors.¹⁶

This is undoubtedly true, and there are many instances where the industry – and local benefit with it – has suffered due to events beyond the tourism sites. The recent near collapse of tourism in Zimbabwe is a southern African case in point. Even in Madikwe, the robust commercialisation approach of the NWPTB has created a rapid expansion in supply of beds that has led to cut-throat conditions with a large number of new entrants competing aggressively for market share. Under such circumstances, a lodge like Buffalo Ridge faced severe competitive pressures and fell somewhat short in delivery of economic benefits during its establishment phase. (These pressures are likely to be especially acute in the short term as Madikwe struggles to emerge as a regional destination capable of attracting sufficient market share.) But this is not in my view a reason to eschew participation in the tourism market. It is doubtful whether the risks flowing from the fluctuations and uncertainties of tourism are in fact greater than those associated with other global industries (such as mining or agriculture) or indeed subsistence strategies that often make poor households heavily reliant on nature (which can fluctuate at least as much as, and often with worse consequences than, the market).

Whatever the case, it is clear that the rural poor are inherently vulnerably. Tourism – like other sectors on which the poor rely – faces real risks which should be factored into the overall livelihood strategy of poor rural communities as they integrate into this particular market. Having recognised the risks, it is however also clear that participation in the tourism industry holds great potential for the economic advancement of the poor provided the industry's specific risk profile is understood and appropriate mitigatory measures are put in place. This is a complex argument which is beyond the scope of the current paper. Suffice it to say that the arrangements at Buffalo Ridge and Thakadu were designed with this in mind: the very decision to contract the services of a well-endowed and proven partner was rooted in an understanding that the competitive conditions of the high value tourism market require operating and marketing resources far beyond the capabilities of a group of rural residents. Given this partnership, the community-owned lodges in Madikwe appear to be relatively well positioned to weather the storms of competition and to deliver the economic benefits sketched above, especially under the new arrangements sketched above.

¹⁶ See, for example, Turner, 2004: 6 – 9.

2.7 The community-level process

From the outset, the Madikwe Initiative recognised that the notion of 'community' was in fact inappropriate when describing the various disparate groupings that existed in and between the villages. Massyn and Koch describe the "fragmentation and fissure" that characterised the politics and institutional conditions at the local level: "complex and unstable local governance was one of the key problems encountered in the early stages of trying to create some real integration between the game reserve and the socio-economic needs of the village residents."¹⁷

In attempting to establish coherent institutions to take ownership of the opportunities offered by the NWPTB the Madikwe Initiative thus faced a major challenge familiar to many working in the development field.¹⁸ The establishment of development trusts at Lekgophung and Molatedi required an intensive institution-building programme funded and coordinated by the Madikwe Initiative. Given the social complexity described above, this process had to be highly responsive to local conditions and closely integrated with village-level power structures and local government activities. It included extensive discussion of legal options and their implications in community workshops, training for trustees, and support in establishing the trusts. "Key support providers during the MI have included Mafisa, the Centre for Community Law and Development, the Community Development Officer of the Local Government, and more recently the NWPTB Community Development Officer. General practice under the Madikwe Initiative of the principles of participation, consultation and transparency has strengthened the culture of democracy and accountability."¹⁹

The key intervention of the Madikwe Initiative "was to recognize that the residents of the different villages around Madikwe did not form a single cohesive 'community' and that there were, indeed, many different groups and 'stakeholders' active in and around the reserve." Instead of relying on some fictional notion of community coherence, the programme set about facilitating new institutional frameworks in the various villages that recognised the social complexities at each location. A bottom-up planning process was started "to create legal entities that would replace the multiple and fragmented structures ... with stable and properly constituted structures capable of ... managing the various

¹⁷ Massyn & Koch, 2003: 24. Many other scholars have challenged the notion of 'communities' as coherent and homogenous collectives. See, for example, Turner, 2004 and Agrawal & Gibson, 1999: 629 – 649.

¹⁸ The effective integration of rural communities, characterised by underdeveloped human and social capital, "into a modern, sophisticated export service industry like tourism is an endeavour of Herculean proportions." See The ComMark Trust, 2005: 7.

¹⁹ Massyn & Swan, 2003: 12 –13.

commercial activities that were being created in and around the reserve for local residents.” This institution building process “was closely integrated with the activities of local government to ensure that the representative entities formed through the initiative knitted into the frameworks and priorities of the new municipalities. The outcome was the establishment of [a] legally constituted development trust, which was broadly based... but also closely aligned to both traditional tribal and local government-sponsored structures. Amongst many gains, this alignment allowed the trust to draw on the existing administrative infrastructure of the village”.²⁰

The ongoing governance performance of the Balete and Sebolao trusts will largely be a factor of local social capital. “In addition to the formal legal structure, local social and organisational culture, leadership and gender dynamics are key factors. The Balete ethnic group has been relatively successful in maintaining traditional cultural norms and values. In addition, democratic culture has evolved through the village development structures in recent years, in particular in the local government-facilitated RDP Forum.”²¹ In everyday practice, these traditional norms and leadership dynamics will continue to exert influence. Already, it is evident that conditions in the two villages differ considerably. In Lekgophung, the tribal authority and village administration are relatively weak and involved in complex disputes with a neighbouring chieftaincy that collaborated closely with the former Bantustan regime of Bophutatswana and that claims paramountcy over the Balete. This has led to the systematic underdevelopment of Lekgophung over many years, which is evident from a number of welfare indicators that show the village to be comparatively worse off than its immediate neighbours. One of the many consequences of this situation is that the Balete trust could not draw on a functioning local tribal or village administration. It has instead had to develop its own capacity in difficult circumstances and with limited resources. The case at Molatedi is very different where a strong traditional authority – with well-established links to the new political structures at local and provincial level – has combined well with post-apartheid local government. The Sebolao Trust has drawn on the legitimacy and institutional capacity of these structures. It quickly established a relatively efficient administration that, for example, administered the entire construction budget (R10-million) at Thakadu.

The stability of the trusts and their ability to manage and disburse significant resources will be tested in the coming years. There are however certain factors that count in their favour. First, the boards of trustees include outside appointments: a lawyer from the Centre for Community Law and Development, a regional NGO based in a provincial university, and a representative of local government. These persons bring specific skills

²⁰ Massyn & Koch, 2003: 25.

²¹ Massyn & Swan, 2003: 13.

and a high degree of commitment to the governing bodies of the trusts. Second, the private operating partner provides ongoing support to the administration of the trusts. This support is rooted in the partnership between the two parties: the operator derives its rights in the businesses from the trusts (which hold the head leases and “own” the lodges) and therefore has a clear – and continuing – interest in ensuring that the trusts are administered properly and comply with all their legal obligations. In this sense, a supportive partnership, rooted in self-interest, has been established between a well-resourced private business and the two local community trusts. Nevertheless, the trusts involve multiple and often conflicting local interests and it is certain that their institutional coherence will be strained as they mediate struggles around the distribution of resources and perceived disparities in benefit. This is likely to be particularly testing at Lekgophung where local socio-political conditions are less favourable and where the ability of the business to service the debt incurred by the trust has been tested by the early underperformance of the lodge. Whether the trusts maintain a sufficient degree of organisational integrity will be one of the long term tests of success for the Balete and Batlokwa projects.

2.8 Conclusion

As part of broader structural reform, many of southern Africa’s conservation agencies are currently undertaking programmes to commercialise the wildlife estate under their control in a manner similar to the approach pioneered at Madikwe. Widespread market-led reform of the region’s state-owned conservation estate creates significant opportunities for an application of the Balete/Batlokwa model at scale across southern Africa.

Interestingly, the approach has been adopted by two of southern Africa’s premier game lodge operating companies. Wilderness Safaris is already involved in several such partnerships with local communities in South Africa and elsewhere on the subcontinent. And Conservation Corporation Africa is considering similar partnerships for new developments at several of its existing lodge nodes. The adoption of the “Madikwe model” by major private firms is one of the clearest indications that the Madikwe project has “opened a credible path to a more inclusive market without ongoing developmental intervention or subsidy”. In this way, it would seem the project has passed the “developing the market” test prescribed by Gibson, et al.²²

²² “While there are comparatively few hard and fast ‘do-and-don’t’ rules in MMW4P, the same underlying test for actions always applies: is this action contributing to the development of the market? Or the converse, is it distorting the market? Is this activity consistent with our vision of how this market can work more effectively and sustainably for the poor in the future? Can we identify a credible path to a functioning market without on-going development intervention or subsidy? Is this intervention addressing

The apparent success of the Madikwe model may be attributed to several factors including:

Market-friendly approach

The Madikwe project was characterised by a thoroughgoing commitment to the principles of market-based sustainability during all the stages of the project cycle (conceptualisation, planning and implementation). It appears the interventions of the support programme at Madikwe were consistently designed to increase the poor's level of participation in an enterprise which was geared to operate sustainably within the highly competitive tourism market. So, for example, the project involves risk-bearing commercial partners, both as financiers and operators of the capital assets. These partners are well suited to ensure market sustainability not least because they are exposed to significant financial risk. Particularly interesting was the use of a relatively small grant to fund the community's equity in the capital assets, which was then used to leverage loans and investments from a variety of commercial sources in a manner that avoids distortion of incentives or prices.

Conducive institutional environment

The institutional environment within which the Madikwe projects unfolded was largely conducive to the establishment of a community-owned but market-based enterprise.

- The public-private partnership rules applying to commercial development of state-owned parks provided a stable set of rules within which the roles, rights and responsibilities of the various parties could be clearly defined. The community partners acquired formal land rights from the state within a settled legal framework and were able to use these rights to structure an advantageous relationship with a private operating partner. Importantly, the arrangement sat comfortably within the new conservation approach where the state seeks to offset the costs of protected area management through the optimal harvesting of returns from public-private partnerships. From the financial perspective of the conservation agency, the communities were treated like any other private partner and were thus expected to pay a full rental for the land rights acquired via the lease agreements.
- At the local level, much effort was expended to facilitate the emergence of an organisation with the capacity to mediate social complexity *and* operate successfully as the owner of a major business asset. The long-term success of this process

the underlying causes of ineffective, non-inclusive market performance? This is MMW4P's acid test, against which everything has to be justified." Gibson, et al, 2004: 19.

remains open to question but the partnership underpinning the business creates a potentially productive environment for the emergence of “Transaction Governance Capacity” in the sense described by Prahalad (see below). The challenge at Lekgophung and Molatedi, as in many other settings, is to stimulate the capacity of local actors to operate successfully within the rules of the formal economy. The ability of the corporate entities representing the interests of the communities to do this sustainably will be an acid test of the project’s long term success.

Competent technical support

In the Madikwe project, the contributions of the key players were carefully considered and appropriate roles defined at an early stage. So, for example, the role of the development agency was limited to that of temporary facilitator; through the Madikwe Initiative, technical assistance was focused on building the participation of the community partner in the tourism market. Holding rights to a valuable commercial resource (such as the long term leases the Balete and Batlokwa acquired under the Madikwe Initiative) is an important starting point but this structural advantage must be converted into an advantageous set of arrangements through effective bargaining. Where local people (such as the Balete and Batlokwa) lack the institutional coherence and technical capacity to bargain effectively, the potential advantages of their position may easily be squandered. Appropriate technical assistance was therefore vital to ensure that the Balete and Batlokwa acquired the institutional capacity and other know-how to optimise their integration into market. This involved not only the “softer” developmental approaches that many NGOs excel at but also a strong business orientation underpinned by a thorough knowledge of the tourism industry.²³

3. THE MAKULEKE EXPERIENCE²⁴

3.1 Background

In May 1998, the Makuleke community signed an agreement with SANParks (South African National Parks) which has become a celebrated case often held up as an

²³ “This is a typical problem seen in many NGOs working in business development globally. In attempting to achieve a multitude of aspirations ... social/welfare-oriented approaches are extended to business development. This undermines business-like attitudes and relationships and [leads to] the support of unviable products or poor business structures on social grounds.” The ComMark Trust, 2005: 21

²⁴ This section draws on the experience of the authors who was a member of FoM from its earliest stage until the conclusion of the deal with Matswani Safaris. Much has been written about the Makuleke experience but the current paper draws principally on personal experience and related publications, especially Massyn & Koch, 2003.

important model for rural communities who wish to use their land and associated resources to promote economic growth, job creation and a better way of life for their people.

The agreement does five important things:

- It grants formal ownership to the Makuleke people of a piece of land between the Luvuvu and Limpopo Rivers from which the people were forcibly removed in 1969 during the consolidation of the Gazankulu bantustan. The Makuleke land is of particular strategic interest not only for its considerable biodiversity and tourism value but also because it forms a pivot for the greater Limpopo transfrontier conservation area.
- To do this, it effectively excises some 24000 hectares of land between the two rivers from the Kruger National Park. This land was then been reclassified and reincorporated into Kruger as a contractual park. Although ownership changes hands, it effectively remains within the same conservation system and is managed according to common principles that protect wildlife in the rest of Kruger.
- The Makulekes, in return, guarantee to use the land in a way that is compatible with the protection of wildlife. They will not occupy it or farm or undertake any activities that would undermine the conservation objectives of the park.
- The Makulekes have full rights to commercialise their land in the park by entering into partnerships with private investors to build game lodges and camps as long as these are consistent with the wildlife management policies of the SANParks. However the Makulekes are able to undertake a range of commercial and development activities in their region of the park that are not allowed in a national park.
- It sets up a joint management board made up of representatives from the Makuleke villages and the conservation agency that will govern the way in which the wildlife of the area is protected. This institution is designed in such a way that SANParks gradually hands over its expertise in these matters to residents of the villages who will be trained in wildlife management.

The return of the land to the Makuleke, coupled with a commitment on their part to retain the conservation status of the land, has paved the way for an integration of a poor rural community into the mainstream of the tourism economy.

3.2 Lodge development

The land restitution agreement gave title over the land to the Makuleke Communal Property Association (CPA). The CPA is the legal vehicle that represents the beneficiaries

of the land claim, i.e. the descendants of people who were removed from the Makuleke region in 1969. And it gave this CPA the right to conduct a commercial planning process independently of SANParks.

Guided by these principles, the CPA commenced with a technical development planning process late in 1998. The CPA involved SANParks in the early stages of this process. This was considered necessary to avoid the development of plans that clashed starkly with KNP conservation objectives for the area.

The commercial development planning was conducted by a team of external tourism and development practitioners consolidated into a structure called Friends of Makuleke (FoM). Each step of the commercial planning was linked with a community capacity building process in which all major decisions were workshopped with the Makuleke leadership, who in turn took these decisions to general community meetings for ratification. As in the case of Madikwe, a strong business orientation was brought to the commercial planning process. This was ensured through the involvement of tourism industry experts including advisors from the major private lodge operating companies. In this way, the planning process was, from the outset, guided by a thorough understanding of the tourism market.

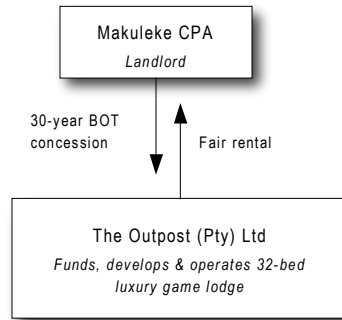
The Makuleke commercial development plan that resulted from this process envisages the creation of several high-value game lodges as joint ventures between the Makuleke CPA and private investors during the first decade of Makuleke ownership. These lodges would be aimed at foreign and domestic tourists in the luxury end of the tourism market and be designed to optimise economic benefits to the Makuleke community. The latter would include land rentals by private lodge partners to the CPA; profits or dividends that the Makuleke people will earn as shareholders in the lodge companies; and quality jobs for Makuleke residents in the lodges.²⁵

A first competitive bid undertaken by the CPA with assistance from FoM, mobilised interest from a number of private firms. The CPA elected Matswani Safaris, an experienced private partner, from this list and finalized a concession contract to develop and operate a new 32-bed lodge. The lodge, known as The Outpost, was completed in 2002 and is currently operational.

3.3 Structural and legal arrangements

The structural arrangements underpinning the agreement are illustrated in the following diagram:

²⁵ Makuleke Communal Property Association, 1998a.



In terms of the concession agreement, the Makuleke CPA thus granted a privately owned company, selected via a competitive bid, a 30-year concession. Amongst other things, the concession agreement grants the private partner the right to build, operate and transfer back a 32-bed luxury lodge at a pre-selected site in the far west of the Makuleke Region;²⁶ and traversing rights over the Makuleke Region for the purposes of conducting game viewing excursions.

As in the case of the community-owned lodges in Madikwe, the private partner is expected to establish the lodge as a brand in the market and achieve prescribed social goals, such as the employment and training of local staff as well as the use of local entrepreneurs for the procurement of a range of goods and services. These goals are contractually entrenched in the concession agreement between the Makuleke CPA and the private partner.

²⁶ The Makuleke bid document clearly spelt out the principles underpinning the BOT-concessions offered to private partners. It emphasizes that the CPA will not lose ownership of land and the improvements that are created on it to the private sector. It thus stresses the principle of Build, Operate and Transfer back: "One of the core commitments of the CPA is to promote the local economy. To this end, the CPA must be the ultimate beneficiary of the projects envisaged in this document. In addition, ownership of the Makuleke Region will remain vested in the CPA, so that, in law, ownership in and to the improvements on the land will vest in the CPA. Secure tenure to the development sites, with sufficient opportunity to realise a fair and reasonable return from the investment, will however be built into the project. "The notion of build/renovate-operate-transfer (BOT/ROT) will apply to the projects and must be recognised in the Bids. Briefly put, BOT/ROT implies that the project developer will acquire access to the land under a secure tenure arrangement, will build and/or renovate whatever improvements are required for the project and maintain such improvements for the duration of the project. At the end of the occupation period, the project developer will deliver possession of the land and buildings to the CPA (as owners thereof in law)."

Makuleke Communal Property Association, 1998b: 8.

3.4 Capital funding

Unlike the Madikwe case, the Makuleke CPA did not attempt to raise capital for investment in the lodge infrastructure. In the Makuleke case, the private partner is responsible for all the expenditure associated with the lodge. It is therefore obliged to fund not only the planning and development of the lodge infrastructure but also the fittings, furnishings, equipment and other capital requirements of the enterprise.

3.5 Financial arrangements

In terms of the concession agreement, The Outpost must pay the Makuleke CPA:

- An 'initial fee' of R200,000;
- An annual concession fees equal to 10% of the turnover generated by the lodge; and
- a monthly traversing fee (escalating by an inflationary index) per game drive vehicle based in the concession area.

The concessionaire must also post a performance bond of R500,000 for the duration of the lease agreement.

As in the case of Madikwe, the financial agreement is underpinned by commercial principles. The rental payable by the private partner was achieved via a competitive bid and direct bargaining between Matswani Safaris and the Makuleke CPA (with assistance from the FoM). In conducting negotiations, the CPA depended on its technical advisors who had conducted a survey of rental agreements between land owners and commercial tourism developers at various sites in southern Africa.

3.6 Economic returns

The economic returns from The Outpost since its inception have been somewhat below the performance predicted in the planning documents produced by the CPA. This has been due mainly to the difficulty of pioneering a new and remote destination at a time of tight trading. Nevertheless, a recent interview with the private partner indicated that the lodge has now established itself in the market and is paying a significant rental to the CPA²⁷.

²⁷ Interview with Christoff van Staden, owner of Matswani Safaris, 7 May 2005.

3.7 Other developments

Hunting

In the course of the land claim negotiations, the Makuleke people stated their intention to use the natural resources of the area on a sustainable basis. In terms of the settlement agreement, hunting is accordingly permitted. This is on condition that hunting is sustainable and has no negative impact on the biodiversity of the region. In view of the considerable potential income, the CPA formally decided to proceed with planning of hunts once the land was formally transferred to the CPA.

After considerable deliberation, during which factors such as animal population densities, income per species and possible public reaction were considered, it was decided to offer two elephant and two buffalo for the first hunt. These numbers were felt to be well within the limits of sustainable use.

No hunting had taken place in the Makuleke Region over the past thirty years and it was reasoned that hunters would be willing to pay a premium for the first hunt in this internationally famous area. Although not obliged to do so, the CPA decided to call for tenders for the first elephant and buffalo hunts primarily to ensure that the best possible price was obtained, and that the process of selection of an outfitter (a professional hunter) was seen to be fair and transparent.

The tender was drawn up in collaboration with PHASA (Professional Hunters Association of South Africa), the formally recognised body representing the interests of professional hunters. Over 30 bids were received and evaluated by a Bid Evaluation Committee. This consisted of CPA representatives, a PHASA official, two representatives from the provincial nature conservation body, a member of the SANParks, and the wildlife adviser to the Makuleke.

The successful bidder offered US\$27 000 per elephant and US\$10 000 per buffalo. The total SA Rand value of the bid, including daily fees, amounted to more than R460 000.

Thereafter, the CPA conducted limited hunts every year until 2004, which were successful in generating significant revenue for development projects in the Makuleke villages. The number and type of animals to be hunted in this way were agreed every year with SANParks, often only after strong debate and disagreement.

The Wilderness deal

During 2004, the Makuleke CPA conducted a second round of competitive bidding, which resulted in an agreement with southern Africa's leading game lodge operator (Wilderness Safaris). Structurally and financially, the deal is similar to The Outpost, with the private firm acquiring the right to develop and operate game lodges on the Makuleke land in return for 8% of turnover. The private partner has agreed to develop a maximum of three lodges on the Makuleke land. A first 40-bed development opened in June 2005.

However, unlike The Outpost agreement, the new arrangement gives Wilderness *exclusive* commercial rights over the Makuleke land for a period of 45 years. With the Wilderness deal, the Makuleke have therefore foreclosed all further commercial development on their land for a period of 45 years. This decision to grant a single firm *exclusive and* long-term rights has been controversial and I shall return to it below.

Wilderness Safaris also considers hunting to be incompatible with photographic tourism and insisted that the CPA stop commercial trophy hunting on their land as a condition for the deal between the two parties. The Wilderness agreement thus prohibits hunting on the Makuleke land (except for a small portion in the far north west which falls outside the former boundaries of the Kruger National Park). This means that the CPA has effectively foregone future hunting revenue in favour of lodge development. Again, it remains to be seen whether the long term gains for the Makuleke from the Wilderness deal outweigh the opportunity costs associated with the closure of the hunting option.

3.8 The community-level process

Like at Madikwe, the community-level process at Makuleke is extremely complex. The following section provides no more than a highly abbreviated view of what is a very rich topic.²⁸

Some important factors distinguish the structure of the current-day CPA at Makuleke from similar institutions in rural communities elsewhere in South Africa:

- First, the establishment of FoM provided the Makuleke with something like a 'community-dedicated NGO'. In the course of the land claim negotiations it had become increasingly apparent that the Makuleke needed an 'inner circle' of external contacts, a smaller group of supporters and technical experts that could be relied upon to support the Makuleke cause. Importantly, this group, like in the Madikwe

²⁸ The most extensive discussion of the social and political dimensions of the Makuleke case is to be found in Steenkamp, 2001.

case, combined a strong commercial orientation with a set of social and facilitation skills.

- Second, going back as far as 1996, the tribal authority, with the support of FoM and donors such as the Ford Foundation and GtZ Transform, started a process of slow institution building, commencing with the establishment of what was called the 'implementation office'. The person appointed as 'implementation officer' then resigned from the executive committee. This was an important step because it created a clearer distinction between the board of the CPA (the governance body) and the implementation office (the executive or implementing arm). The implementation office became the administrative arm of the CPA and currently manages the day-to-day the interaction between the CPA and external actors like the private sector, the state, FoM and consultants. In the course of the land claim and the commercial development process, the CPA and its implementation office has built up significant organisational capacity.

- Third, the creation of the CPA as the organisational form used by the Makuleke to regain ownership of the land automatically weakened the position of the tribal council and the chieftaincy. Until recent amendments, the CPA legislation did not provide traditional structures, such as the Makuleke chieftaincy, with any role, but was aimed at 'democratising' development by setting in place modern procedures of accountability and transparency. Thus all representatives on the CPA executive are elected and regular feedback has to be given at general meetings to the entire CPA membership. Chief Makuleke was nonetheless elected into the CPA executive and appointed by the CPA executive as their chairperson. The result is a hybrid organisation in which the CPA relies on the culturally entrenched acceptance of the chieftaincy as an institution. This combination of new and old structures provides the CPA with a degree of social sustainability that would otherwise not be possible.

- Fourth, the Makuleke CPA and the civic bodies have realised that the CPA has certain limitations when it comes to the management of commercial and economic activities. A key task was to come up with an institution that can own and manage land and its resources in a collective way but also effectively manage complex businesses and interactions with the private sector. After much discussion about the appropriate legal entity to use, the CPA formed a development trust to manage the financial and business affairs of the CPA. This trust is made up of three members of the CPA executive committee, a lawyer and a representative of the Department of Land Affairs. This represents an attempt to create a 'hard' structure on a community level to engage the private sector and the state on an equal footing.

3.9 Conclusion

Many of the factors contributing to the success of the Balete and Batlokwa projects were also present at Makuleke. Like in Madikwe, a clear rights framework, market sustainability, appropriate role definition and responsiveness to local institutional conditions contributed to a high level of integration between the land-owning community and the tourism business. And, as in the case of the Balete and Batlokwa, a broader national reform programme – market-based liberalization of protected areas in the case of the Balete and South Africa's land restitution process in the case of Makuleke – created conditions seemingly conducive to an application of the Makuleke approach at other locations. Many of South Africa's prime protected areas are under claim by former beneficial occupants in terms of the country's post-apartheid land restitution legislation. This opens the way for Makuleke-style settlements throughout the country's protected area system with wide-ranging potential to stimulate more inclusive markets in the wildlife industry.

However, unlike the situation at Madikwe where the Balete and Batlokwa projects functioned comfortably within the 'new' market-based approach to public conservation, the Makuleke 'model' seems to have encountered considerable opposition from within the state's conservation establishment. This is a consequence of a tension in state policy between the promotion of land restitution in public parks (such as Madikwe, Kruger and greater St Lucia) and the need of state conservation agencies to appropriate rents arising from the commercial development of these protected areas. If land rights and the associated rentals are ceded to land claimants, the conservation agencies run the risk of losing a valuable income stream. In addition, these agencies are wary of the implications of joint management agreements that threaten to undermine their control of key conservation assets and to introduce costly inefficiencies by 'balkanising' protected area management. The upshot of this tension is that, despite its early promise, the Makuleke approach has run into resistance at various levels in the state hierarchy (including the most senior levels of SANParks) and has not spread into the mainstream of the state's restitution approach. In this sense, the Makuleke project may have brought significant gains for a group of rural residents, but it does not seem to have opened the way for an expansion of the model at scale.

There are also indications that, while they have benefited considerably from their ownership of a valuable tract of land, the Makuleke may not have optimised their integration into the nature-based tourism market. For example, they did not use their position as landowners to raise capital on the financial markets for investment in the capital assets on their land (as they undoubtedly could have done) thereby forging the

returns associated with one of the principal factor inputs (financial capital) of the tourism market. Instead, they have opted to rent their land to firms that raised capital privately.

And there are lingering questions regarding the deal between the Makuleke CPA and Wilderness Safaris, particularly regarding the long-term opportunity costs associated with the closing of the hunting option and the granting of an exclusive lease over all the Makuleke land to a single firm for a period of 45 years. These concerns require further consideration as the Makuleke experience unfolds, but they may point to a failure in the technical advice received by the Makuleke, especially during the second-round of bargaining that led to the Wilderness deal.

4. CONCLUDING THOUGHTS

The Madikwe and Makuleke cases have figured prominently as pilot projects. Each was explicitly designed to demonstrate how poor rural communities can use formal land rights in core protected areas to achieve high levels of participation in the tourism market. But in terms of actual impact the experience of the two cases is different. The Madikwe approach seems set to stimulate wider market change with the incorporation of the model into the industry mainstream. This is mainly because it fits well with both the market and the state's framework for public-private-partnerships. By contrast, the Makuleke experience has not spread widely, mainly because of resistance from within the conservation sector of the state. In the former case, broader institutional conditions favour replication; in the latter, it would appear they do not.

This leads to a final thought on the positive impact of the two cases in overcoming the traditional divide between the first and the second economies. In both cases, the granting of formal land rights and the resultant agreements with external actors have pulled the community partners into the formal economy. By going into partnership with established tourism firms, the community partners have entered a steep learning curve. This is reminiscent of the challenge described by Schirmer: "by becoming involved in poor areas and striving to construct effective workable business ecosystems, the corporations draw poor people into the market system and provide them with what Prahalad calls 'Transaction Governance Capacity'. This entails a learning or mentoring process whereby poor people become trained in the ways of entering into and enforcing contracts while simultaneously developing a commitment to honour the legal system. By benefiting from the workings of the market poor people begin to understand that respecting contracts creates a win-win situation for them and the firm they are engaging with."²⁹

²⁹ Schirmer, 2005: 10. This suggests an interesting avenue for future research, which would build on the work of Prahalad by focusing on the role of private business partners in the nature tourism sector as

This is certainly true in both cases. The community institutions, as well as the individuals involved in these organisations and their associated tourism businesses, have been drawn into the market system and are developing the skills necessary to operate in the formal sector. This is however a slow and difficult process that may be illustrated by way of a closing example. Before the start of the projects, tax compliance in the two communities was negligible. Indeed, the community leaders had little or no knowledge of the tax system and the idea of operating within the tax net was almost entirely foreign. As the projects developed, this situation changed dramatically. Not only have the lodges' employees been brought into the tax net but the community institutions themselves have had to develop the capacity to administer both income and value added tax. This has not been without struggle. Although the individuals involved are understandably reluctant to disclose details, it would appear the Makuleke CPA initially neglected to register for value added tax and is currently involved in difficult negotiations with the South African tax authorities to regularise its position. This type of engagement is remarkable because it shows a group of rural people, who used to operate in the informal sector, grappling with the rules of the formal economy. The outcome of this process will be fascinating to watch: the ability of those who were previously outside the system to work within the ambit of the law is crucial if they are to integrate successfully into the market.³⁰ This is major challenge against a background where the law is traditionally seen as alien and oppressive but it is a challenge that must be overcome if people such as the Makuleke, Balete and Batlokwa are to bridge the 'fundamental disconnect' that bedevils development in many African settings.³¹

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'nodal firms' building market-based ecosystems that draw the poor and marginalized into the formal economy.

³⁰ The accommodation between the law and emerging entrepreneurs is central to the work of writers such as De Soto (2000) and Prahalad (2005).

³¹ Gibson et al., 2004: 10.

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