



SADC PPP CASE STUDIES

Public Private Partnerships (PPP) can be accompanied by difficulties, particularly in the context of developing countries. Given that PPP can be an instrument for financing infrastructure development in the Southern African Development Community (SADC) region, these systemic weaknesses need to be addressed at both national and regional level. To assist in this regard, the SADC Secretariat and the SADC Development Finance Resource Centre (DFRC), in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has commissioned a series of case studies examining private sector experiences of Public Private Partnerships (PPP).



A CASE STUDY ON COVANE COMMUNITY LODGE

NOVEMBER 2012

FIRM OVERVIEW

Title	Covane Community Lodge
Name of private sector partner	Barra Resorts
Nationality	South Africa
Sector	Tourism
Countries where doing business	Mozambique
PPP Type	CPPP
Partners	Mozambique Government through the Department of Land (as land owner) Barra Resorts (as business owner & operator) Covane community (as land lease holder and infrastructure owner)
Transaction advisors	African Safari Lodge Foundation (ASLF), Technoserve, LUPA

BACKGROUND

Barra Resorts owns 6 lodges in Mozambique. The Covane Community Lodge at Massingir Dam in the Gaza Province of southern Mozambique is the latest acquisition for their product range. The lodge should be finally complete in latter 2012, however the project began as a CPPP in 2000, when support from Helvetas and USAID financed a community initiative. In 2006 the struggling venture sought a private sector partner. Transfrontier Park Destinations (TPD) became involved after signing a 20 year lease, but pulled out of this partnership two years later in 2011, citing a wide range of challenges.

The community then approached African Safari Lodge Foundation and Technoserve to assist in the revitalization of the lodge and in the search for a more appropriate partner.

Money from the World Bank & Ford Foundation, channeled through the Transfrontier Unit of the Ministry of Tourism, of the Mozambique Government was secured to expand the lodge, purchase 2 houseboats, a game view boat and two smaller all-purpose boats. After a failed open tender process, ASLF targeted specific operators in the tourism sector with the Covane Community Lodge proposal. In 2012, Barra Resorts came onboard with a much simplified partnership arrangement.

While the partnership is technically a Community Public Private Partnership, the state is effectively a “sleeping” partner, and its presence is not particularly felt. It is the land owner, but has provided a duarte, or long term lease to the Covane community.

The nature of the partnership has meant that the facilitation agents, ASLF, Technoserve and Lupa have played a strong hand in the arrangement. It is likely that the former two will fade from significance, while LUPA will likely continue providing technical and advocacy support to the Covane community.

BARRIERS ENCOUNTERED BY PRIVATE SECTOR PARTNERS

Most of the problems experienced by the original private sector partner, which was a South African company with no prior dealings in Mozambique, related to their lack of familiarity with the Mozambican local conditions. These issues included local laws, community issues, and a lack of experience in cross-border regulations from both South Africa and Mozambique. It was clear that the first operator also had little experience in working in partnership with local communities. They specifically cited the following frustrations:

- Mix of construction and operation activities with no clear reporting system
- Delays in construction
- Miscommunication raised tension in the relationship with the community

A number of other concerns and barriers were identified by the transaction advisors such as the fact that the requirements of local regulations were confusing to Transfrontier Park Destinations (a first time investor), resulting in endless frustrations regarding water use permits, local labour laws, and taxation. The challenges of aligning cross border financial and taxation regulations was identified because it was clear that the operator was unfamiliar with Mozambican financial and taxation regulations, and failed to gain a working knowledge of same to the point where they found themselves in conflict with and frustrated by local financial agencies.

The fact that there were many stakeholders in the deal including the government, the community and the private investors – but also NGO’s and additional transaction advisors was another barrier.

The private partner experienced challenges of aligning various procurement requirements, including those of World Bank, and those of the Mozambican government, and linked to this, the fact that there were limited investment reserves to invest in Covane Community Lodge, resulting in a reliance on donor resources.

Marketing costs put significant pressure on the enterprise and as a small single enterprise the original lodge was unable to leverage enough business, and when the tourism industry generally was under pressure in the mid to late 2000s, this rendered the enterprise only marginally viable, which coupled with the other challenges led to TPD pulling the plug on the operation.

Interestingly, many of the challenges that faced Transfrontier Park Destinations were not barriers for Barra Resorts, precisely because the latter has been operating in Mozambique for years, and was able to add Covane Community Lodge to its suite of tourism products. Barra effectively runs a route of products, and the Covane Community Lodge location and product offering fits very well into that, offering real value add.

Barra Resort's long presence in Mozambique means that they are both familiar with local conditions and issues: they have a sound and practiced knowledge of the local regulatory environment, and have built up relevant relationships with the Mozambican authorities and with their local counterparts.

Barra Resorts also has independent investment reserves which enabled them to tailor the product to fit their particular market segment demand, and are able to also forge the kind of win-win partnership arrangement with the Covane Community that will, in the long run, provide protection to the partnership agreement. Their water harvesting and provision project, and their proposed tilapia farming project may yield significant benefits to the local community, in ways that the lodge alone could not do.

The challenges facing Barra Resorts in respect of the Covane Community Lodge are less than those faced by TPD, however they have identified two main concerns:

1. Issues related to access to the Lodge by their target users by way of the most appropriate route through the Giriyoondo Gate in the Kruger National Park. This is unlikely to be an enduring problem.
2. Capacity constraints within the Mozambique Government's Ministry of Tourism to efficiently manage World Bank grants, whose accountability, procurement and payment systems are particularly complicated.

IMPACT OF BARRIERS

If the private sector partner finds itself vulnerable to the issues such as did TPD, then the impact of the barriers identified is fundamental, and, as in this case, the partnership is destroyed. It is clear that barriers must be identified, and factored into partnership arrangements, and then proactively managed.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

TPD was not able to weather the challenges faced in the Covane Community Lodge CPPP, nor were they able to renegotiate a more efficient practice. The net result was their exit from the arrangement.

Barra Resorts came in with a better knowledge and experience base, a sounder operational model, capital, and an internal infrastructure that could make the size of the operation not a barrier, by integrating it into their other products.

With regard to their biggest barrier, namely the access route via the Kruger National Park, Barra believes that this will be resolved in time through negotiation with SANParks authorities.

The World Bank & Ford Foundation grants are administered through the Ministry of Tourism, and there have been challenges around systems of accountability which have required assistance from transaction advisors and high-level interaction with policy makers.

The issue of access through the Kruger national Park has political sensitivities, and has required interaction with policy makers in Mozambique as well as South Africa. Aside from the grants and issues related to tourism and taxation regulations, the role of the public sector has been limited in the case of the Covane Community Lodge. As the land-owner, the land use arrangement (or *duarte*) gives long term land use rights to the Covane community.

OUTCOME FROM REACTION TO BARRIER

In this case, a productive outcome was secured through the active intervention of ASLF, through the "headhunting" of Barra Resorts. If this had not happened, the loss to the Covane community and the Ministry of Tourism would have been substantial.