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ABSTRACT: How to ensure financial sustainability using commercialisation as a funding model for protected areas without compromising on the conservation mandate? While the democratisation of country led to a higher demand for government funds, the state continues to fund conservation. Expansion and management of Protected Areas requires increased demands for such funds. South African National Parks (SANParks) generates significant streams of revenue from internally run tourism operations however, funds were required to develop additional tourism infrastructure. Operational costs are increasing and the efficiencies of the state run tourism operations are lower than that of the private sector. Protected Areas require management over a long-term and this responsibility may be best left in the hands of the state as the ultimate guarantor and cannot be left to the private sector. However, the state can leverage opportunities that arise from Tourism from the private sector. In 1999, SANParks' adopted a strategy termed "Commercialisation for Conservation Strategy". As the title implies the intention is to generate additional revenue for SANParks to fund conservation. The management of commercial operations in parks will over time and in a responsible manner be transferred into the hands of commercial operators who are better qualified and equipped to run these facilities. SANParks is responsible for monitoring the provision of these commercial services and facilities in Parks by private sector to ensure that they achieve organisational objectives and comply with various guidelines.

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PUBLIC PRIVATE PARTNERSHIPS IN SOUTH AFRICAN NATIONAL PARKS: THE RATIONALE, BENEFITS & LESSONS LEARNT

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1 ABBREVIATIONS

BDU	Business Development Unit responsible for Commercialisation in SANParks
BEE	Black Economic Empowerment
HDI/s	Historically Disadvantaged Individual/s
PPP	Public Private Partnership
SMME/s	Small Medium and Micro Enterprise/s

2 SANPARKS' VISION AND MISSION

South African National Parks (SANParks), hitherto known as the National Parks Board, was established as a parastatal through an Act of Parliament in 1927. As per the Public Finance Management Act, Act 1 of 1999 (as amended by Act 29 of 1999), SANParks is a Schedule 3(a) "public entity" that functions under the ambit of the NEMA: Protected Areas Act, 2003 (Act 57 of 2003) read concurrently with the Biodiversity Act of 2004. The core mandate of SANParks is the conservation and management of biodiversity and associated cultural heritage through a system of National Parks. SANParks is also involved in the promotion and management of nature-based tourism, and delivers both conservation management and tourism services through an authentic people centred approach on all its programmes.

The organisation's operations are totally guided by its vision statement (the word picture of the future) and mission statement (depicting the purpose of its existence). As a public entity, the organisation is committed to act in pursuance of transformation of South Africa's society in support of entrenching South Africa's democracy. In this regard the organisation has adopted a transformation mission to guide its efforts accordingly.

VISION - National parks will be the pride and joy of all South Africans and of the world.

MISSION - To develop and manage a system of national parks that represents the biodiversity, landscapes, and associated heritage assets of South Africa for the sustainable use and benefit of all.

TRANSFORMATION MISSION - To ensure effective transformation both within SANParks and the broader society and economy, through the implementation of broad-based Black Economic Empowerment in support of the Constitution of South Africa.

Although SANParks receives an annual subsidy from Government, all revenues generated in national parks are retained and applied to the execution of its mandate, as determined by the Board of Trustees.

3 SANPARKS' KEY STRATEGIC OBJECTIVES

SANParks' business operations are founded on three important core pillars:

3.1 CONSERVATION

The primary mandate of the organisation is the conservation of South Africa's biodiversity, landscapes and associated heritage assets through a system of National Parks.

3.2 NATURE-BASED TOURISM

The organisation has a significant role in the promotion of South Africa's nature-based tourism, or ecotourism business targeted at both international and domestic tourism markets. The eco-tourism pillar of the business architecture provides for the organisation's self-generated revenues from commercial operations that is necessary to supplement government seed funding of conservation management.

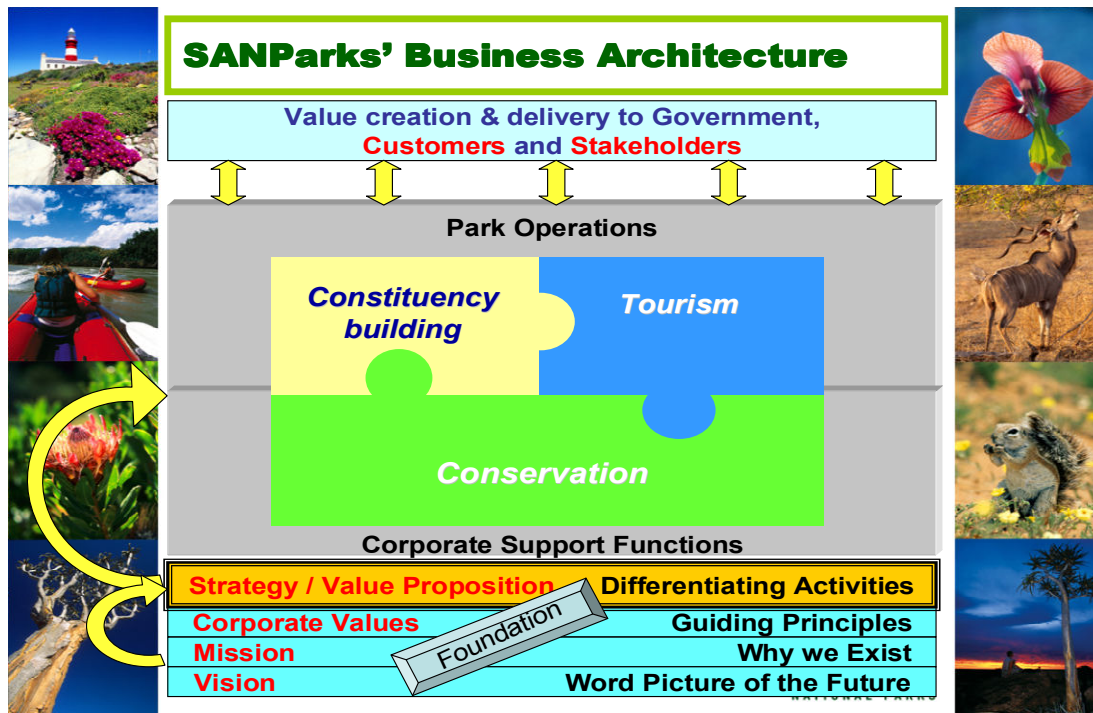
A significant element of the ecotourism pillar is the Commercialisation Strategy (which through the implementation of Public Private Partnerships) has as its objective reducing the cost of delivery, improving service levels by focusing on core business and leveraging private capital and expertise as well as the objective of expansion of tourism products and the generation of additional revenue for the funding of conservation and constituency building.

3.3 CONSTITUENCY BUILDING TOWARDS A PEOPLE-CENTRED CONSERVATION AND TOURISM MANDATE

SANParks is required to build constituencies at international, national and local levels, in support of the conservation of the natural and cultural heritage of South Africa. It has to ensure that a broad base of South Africans participate and get involved in biodiversity initiatives, and further that all its operations have a synergistic existence with neighbouring or surrounding communities for their socio-economic benefit.

The core mandate of the organisation derives from its biodiversity conservation role, thus the conservation pillar is regarded as the basis upon which the other two sub-core pillars' programmes and activities are directed.

Below is a diagram depicting the organisation's business architecture:



Source: SANParks Corporate Strategy Business Plan V4 (2) – 2005 /09 /09

4 ARTICULATION OF SANPARKS' COMMERCIALISATION POLICY, OBJECTIVES AND STRATEGY

4.1 THE MOTIVATION FOR COMMERCIALISATION

“Global conventions and programmes alone are not enough to ensure the continued existence of, and sufficient funding for, protected areas. In times of fiscal austerity and tightening government budgets – especially in developing countries which are home to much of the world’s biodiversity – traditional funding sources are increasingly under threat.

Innovative alternatives to these traditional sources are needed in order to secure the long term viability of protected areas.” (F. Vorhies, 1998:6).

In order to encourage greater efficiency in the delivery of public services, the Cabinet in April 1997 approved the establishment of an interdepartmental task team chaired by the Department of Finance, to explore how public private partnerships (“PPPs”) could improve infrastructure and service delivery efficiency, and make more efficient use of under-utilised state assets. The key objectives of this programme were to develop a package of cross-sectoral and inter-Institutional policies and legislative and regulatory reform.

In September 1998, the Department of Environmental Affairs and Tourism articulated the need for SANParks to prepare for a lesser dependence on state funding, which would increasingly be aimed at funding the essential conservation requirements. This formed the basis of the Commercialisation Strategy adopted by SANParks in 2000 with its foundation in the economic theory which defines the State’s responsibility as one of performing a regulatory function and intervening in the market-place only where there is market failure. The objective was to reduce the dependence on state funding and improve existing operational efficiencies. This does not imply that SANParks has to be independent of the State but rather that the collective funding sources (i.e. state funding, private donations, NGO and international donations, SANParks’ tourism activities and commercialisation) must be able to “sustain” the total business of SANParks. Sustainable tourism development depends on a partnership and balance between the social, technological, economical, the environment and political values and benefits. Hence, should one source of funding be threatened, SANParks must be able to absorb such withdrawal without compromising its sustainability (*refer Section 4.3.1*).

The implementation of the Commercialisation Strategy 2000, resulted in the awarding of 11 (eleven) concession sites to private operators, seven of which are in Kruger National Park, two in Addo Elephant National Park, and one in Table Mountain National Park. A typical concession entails allowing private operators to build and operate tourism facilities within the National Parks, on the basis of a 20 year concession contract. Investors either took over and upgraded specified existing lodge facilities, or built new ones. The contractual mechanism is a *concession contract*, which enables the concessionaire to use a defined area of land, plus any buildings that may already exist on that land, over a specific time period in return for payment of concession fees. Against these rights of occupation and commercial use of facilities, there is a set of obligations on the part of the concessionaire regarding financial terms, environmental management, social objectives, empowerment and other factors. Infringement of these requirements carries specified penalties, underpinned by performance bonds, and finally termination of the contract, with the assets reverting to SANParks.

In addition to the concessions, the Commercialisation Strategy 2000 also resulted in the awarding of 21 shops and 17 restaurants across all national parks to private operators. Facilities were upgraded at the operator’s expense whilst SANParks receives a guaranteed monthly annuity income from these operators.

4.2 BENEFITS OF THE COMMERCIALISATION STRATEGY 2000

The Commercialisation Strategy 2000 yielded the following benefits to SANParks:

4.2.1 Strategic Value

Implementation of the Commercialisation Strategy 2000 has resulted in increased market segmentation and product and price differentiation with 380 additional guest beds in the five-star segment resulting in increased economic activity and foreign exchange

generation. In addition, it has resulted in improved efficiencies of the restaurant and retail facilities, contributing to an enhanced visitor experience to the guests of SANParks.

The strategy has also resulted in an increased contribution to the broader economy through the tourism multiplier effect and SANParks' image has improved considering that national parks are being put to responsible and sustainable use for the economic development of the country.

4.2.2 Monetary Value

The Commercialisation Strategy 2000 has since 2002 yielded the following nett income to SANParks for the funding of SANParks' operational mandate (as at 31 March 2006):

PRODUCT	TOTAL INCOME
Concessions	R 54,954,278
Other	R 30,299,941
Restaurant and Retail Facility Rentals	R 37,002,267
TOTAL	<u>R 122,256,506</u>
Commercialisation Expenses to Date	<u>-R 15,254,346</u>
NET Income Commercialisation	R 110,002,160

Source: Adapted from SANParks Annual Report 2006/07

The financial returns depicted in the table above represents a nett benefit/profit to SANParks constituting 11.63% of the total tourism revenue (before expenditure).

4.2.3 Increased Infrastructure

The Commercialisation Strategy roll out has resulted in increased infrastructure with the concessions to the value of R270 million (in 2001 terms) with the assets ultimately reverting to SANParks. In addition, it has resulted in the refurbishment of ageing infrastructure of both the restaurant and retail facilities to the value of R 15 million.

4.2.4 Risk Transfer

The strategy has resulted in significant commercial risk transfer to the private sector including construction risk, availability risk, insolvency risk, market demand or volume risk and operating risk. However, SANParks is still exposed to the risks experienced by the private party and hence effective contract management is essential (*refer Section 4.3.13*).

4.2.5 Socio Economic Value

The strategy resulted in broadening the participation of BEE partners in the tourism industry thereby contributing to the demographic restructuring of the industry and poverty alleviation. Private Party agreements included the following contractual commitments:

- increased employment in the tourism industry with 620 new jobs excluding construction;
- BEE Equity in excess of the Tourism BEE Charter and Scorecard requirements;
- 79% of employees recruited from HDI communities adjacent to the Parks;
- Guaranteed spend of R 14 million per annum with local community SMME's;
- Considerable continuous skills transfer and training; and
- The tourism multiplier effect to the broader economy.

4.2.6 Environmental Value

The environmental regulations that apply to the commercial operators are in many instances superior creating a benchmark in SANParks nature based tourism operations and over time, SANParks will be obliged to comply with these standards. This can only be to the long term benefit of our national parks.

4.3 LESSONS LEARNT FROM COMMERCIALISATION STRATEGY 2000

As such projects typically yield high returns, and thus associated high risks are expected, the need for SANParks to effectively learn and adapt from all lessons learnt is of utmost importance.

4.3.1 Fundamental Shift towards “Responsible Tourism and Commercialisation”

The Commercialisation Strategy 2000 was developed during a period when SANParks was particularly cash-strapped and experiencing financial challenges and constraints. The strategy was hence developed as a commercial alternative to state funding for survival. Emphasis was placed on the need for SANParks to become financially self-sufficient or self-supporting. However, SANParks since underwent a fundamental shift in thinking to a more responsible approach to tourism and commercialisation¹.

In developed countries the cost of managing protected areas is mostly fully borne by the state, whereas in developing countries as South Africa, there is a mix of donor-dependency and heavy reliance on tourism development. SANParks generates approximately 80% of its operational revenue from tourism and commercialisation contributes to 11% of the tourism revenue. However, there are limitations to tourism performance, if the biodiversity mandate is not to be compromised.

At SANParks, the phenomenal national park expansion of 140 000 hectares since 1994 has not been followed by an increase in the state operational grant. Such under-funding manifests itself in infrastructural disrepair, insufficient resources, inability to retain competent staff etc. Only 5 out of the total of 20 parks generate a surplus or break even. With such an equation, “financial self-sufficiency” is unrealistic. The Kumleben commission of inquiry into the state of conservation in 1988 concluded that “nature conservation as such can never be self-supporting...it is therefore short-sighted and fallacious to expect a protected area to become economically self-sufficient”.

Thus the State cannot abdicate its primary obligation to fund environmental protection and with the development of the tourism and commercialisation strategy, cognisance is taken of the ecological integrity of the protected areas.

SANParks’ success should be measured in terms of the “triple bottom line” – environmentally, socially and economically.

4.3.2 Adopt an Increased Institutional Consultative Approach

Whilst the process understanding was high, the maturity level of SANParks and the Private Party engaged with may not have been ready for adopting a large paradigm shift in park management. Change management and personnel issues requires a lot of focus: many parks hold the view that the process of project identification and strategy adoption as not being consultative, in many cases the private sector and SANParks showed a lack of understanding of the importance for working as partners. This resulted in Park Managers and members of SANParks EXCO percieving Commercialisation, wrongly or rightly, as a process for personal agendas and not for the benefit of SANParks.

4.3.3 Selecting a Wrong Vendor – Relative Weighting of Financial Model with Bid Evaluation

The management of the outsourced facilities exposes the operations/technical ability of the private sector to a larger extent than that of the lodge operators, as the outsourced operations are integrated and serve the same SANParks guests. As a result, there has

¹ Acknowledgement to Dr. David M. Mabunda for reference made to the article “The Begging Bowl – Earthyear-August 2004” written by Dr. Mabunda in his personal capacity.

been more scrutiny in the product delivery and thus replacement of various private outsourced operator service providers, like the restaurant service providers in the Eastern Cape and the Kruger National Park.

These lessons led SANParks to critically analyse the vendor selection process. While the financial criteria in PPPs are a fundamental part of the bid evaluation, it has become clear that the emphasis on financial forecasting is taking inappropriate priority relative to other key indicators such as proven operational ability, proven marketing capability and existing client bases, all of which are more accurate indicators of long term sustainability than financial forecasts that can be manipulated by bidders to win bids.

The argument that bidders are held to their forecasts has limited value when and if bidders subsequently end up in technical liquidation, as this will undermine the perceived investment value of the destination, result in reduced development momentum, reduced broader socio-economic impacts (including employment, BEE and SMME development) and may even compromise the environmental management in the project area.

An increased relative weighting and the associated scoring of the technical ability of the bidder will avert the appointment of the unsuitable operators. The selection of inexperienced operators that are unable to execute the project whilst being subjected to the limited contract term and PPP fees payable regardless of whether income is generated from the project or not. Technical capacity is essential for quick and responsible delivery enabling the achievement of financial and BEE objectives.

4.3.3.1 Likely Causes for Wrong Vendor Selection

Tourism products should be primarily an “Operations” function, hence the operational strategy and capability of the operator is cardinal. In South Africa, tourism education is largely based on skill education, whilst individuals with financial and legal expertise often submit bids. The Commercialisation process was also run by process managers and the experience in hospitality management was limited. Hence, SANParks could possibly have a high profile of operators lacking technical and operational experience. Successful tourism companies in recent times, like Starbucks, McDonalds and the like have a customer driven operations strategy that drives the financial and legal strategies i.e. Product over Process, after all, products are designed to serve the tourist need, which is an operations function. A lesser degree of tourism management understanding as opposed to that of process could have led to wrong vendor selection. Having said that, to engage in such projects requires a thorough understanding of the processes.

4.3.4 **Outsourcing Activities that Should Not have been Outsourced – Strategy preceding Projects**

A strategic management process has three components: Analysis, Choice Recommendation and Implementation (Scholes 1999). Often projects like the outsourcing of the KNP Wilderness Trails did not follow a transparent and collective strategic management process, and hence are seen as products or activities that should not have been outsourced. There are certain activities that fell under the Commercialisation Strategy (2000) that may not necessarily have been outsourced. The hotel at Golden Gate and certain restaurant operations are said to have delivered better service outputs before outsourcing.

Probable cause of outsourcing such activities may be attributed to a process driven strategy opposed to a product driven strategy.

4.3.5 **Building and Maintaining a Corporate Culture that Promotes Good Strategy Execution**

SANParks adaptive management style has enabled the organisation to embrace new ways of thinking and hence the execution of the Commercialisation Strategy (2000), the in-principle approval of an extended scope of commercialisation, and the re-introduction of PPPs as a Key Strategic Objective of SANParks.

The lesson learnt is that several governance mechanisms change, while various projects are of a long term by nature and the term is a constant. As a large organisation with various stakeholders, it could be difficult to remain focussed on the commercialisation goals over an extended period. Ministers change, SANParks Boards and EXCOs change and the responsible personnel for strategy execution and maintenance change. However, the only constant are the contracts that are entered into, which are in many cases for a period of 20 years. While SANParks leadership encourages an adaptive culture, it is necessary to maintain the view that the Commercialisation Strategy is consistent with the core values and business principles at all levels and with all stakeholders.

4.3.6 Losing Control of Activities

All functions that are performed by the Private Sector are as a result of SANParks' mandate to provide access to pristine conservation areas. These functions are contracted out for a period of time and such a structure, in principle, allows for SANParks to resume these functions subsequent to the term. However, the execution of the strategy did not make provision for SANParks to take over functions at any stage. Post contract award highlighted poor service delivery in all restaurant contracts, however SANParks had lost the competencies to resume this function. In order to effectively manage and not lose control of any activity that is contracted to a private party, it is important to have sufficient understanding of the activity.

4.3.6.1 Creation of Oligopolies and Contract Management

While there are various restaurant and retail operators in South Africa, the accommodation sector, and particularly the luxury eco-tourism game lodge market is very limited and often managed and controlled by a few companies, or an oligopoly, which is not ideal for free market participation or new player entry in that industry. It is important to understand the dynamics of such a situation: often Oligopolies, especially in the case of South Africa, previously enabled few companies' access to large areas of land at a low cost, and with this advantage they have established relatively strong brands in that limited market. Typically, it becomes difficult for new entrants to enter that market and these companies compete amongst themselves. There may be a few awards and recognition mechanisms and most of the same companies are recipients of the same. As SANParks private lodge operations are not intrinsically linked with SANParks similar to the Retail & Restaurant operations, often output is determined by their ability to pay rent owed to SANParks. A revision of the financial model provided some form of rent relief to all lodge operators; however because of limited control of that activity, SANParks is often forced to assume the technical capability of the lodge operator as they are significant players in a limited industry whilst requirements for rent relief and extension of term is frequently requested. The negative impacts of an Oligopoly was evident during the revision of the financial model for the lodge operators where one or two of the 'leaders' of the lodge industry mobilised all other KNP lodge operators and took lead in presenting a collective case to SANParks. The spirit of partnership by the lodge operators may be questioned, as contracts awarded are specific and not collective. This poses a question whether such actions are typical to Oligopolies. The focus of accelerating private participation in the lodge sector is accordingly less in future projects.

4.3.7 Over Optimistic Demand

For a competitive bidding system to be effective it does require more demand for sites than supply of sites. In a situation where there are a number of opportunities but there is an unsophisticated market, a different approach should be adopted.

SANParks experienced a unique situation with the concessioning process (2000) where National Park land was offered to private lodge developers for the first time and with the limited supply of concession areas, high demand and an overestimated expectation of the anticipated performance of the lodges, unrealistic financial bids were offered to SANParks. Being the first time such opportunities were made available also meant that operators did not have similar operations to benchmark their forecasts against and accordingly, SANParks in 2004, were forced to re-evaluate the financial obligations of the concessionaires to avoid overall failure and the associated negative impacts thereof. Bidding processes are also by nature competitive, thereby can encourage a situation where higher bids are seen to secure contract award and over inflated demands translate into higher percentage of turnovers committed.

4.3.8 Financing Constraints

A thorough due diligence needs to be conducted on the capacity of the bidders to access funding to implement their proposals, i.e., choosing the right partners is critical to the success of the project. Appropriate adjudication of the bankability of bid submissions needs to be done upfront or could result in entire projects being delayed or aborted. The procurement process and Request-for-Proposals has been adjusted to incorporate the required adjudication.

4.3.9 The need for Centralised Effective Contract Management

It is clear that ongoing “balanced” and efficient contract management is essential to the continued success of the process. Sound communications are not only essential for the commercial objectives of the partnership, ongoing monitoring, review and communication is also vital to ensuring ongoing progress and commitment to the attainment of agreed up BEE and SMME development programmes, as well as in support of long-term environmental management. This will provide some confidence to investors, who see opportunities in some places but are deterred by government and its ability to manage the process during its life cycle.

4.3.10 Functionary Level Institutional Capacity and Buy-in

The competency of functionary staff in terms of tourism and/or commercial developments should be strengthened. Furthermore, the attitude of functionary level staff in the parks often appears to be in conflict with the Commercialisation Policy and this in turn will impact on investor confidence and interest as it translates into an increase business risk. In dealing with such strategically important assets, the need to attract and secure the best investors is just as critical for long-term sustainability. As such their investment and development process should be treated as a priority where they are able to interact with the most competent staff that are fully aware and in support of the strategic objectives of the organisation.

It appears that within the parks there is still a large amount of scepticism among managers at all levels as to the virtue of the PPP process. Many see it as a threat to the parks and the ecosystems these parks are to support. If real value is to be captured by SANParks in this process, all within the organization must understand the process and how it is structured. This would, in fact, secure the long term effective management of the biodiversity.

4.3.11 BEE Lessons Learnt

An important lesson learnt is on BEE. Whilst there is no disagreement on the strategic importance of BEE and the need to transform the ownership structures in the tourism industry, the reality is that current development support programmes are mismatched to the reality that BEE partners face at the project level.

Taking into account South Africa's history the matching of investors to a typically white luxury lodge industry can be challenging. This calls for a sincere empathy and understanding of the value of diversity in relation to the changes in demographics in relation to the buying behaviour of South Africans and the world at large. The social re-engineering of the South African society in the last 14 years has seen an increased affordability of luxury products like high-end cars and thereby benefits are seen to the SA car retail market. The same could probably not be said for the tourism market because of limited diversity in ownership of the luxury lodge industry. The global tourist profile is also likely to change from the traditional German and UK based traveller to accommodate increasing travelling from the Indian and Chinese markets.

In order to ensure sincere empathy, it is important that there is sufficient HDI representation in the initiation of each and every PPP entered into. The HDI representation should not be limited to SANParks internal PPP capacity, but also with external expertise like external legal expertise, which plays a key role in contractual engagement. Some of the disadvantages that could occur if diversity and specifically BEE is not sincerely embraced are listed below, and not embracing such values can put SANParks and South African Tourism at a disadvantage:

- a) Product Design: Operators may design products to serve only the traditional markets they are accustomed to and can relate with;
- b) Target Markets and Interests: Accordingly, operators may target and understand certain markets and consumer behaviour of limited market profiles;
- c) If private parties are from a homogeneous group, there is a risk that they approach only certain members of SANParks they are comfortable with to address critical issues. Diverse views may not be seen as value-added participation.

There are various attempts at all levels to address the issues regarding increased participation of BEE and specific consideration needs to be given to mitigating the various problems identified below:

- Capacity of BEE participants during bidding and negotiations
- BEE procurement capacity during operations
- BEE interest in participating in Tourism PPPs
- BEE Finance

4.3.12 Overlooking Hidden Costs

PPP projects are of high risk and high return. The basis of the relationship between SANParks and the Private Party is a contract or agreement. Often, especially if there is contract termination, there are costs to SANParks that are difficult to forecast. Such costs include liquidation costs, loss of rentals during certain periods, management and administrative costs.

4.3.13 Understanding of Risk Transfer

Whilst the transfer of risk to the private party is one of the main objectives of a PPP strategy, often in reality, a component of such risk is diverted back to SANParks. As the delivery of PPPs is based on a SANParks mandatory function, this is acceptable and should be considered in the evaluation of PPPs.

5 CONCLUSION

The commercialisation strategy has contributed to the implementation of SANParks organisational policy and objectives. An integral component of the commercialisation strategy is the organisational capacity and ability not only to conclude the procurement of the private entities acquiring the use of state property but also to manage and monitor the agreements and accordingly to recognise market failure and have the ability to mitigate the failure to achieve the organisational objectives.

The Commercialisation in South African National Parks has thus allowed SANParks to:

- increase and capture more of the net economic benefits attributable to parks;
- contribute more to BEE and local economic development;
- mitigate environmental impacts; and
- help finance biodiversity conservation recognising that only a small fraction of ecologically-important areas have the potential to attract significant tourism.

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