

Summary Report on: A Proposed Business Model for a Conservation Based Property in a Conservancy in Zimbabwe

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November, 2013



This report was made possible by the generous support of the American people through the United States Agency for International Development (USAID) under the terms of Cooperative Agreement No. RLA-A-00-07-00043-00. The contents are the responsibility of the Africa Biodiversity Collaborative Group (ABCG). Any opinions, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect the views of USAID or the United States Government. This publication was produced by African Wildlife Foundation on behalf of ABCG.

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Executive Summary

Over the past year with support from USAID through the Africa Biodiversity Collaborative Group (ABCG) the African Wildlife Foundation (AWF) has conducted extensive research on the wildlife sector in Zimbabwe; the role of conservancies in Zimbabwe and Africa; and potential business and structural models that may be applied to conservancies in Zimbabwe to achieve long-term conservation, social and economic sustainability. This work has been completed at the request of the Zimbabwe Parks and Wildlife Management Authority (ZPWMA).

In 2007, Zimbabwe adopted the Indigenisation and Economic Empowerment Act (IEEA) with a goal to support the economic empowerment of indigenous Zimbabweans. AWF assessed conservancies throughout Africa, and while diverse, one of the key factors for success is the meaningful integration of communities into conservancies. AWF recommended that conservancies play a key role in Zimbabwe and that private conservancies in Zimbabwe should integrate the surrounding communities where feasible to meet the IEEA as well as to ensure the long term sustainability of conservancies.

The objective of the IEEA is not to simply create a situation where the indigenisation partner is given shares, sits in the background and receives a payment at the end of the year. Rather it is intended to ensure that in addition to receiving a share of the economic benefits from the business, indigenous Zimbabweans are also provided with training and employment opportunities and that they learn the skills to, over time, develop and expand the businesses in which they have become involved. In addition, communities must contribute something towards the model to ensure risk and meaningful involvement.

AWF proposed an overall model for a conservancy in Zimbabwe that looked at the macro-level (the whole conservancy) as well as governance (the board) and at a property level (the pieces that make up the whole conservancy.) AWF completed this model in September 2012; however, the process has not moved forward because of political delays. As a result, AWF looked at a property level investment in one of the conservancies and made an assessment of the property in relation to the requirements of the Indigenisation policy. This model may result in each property within a whole conservancy indigenising; therefore, incorporating communities into the whole through a step by step approach.

Introduction

Conservancies in Zimbabwe mainly include several properties with different owners. What is explored hereafter is a proposed model for property level integration of communities. The corporate model for the property, developed by AWF, proposes to meet the requirements of Zimbabwe's indigenisation laws by establishing a new operating company in which the surrounding communities hold an ownership interest. It is proposed that this company will carry out all enterprise and other management activities on the property.

The study worked towards rationalizing the various enterprise opportunities and to estimate the scale of investment likely to be necessary to redevelop enterprise on the property. It also estimated the proportion of future annual revenues which will accrue to the community partner entity and this information would then be used to support the process of building an understanding and political acceptance of the proposed indigenisation model.

At such point as there is broad acceptance of the proposed model from the appropriate authorities, a more detailed business planning process will be necessary to support any possible investment by donors on behalf of the community partner.

Proposed Model

The model proposes formation of a new limited liability company, registered in Zimbabwe, in which all the partners will be the shareholders bound by a shareholders agreement. This company will be granted (by means of the appropriate legal process) the sole rights to conduct all forms of enterprise and/or revenue generation on the land which constitutes the property, including but not limited to tourism, hunting, forest products, wildlife sales and carbon-related enterprise. The model will have two classes of shares in the company.

PROPOSED SHARES

'A' shares

These shares will represent the ordinary equity in the company that will entitle the owners to a corresponding proportion of the value of the company if it is ever broken up or sold. The community entity (the proposed indigenisation partner) will own the majority (51%) of the company. The rights relating to management responsibility and receipt of revenue by the community will be defined in the shareholders agreement.

'B' shares

These shares will be owned 100% by the community entity. The owners of these shares will be entitled to an agreed percentage of annual revenue from the company, which will be honored regardless of whether or not the company achieves profitability. The proposed layer of 'B' preference shares recognizes that simply owning the majority of shares in a company does not necessarily mean that there will be an economic return for the indigenisation partner. If the company does not make a profit, there will be no return for the community. Therefore the 'B' share class, which will be 100% owned by the community, will ensure that the community benefits from a defined proportion of the company's annual gross revenue regardless of whether the company is profitable or not. This element of the model draws from AWF's experience elsewhere in Africa where community partners are typically involved on the basis of revenue share rather than profit share. This is a far more certain and predictable source of return and avoids potential misunderstanding/suspicion between the investor and the community partners in future.

INCORPORATED COVENANTS

Covenants and agreements to be considered in the proposed model include:-

Indigenization Covenants

The proposed model has considered the spirit and intention of the indigenisation policy in Zimbabwe. Accordingly, this model proposes to create a system of 'Indigenisation Covenants' which will be incorporated into the shareholders agreement and which will oblige the management of the new company to do the following:-

- Recruit employees wherever possible from the local communities
- Develop a training programme for indigenous company staff and management
- Work with local indigenous suppliers wherever possible
- Contribute to education and health programmes for the communities
- Assist the communities receive and distribute financial benefits in a transparent manner.

This aspect of the model requires further creative thinking between the Investor and AWF in order to ensure that it is practical and commercially viable. It is suggested that the 'points' system of the black empowerment model in South Africa may be a source of some relevant and practical ideas.

Conservation Covenants

The new company will also incorporate into its shareholders agreement a series of conservation covenants; which are basically guidelines towards implementing and enforcing management practices, comprising a set of land use and management covenants that restrict and prescribe certain activities in order to fulfill conservation objectives. They bind the party to on-site conservation practices as well as broader practices. These covenants will ensure that its operations are carried out in a manner that maximizes support for conservation and minimizes negative impact on the natural environment.

A system of conservation covenants will be put in place as part of the proposed financing of the new company with the following key focuses:

- i) Establishment of appropriate fee structures for each enterprise element which will maximise direct finance for conservation activities on the property;
- ii) Establishment of a revenue stream for the community partner entity through a mechanism based upon a percentage of annual sales revenue (this mechanism will also be enshrined in the founding documentation and shareholders agreement of the new company);
- iii) Obligations for local community employment;
- iv) Obligations for promotion of conservation (and where appropriate within this, specifically of AWF) in all aspects of the business operations;

Third Party Agreements

In the event that a particular aspect of the company's business operations is considered to be best outsourced to an entity other than the investor, the shareholders agreement shall oblige the company's management to only enter into a third party agreement with a company or other organization which has satisfied the indigenisation laws of Zimbabwe.

The company

The proposed new operating company will feature the following enterprise sectors:

- i. Nature/wildlife tourism
- ii. Sport hunting
- iii. Wildlife sales
- iv. Forest products
- v. Wildlife meat sales (assumes high numbers)

The following commercial attributes are believed to exist with respect to the property assessed (or could be established under effective management of the new operating company and with a conducive political and enterprise development environment):-

- 1) Positive photographic tourism industry reputation.
- 2) Positive hunting industry reputation.
- 3) Healthy wildlife densities.

The successful development of the proposed new operating company on the property will ideally result in the following positive conservation impacts:

- 1) Generation of operating finance for conservation management and security activities on the property;
- 2) Generation of revenue for the surrounding communities and thereby enhance their engagement in and support for conservation efforts in the property;
- 3) Creation of employment opportunities for surrounding communities, again enhancing their support for conservation; and
- 4) Creation of a corporate model which will hopefully be replicated in other conservation contexts (both on neighbouring properties and beyond) to meet indigenisation requirements and to increase political support in Zimbabwe for the conservation sector.

MANAGEMENT RESPONSIBILITY

Learning from successful models elsewhere in Africa, it is essential for the *management* of the company to remain the responsibility of the entity which has the most experience, networks and capacity in this regard. In the case studied, this would be the Investor. Although the investor will be a minority shareholder in the company, with a comprehensive shareholders agreement ensuring that they will retain the management responsibility for the new operating company. The senior management team and staff will be entitled to a fair and standard remuneration from the company for their services, and as a shareholder the investor will be further incentivized to generate profits for the company.

The shareholders agreement will also make provisions to avoid situations where the partner with management responsibility may be tempted to manipulate revenue, e.g. by channeling international revenue for hunting or tourism into a non-Zimbabwean entity and leaving only a small proportion to flow to the new company (and consequently to the community partner). In any event, this will be counter-productive in terms of the success of this model and the desire of all parties to develop an example in the Zimbabwean context of a financially viable, indigenized company operating within a valuable conservation context.

Board Composition

The Board of the new company should include a mix of community, representation of the investor and an independent representative focused upon bringing expertise in business and corporate governance.

CAPITAL ASSETS

The investor proposes to provide all assets which presently exist on the property for use by the new operating company in return for their 49% shareholding in the new company. These will include:

- i. The existing Lodge assets;
- ii. All vehicles which are deemed to be of need/value for the new operating company;
- iii. Relevant structures;
- iv. The existing staff quarters and offices; and
- v. The wildlife, which is the result of investment in re-stocking and anti-poaching efforts.

It is proposed that in return for their 51% shareholding, the community (financed by donor partners) should pay for new enterprise assets and renovation/repair, where necessary, of all assets being contributed by the investor, up to the value determined by a valuation. The new operating company will then be obliged to repair, maintain and replace all assets going forward over the period of the usage/management rights period.

PERFORMANCE INDICATORS

The Key Performance indicators will be put in place for the business based around:

- i) Conservation management milestones
- ii) Revenue milestones
- iii) Profit milestones
- iv) Community revenue milestones
- v) Community employment indicators
- vi) Customer satisfaction indicators

RISK

The unpredictability of Zimbabwe's political situation is the primary risk facing the proposed new business. The results of political instability will include the following:

- i) A continued lack of international tourism interest in Zimbabwe
- ii) Lack of clarity around land rights and wildlife user rights

The results of the above will be a direct negative impact on the nature tourism and sport hunting elements of the business and an indirect impact on the forest product sales, which is targeted primarily at the tourism sector. Inability to invest in conservation management will impact upon the property's ability to generate wildlife sales in future. By truly incorporating communities into conservation, some of the risks above may be slightly mitigated.

FINANCIAL ANALYSIS

A simple financial analysis was carried out based upon figures provided and knowledge of broader market trends. This analysis was to help predict the financial performance of the new operating company in the event of a gradual return to normal market conditions. Within this, international markets are predicted to take a relatively long time to recover (5-10 years) and the local and regional markets are therefore most significant initially. All markets are considered to be price sensitive, with the pricing structure set at a reduced level in order to ensure that the property represents good value in comparison with other destinations. The forecast reflects a fully resourced conservation management effort from the outset. Tourism lodge operation costs are increased gradually in line with occupancy.

FINANCING

In other country contexts, the required investment for a conservation enterprise proposition of this type would normally be possible to source through conservation-focused commercial entity. However given the political uncertainty of Zimbabwe at the immediate time is it probable that the initial financing will instead have to come through grant-based sources on behalf of communities.

Subject to the political and related market outlook in the next 3 years, it will ideally then be possible to re-finance the company with conservation-focused commercial finance.

Conclusion

All of these suggested aspects of indigenization and conservation will be structured in a manner which ensures that the company enjoys every opportunity for commercial success as only then will the proposed model be sustainable and replicable elsewhere. A simple business planning exercise which was carried out for the new company revealed that significant upfront investment requirements, and reinvestment of revenues in the early years will be essential. As such, the expectations of the partner community with regard to economic returns will need to be carefully managed. However, at the same time it is important to learn from other contexts elsewhere in Africa where it is clear that some guarantee of at least a small amount of revenue for the community partner from the outset is essential in order to maintain community support and to build trust between the partners.

Contact

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