Issue #10

handshake

IFC's quarterly journal on public-private partnerships

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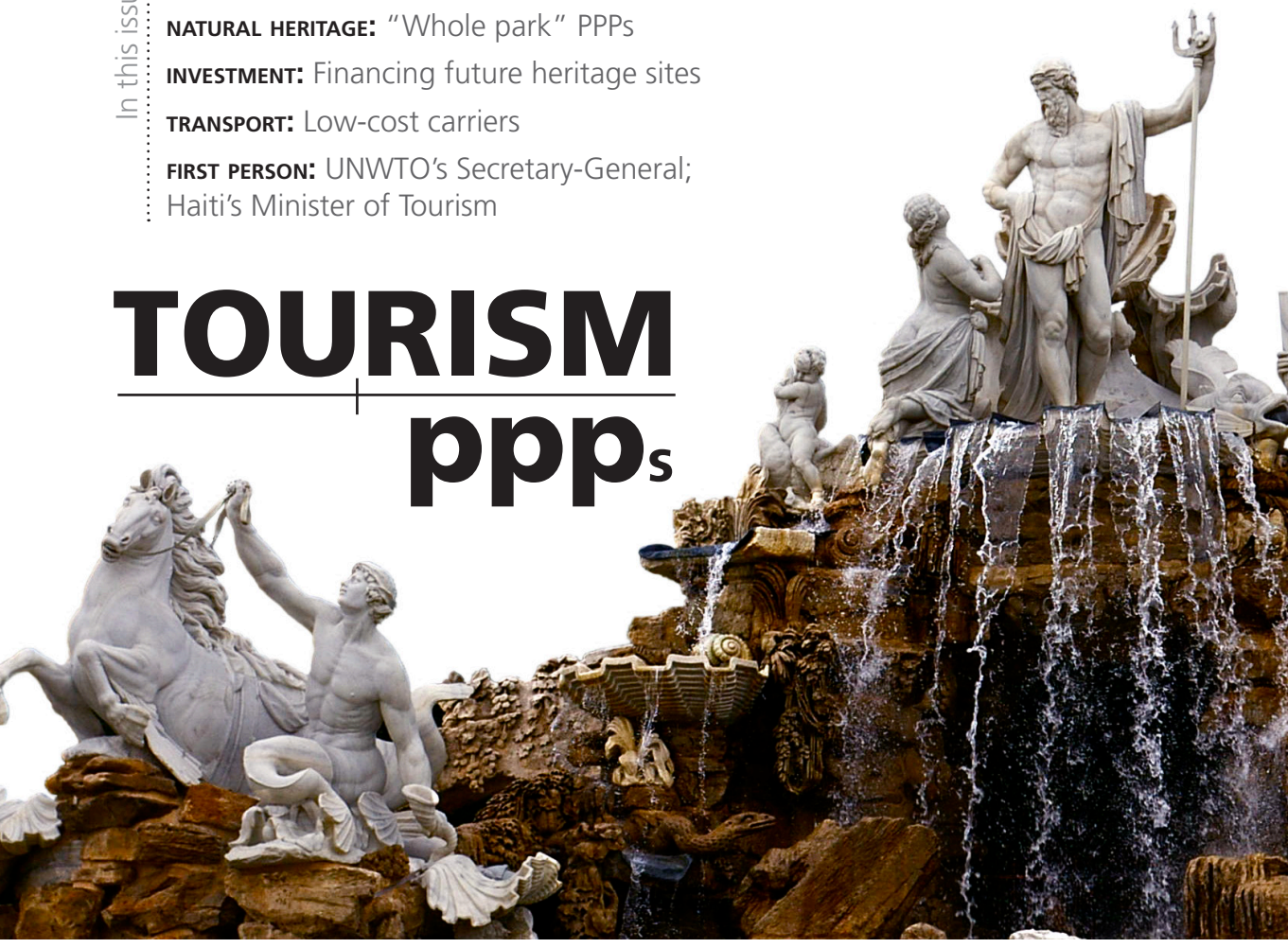
NATURAL HERITAGE: "Whole park" PPPs

INVESTMENT: Financing future heritage sites

TRANSPORT: Low-cost carriers

FIRST PERSON: UNWTO's Secretary-General; Haiti's Minister of Tourism

TOURISM + PPPs



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Letter from IFC

Francesco Bandarin, UNESCO's Assistant Director-General for Culture and the former Director of UNESCO's World Heritage Centre, admits that he's visited more than his share of breathtaking destinations. But the most moving, he says, aren't necessarily the most elaborate, the biggest, or the oldest; the sites that evoke emotion are those that combine cultural heritage and national feeling. This desire to share a country's sources of pride with the rest of the globe—and provide people of that region with economic benefits and modernized services—is most effectively achieved, according to Bandarin, by public-private partnerships (PPPs).

This issue of *Handshake*, focused on PPPs in the tourism sector, offers fresh ideas for alliances between government and the private sector and new models that are reshaping travel industry practices. By examining partnerships that have revitalized natural heritage sites (like state parks) and cultural heritage sites (like ruined castles), along with the investment climate necessities that position these destinations for long-term success, experts sketch a model that can be followed by established locations as well as those in an earlier stage of development. Developing nations with tourist offerings can learn more about the importance of transport and access, especially the transformative role of low-cost carriers and reformed visa policies.

Those working in the field, appropriately, get the last word. We asked a diverse group of travel industry luminaries to advise *Handshake* readers on how development institutions can impact the tourism sector in the places that need it most. Their practical, insightful answers chart a new course for greater inclusion in the coming generations.

Laurence Carter, Director

Tanya Scobie Oliveira, Editor

IFC Advisory Services in Public-Private Partnerships

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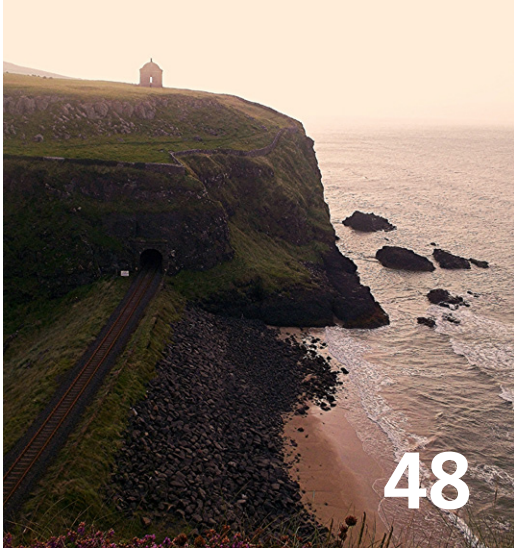

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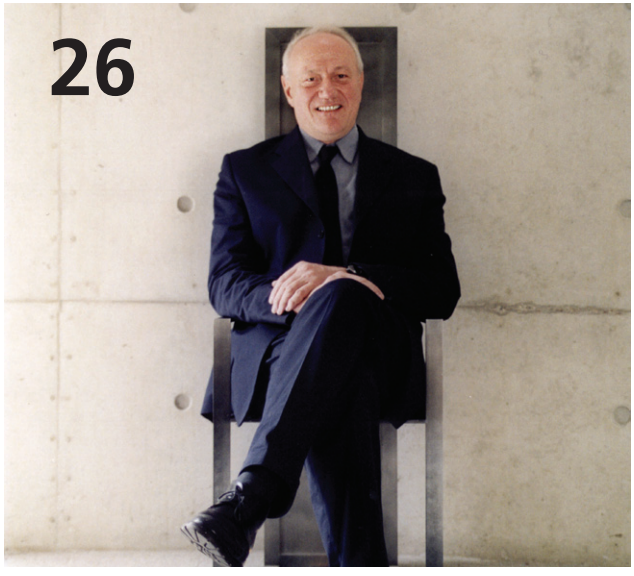

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have PPP

Photo © Jeff Smallwood

The tourism industry's not-so-secret weapon

By John Perrottet

Operators of successful tourist destinations recognize that tourism and travel is by nature a partnership between the public and private sectors. And while the public sector is often in the driver's seat in these partnerships, it is especially important that projects in the tourism and travel sector be based on sound commercial principles as well as community values. It is only by taking a commercial approach to unlocking the value of public assets that projects can generate real income and provide adequate and sustainable returns on those assets. Through this process of commercialization, tourism businesses develop and grow.

TRANSITIONAL ECONOMIES ON TOP

Well-constructed public-private partnerships (PPPs) are already having an impact on many of the newest travel destinations, once off-limits due to conflict or lack of development. In fact, the biggest growth areas for tourism PPPs were once the most unlikely places for tourists—transitional economies. Since 1980, the share of international tourism receipts spent in the developing world has doubled to almost 40 percent.

Strong economic growth in the emerging economies has been matched by strong growth in tourism and travel within many of those countries as well—especially in developing or newly industrialized nations such as Brazil, China, India, Russia, and South Africa. China is already the second biggest tourism and travel economy after the U.S. in terms of contribution to GDP, and by 2023 it will rank first.

With faster connections and a rapidly increasing array of options—and a trend in tourists taking frequent, shorter breaks—arrival numbers will continue to grow. In Asia alone, there will be 2 billion newly-middle class people searching for travel destinations. Globally, the number of people in the middle class is predicted to almost double by 2020, introducing an extra 1.5 billion people to the travel experience.

The challenge for all economies—advanced and emerging—will be how to use PPPs to capture a share of this growth and how to manage it to drive prosperity.

FROM PARKS TO PALACES

Because the tourism industry is inherently global, opportunities for PPPs span continents as well as sectors, including natural heritage sites like national parks, as well as iconic cultural heritage landmarks such as castles. Many of these projects have successfully overcome initial opposition based on fears that the commercial interests of private operators would dilute the site's appeal.

This has been an especially relevant issue for America's national parks, several of which are experimenting with the PPP model. Tellingly, some parks in the hands of private operators have stayed open despite federal budget cuts that have shuttered others. "We aren't trying to pave the wilderness; we aren't trying to build condos in front of Old Faithful," argues Warren Meyer, one of the leaders in the movement to privatize national parks, in a *Handshake* interview. "Privatizing parks takes them off the government budget, and makes them immune from being pawns in government budget battles."

Just as these national parks draw tourists away from urban hubs, other tourism PPPs provide a way for governments to promote rural travel among a region's less-explored routes. Spain's Paradores, or "castle-hotels," also featured in this issue, have transformed ruined palaces into luxury hotels offering quality accommodation options on predetermined travel circuits. This approach strengthens the overall product.

The degree to which public and private partners capitalize on cultural offerings can be called "the economics of uniqueness." Professor Francesca Medda shares the successes as well as missteps of governments that have explored this—with the furor that erupted in Italy when a shoe manufacturer offered to help restore the Roman Colosseum. She closely examines the evolution cycle of a tourism area, using this concept as the basis for describing three different PPP models at work today.

PASSPORT OUT OF POVERTY

The economic argument for tourism as a development tool is built on the idea that bringing visitors into a community is a public good—good for the residents, good for local commerce, and good for services like water and sanitation, which may otherwise be ignored. But as the Overseas Development Institute's Jonathan Mitchell points out, "Developing countries are littered with well-intentioned community-based tourism and eco-tourism projects which, with notable exceptions, are delivering limited benefits to few people."

So what's the evidence backing up the economic argument? Mitchell describes the crucial elements of and results from projects that work, including models like the partnership between the private sector and NGOs in The Gambia through its International Centre for Responsible Tourism. This initiative linked low-income com-

munities with tourism, and improved the impact of tourism in one of Africa's smallest, poorest, destinations.

Handshake editors also polled government officials and industry experts on how development institutions can best contribute to the economic stability of communities in tourist areas. Their diverse, surprising answers hint at emerging trends in unexpected locations.

ACCESS IS ALL

Accessibility is one of the key issues all governments face in building the tourism economy—whether it's airline access to a country or shepherding tourists to an out-of-the-way site. Investment in low-cost airlines is one strategy that can eliminate travel barriers. The impact on travel of low-cost carriers in Samoa proves this point; a successful PPP has improved access to the destination while strengthening the national flag carrier. The extraordinary growth in low-cost carrier routes in South East Asia over the last decade also shows the level of untapped demand.

Accessibility has been dramatically improved by the adoption of open skies policies and improvement of the quality and maintenance of road, air, and water transportation infrastructure, as Professor Don Hawkins points out.

SUSTAINABLE SOLUTIONS

There's no better proof that creative PPPs can be tailored to unique situations in previously inaccessible locations than the success of UNESCO's World Heritage Sites. The number of these sites has doubled in the past ten years, and in his interview with *Handshake*, Francisco Bandarin, UNESCO's Assistant Director-General for Culture explains why: "When you have an expansion of your core business the first question you ask yourself is, 'How do I keep delivering the same quality of services?'… We want to deal with tourism in a way that's constructive. PPPs can help us do that."

Indeed, when governments and the private sector work together to deliver a competitive offer tailored to a site's specific needs, the tourism industry reaches its full potential—delivering services and jobs to the resident community while offering an unforgettable experience to visitors.

In December, the travel and tourism industry celebrated a major milestone: the global level of international arrivals reached 1 billion for the first time, a nearly fourfold increase in just over three decades. The World Travel & Tourism Council forecasts that by 2023 tourism and travel's total economic contribution will account for 10 percent of GDP and one in 10 jobs, increasing its share of the global economy and becoming an even more important engine of growth into the future.

around the world with tourism PPPs

By Jeff Delmon

There is some debate whether tourism is the right fit for the public-private partnership (PPP) model. After all, where is the public good? Where is the public service? In this column we will put down our strawberry margarita with the little umbrella and ludicrously large pieces of fruit sticking out, brush the sand off our keyboard, and discuss.

Tourism is a huge industry that provides growth and jobs for developed, as well as developing, countries. As the middle class grows, so does tourism expenditure. This is already reflected in numbers: international tourist arrivals increased by 4 percent in 2012, reaching 1.035 billion. In 2011, international tourism generated $1.2 trillion in export earnings. Even in a tough global economy, the UN's World Tourism Organization forecasts growth in international tourist arrivals of between 3 to 4 percent in 2013. Tourism PPPs can fulfill a variety of needs for the fast-growing sector, including:

MANAGING SCARCE RESOURCES

When managing areas of natural beauty or with particular resources, governments need to restrict development and access to avoid degradation. PPP models provide competitive and transparent mechanisms to help identify the most capable, most experienced, and best value investors for a given site.

BENEFITTING THE LOCALS

Many countries offering great tourist destinations struggle with low economic development and poor governance. In such countries, tourism tends to develop chaotically, based on who has the best contacts and the most money. For example, water and power may be obtained on a per-resort basis; liquid and solid waste are managed just enough to get them away from the resort. This is inefficient and often creates a particular burden on the local community. Yet if managed on a coordinated basis, communi-

ties can benefit substantially from such services, and the resorts can access less expensive services. PPPs can help governments think about the larger context, and make it easier to scale up infrastructure to benefit tourism and the local community.

COORDINATING NATIONALLY

Sri Lanka is using PPPs to ensure that tourism developments are coordinated and fit with national planning. By using the competitive PPP structure (rather than the less competitive and coordinated licensing process), this approach leverages innovation from the private sector on planning, facilities, local community development, and resource management.

LINKING TO LOCAL COMMERCE

In 2000, the World Tourism organization's Business Council published a survey of the tourism industry, which found that out of 234 respondents from 90 different countries, 81 percent rated PPPs as "very effective" and 98 percent as "effective" or "very effective," pointing in particular to the importance of linkages with local commerce. In Italy, which already has 30 years of experience with partnerships that develop small hotels and their links to local communities, this is yesterday's news. This coordination can be critical to the success of tourism development.

STREAMLINING PERMITS

India is trying to use PPPs to support a single window for granting permits and government approvals for tourism development. Large tourism developments are often plagued by the number and variety of approvals that must be obtained from government bodies, much like infrastructure projects. Just as this risk can be managed through PPPs for infrastructure, so tourism can benefit from the same models.

PRESERVING CULTURE

There are some assets in the tourism sector that are clearly public goods. Museums, opera houses, auditoriums, and convention centers are the first that come to mind. These may be better developed and managed under PPPs, allowing the private innovation and commercial dynamism needed to ensure funding to preserve and protect these assets, while maintaining the essential public role. We've seen positive results with the convention center in Dublin and the arts palace in Saint Petersburg, along with many others that have been developed through the partnership model.

Even museums have turned to private involvement to leverage revenues. Picture the gift shops of London's Science Museum or its Natural History Museum, which boast some of the more interesting and creative shopping in the world.

To recap, tourism PPPs can: improve foreign investment; help ensure responsible, sustainable, and community oriented investment; and provide infrastructure and other improvements for local communities.

But these aren't the only benefits. At the end of negotiation sessions, suntan lotion is de rigeur. Now, where did I put that strawberry margarita?

CULTURAL HERITAGE

THE ECONOMICS *OF* UNIQUENESS

The tourism industry has two faces: one offers public goods such as historical artifacts, natural parks, and museums; the other presents private goods and services such as hotels, entertainment events, and theme parks. But public-private partnerships unite these two sides for the greater good, as the private sector's role complements the public sector's goals for development, growth, and effectiveness .

By Francesca Romana Medda

The importance of the tourism industry within national economies has long been evident, but a paradox lies at its core: although tourism contributes significantly to a country's earnings, it has traditionally been structured and run exclusively by the public sector. In 1992, the Organisation for Economic Co-operation and Development (OECD) examined this question closely, publishing a detailed analysis of the industry that concluded that the public sector was less responsive and entrepreneurial than it should have been in the development of tourism.

At this point the stage was set for change. During the next two decades, a push towards decentralization (leading to local authorities assuming greater autonomy in the management and financial allocation of tourism assets), alongside an increased effort to foster private sector involvement, paved the way for public-private partnerships (PPPs).

THE PPP FRAMEWORK

This is an age of widespread interest in various forms of private involvement in the development of the tourism industry. This interest is motivated by the fact that many countries are contending with two divergent policies: first, the necessity to curb public expenditures and contain public budgets; and second, the drive to improve competitiveness and efficiency in the service and operation of the tourism industry. It is important to remember that public administrations worldwide are characterized by diverse cultures and capabilities, as well as distinct legal and planning traditions. But despite these differences, a framework for what are now referred to as PPPs has emerged within the tourism industry.

If we consider the evolution cycle of a tourism area, we can use this concept as the basis for

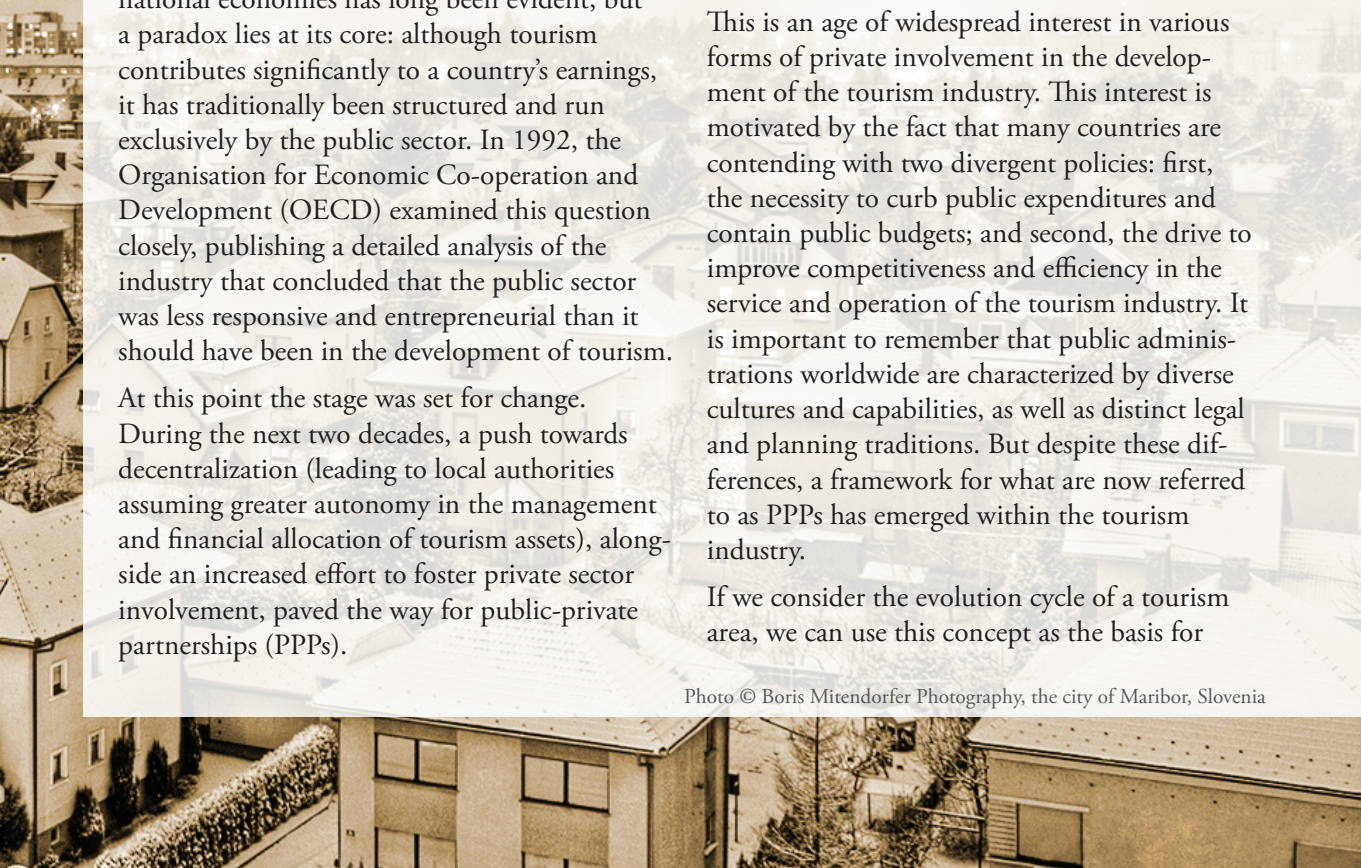
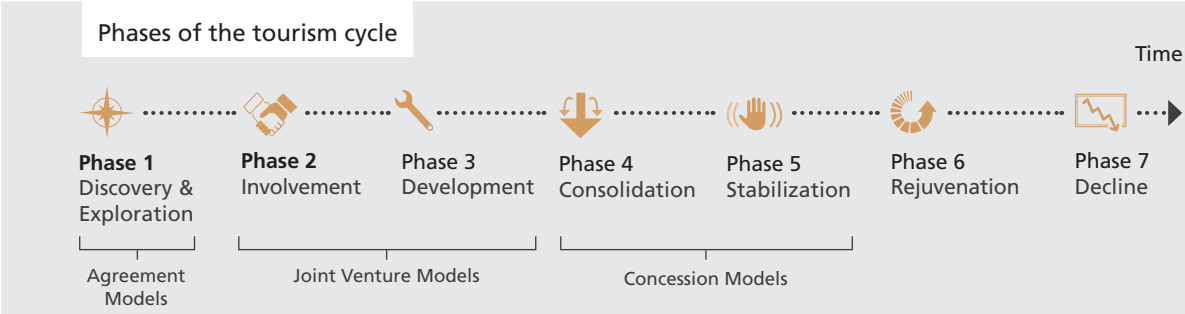


Photo © Boris Mitendorfer Photography, the city of Maribor, Slovenia



Author elaboration. Source: Butler (1980).

our description of three different PPP models at work today.

MODELS VARY

As shown in the illustration above, in Phases 1 and 6, the public sector has a catalytic role and agreement models are often the main tools of partnerships. In these cases the public sector (particularly local authorities) is uniquely situated as initiator and convenor of tourism growth as well as facilitator of economic development in the community. Local authorities often create financial solutions and incentives in order to ease agreements with the private sector, and agreements can vary from sponsorships of specific events to co-financing various activities within large projects.

One interesting example is illustrated by the Phoenix Islands Protected Area (PIPA) in Kiribati, where the agreement between the public and private sector is driven by the development of eco-tourism to promote regional economies. There is particular interest in the impact of these on economies of coastal communities, but they also support the conservation of coastal and marine biodiversity and help to inculcate conservation values in the islands' populations.

The joint venture model is more common in Phases 2 and 3, where the public and private sector agree to work together. Sometimes when a large amount of capital is required to develop infrastructure and facilities, the public sector may take a share higher than 50 percent to leverage private finance and decrease financial risks. In Slovenia, for example, the Funicular Railway on the mountain of Pohorje, which is used to reach the natural park and ski resort, was constructed and is now operated by the private sector under a 40-year contract. Given the importance of the infrastructure for the development of the city of Maribor (European City of Culture 2012) and the greater Stajerska region, significant financial support is being provided by the government.

In Phases 4 and 5, partnerships are more often constructed under concessionary models. The private sector is usually granted the right to oper-

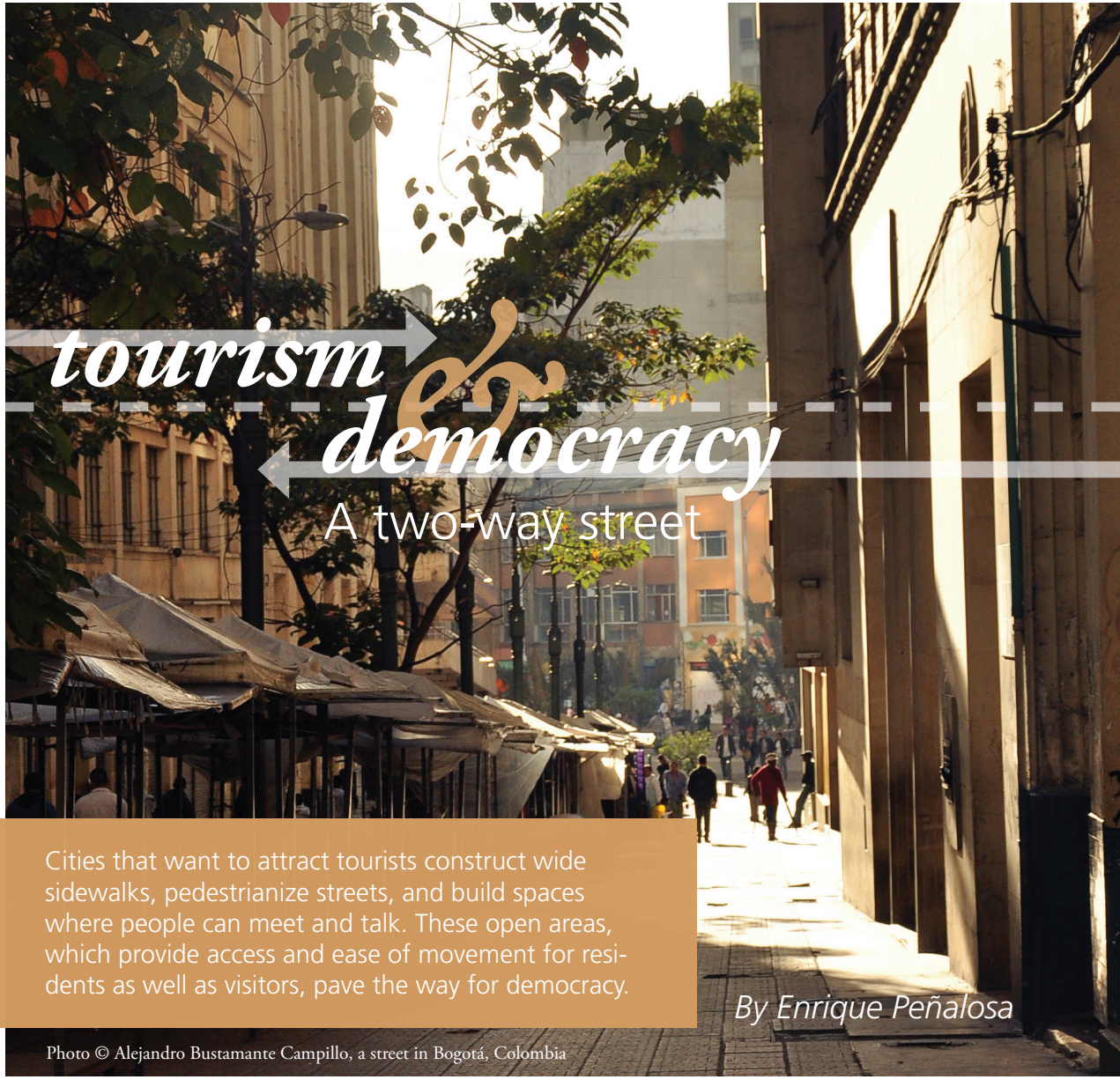
ate and manage a tourism asset and the ownership of the asset remains in public hands. The public authorities often receive a fixed financial contribution per annum under a contract lasting on average over 15 years. One example of the concessionary model is the Schönbrunn Palace in Vienna, which is visited by over 3 million tourists per year and is operated by a private company. The concessionaire is responsible for investing, renovating, and financing the castle; it retains all the operating revenue and does not receive any subsidies from the Austrian government.

A SPIRIT OF COOPERATION

The unique character of the partnership between the public and private sector in tourism is clearly outlined by the context, objectives, and constraints of the different actors. The lack of a culture of cooperation and experience, plus insufficient institutional support, can hamper the creation of these partnerships. But by sharing clear strategic plans and contracts based on results and targets, the private and public sector can together design imaginative ways to welcome tourists as patrons of economic growth.

Shoehorning a solution

The PPP approach to tourism varies from country to country because the structure of tourism administration and management at the national level is highly influenced by each nation's historical, political, and cultural circumstances. In Italy, for example, the evolving dialogue between public and private takes the form of a passionate debate fueled by the private intervention of a major Italian producer of shoes. The founder of the Tod's luxury shoe brand contributed €25 million toward the restoration of the Roman Colosseum, one of the most famous symbols of Italian cultural heritage. In return for its investment, Tod's was entitled to cover any restoration works with the Tod's logo and given the right to use the monument's image on shoes, bags, and other products for up to 15 years. It may also put its brand on entry tickets bought by 6 million tourists per year. In the face of concern that the ancient Roman area would be converted into a vast advertising space, Tod's Diego Della Valle promised "I won't put shoes on the Colosseum."



tourism & democracy

A two-way street

Cities that want to attract tourists construct wide sidewalks, pedestrianize streets, and build spaces where people can meet and talk. These open areas, which provide access and ease of movement for residents as well as visitors, pave the way for democracy.

By Enrique Peñalosa

Photo © Alejandro Bustamante Campillo, a street in Bogotá, Colombia

Tourism has been criticized for the damage it inflicts on the dignity and culture of less economically developed societies, which may be made to feel inferior by wealthier tourists. But tourism may have an ultimately positive impact on developing country societies—particularly on these nations' ideas of equality.

WALKING OFF OLD IDEAS

Tourism is a pedestrian activity: tourists want to walk. Therefore, cities vying for tourists make better sidewalks and pedestrianize streets. Even in Disneyworld, visitors spend only 3 percent of their time in games and attractions. They basically pay to be in a pedestrian city, walk, see people, buy hot dogs—and go to a few attractions.

Building better pedestrian spaces constructs and benefits democratic ideals, as it shows respect for and protects the most vulnerable local citizens: children, the elderly, the handicapped, and the poor. Particularly in developing countries, where most homes do not have cars, quality pedestrian spaces show respect for the carless majority, literally placing everyone on the same level.

Quality pedestrian spaces are spaces for democracy. No revolution has started in a shopping mall. Tourism requires quality sidewalks and plazas: so does political activism.

ENCOURAGING ACCESS

Often, walls and hedgerows line roads, making it impossible for people to see crops and cattle. A poor child in a developing country city will not know the difference between a potato and a cotton plant, or see a cow, because fields are walled from view.

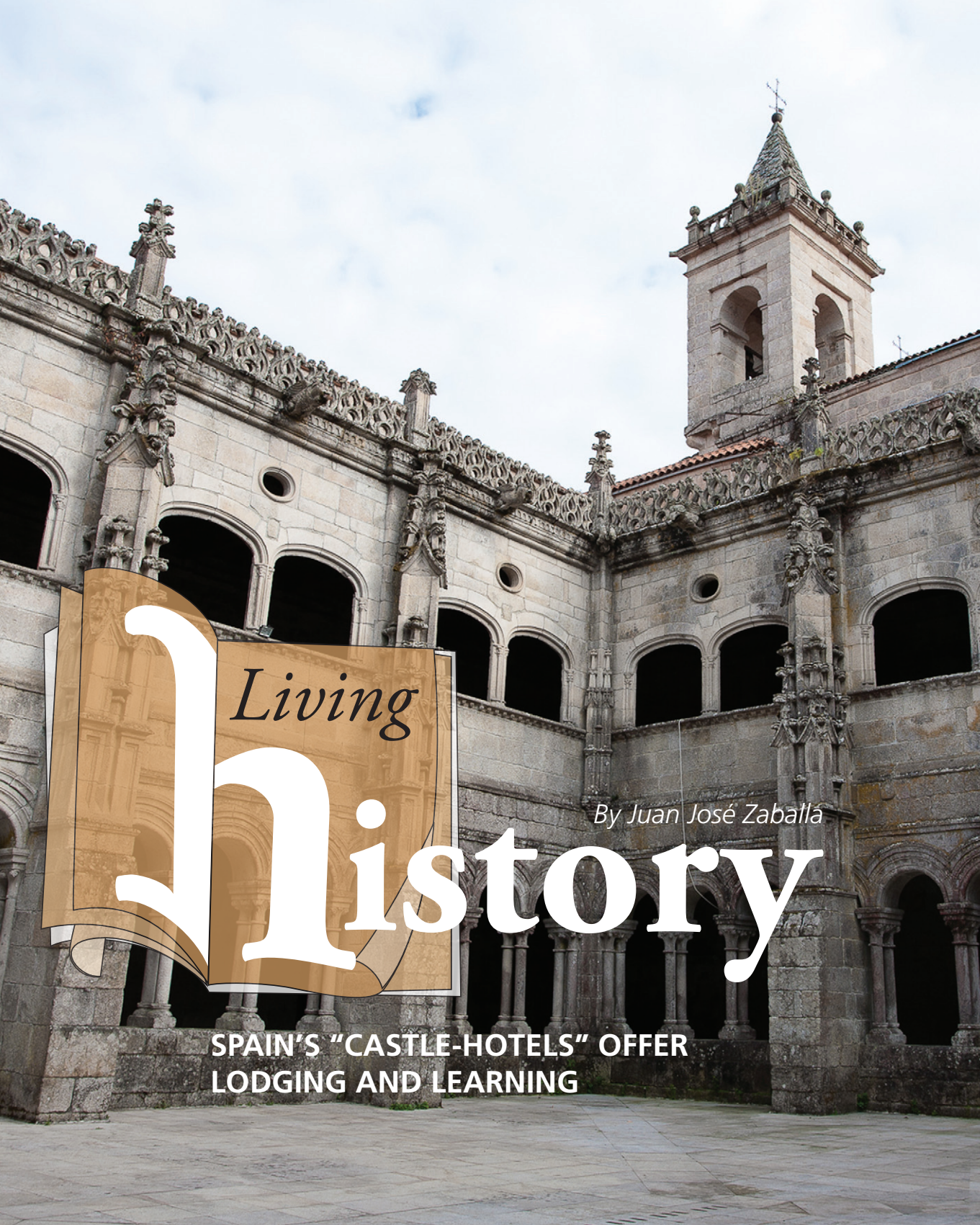
But tourists will not be able to experience the scenery either if it is blocked by fences. If such obstacles are removed in order to attract tourists, benefits will reach the local population as well. The same principle applies to waterfront privatization, which is frequent and profoundly undemocratic. If tourism leads to it, it is a disastrous consequence. An unobstructed and accessible waterfront strengthens democracy and improves the quality of life for the local population.

The Scandinavian concept of *Allemansrätten* proves the power of such unhindered access. *Allemansrätten* dictates that anybody has a right to enter private lands, walk through them, and even camp without the owner's permission. The economic success of ecological tourism, a trend with great future potential, will require such measures.

SEEDING DEMOCRACY

Finally, the vast number of tourists typically visit from more egalitarian societies. They see through local classist hierarchies, like India's caste system. All developing countries have local hierarchies and aristocracies that the outside visitor sees as they are: ludicrous. When visitors share this view with their local hosts, it encourages equality.

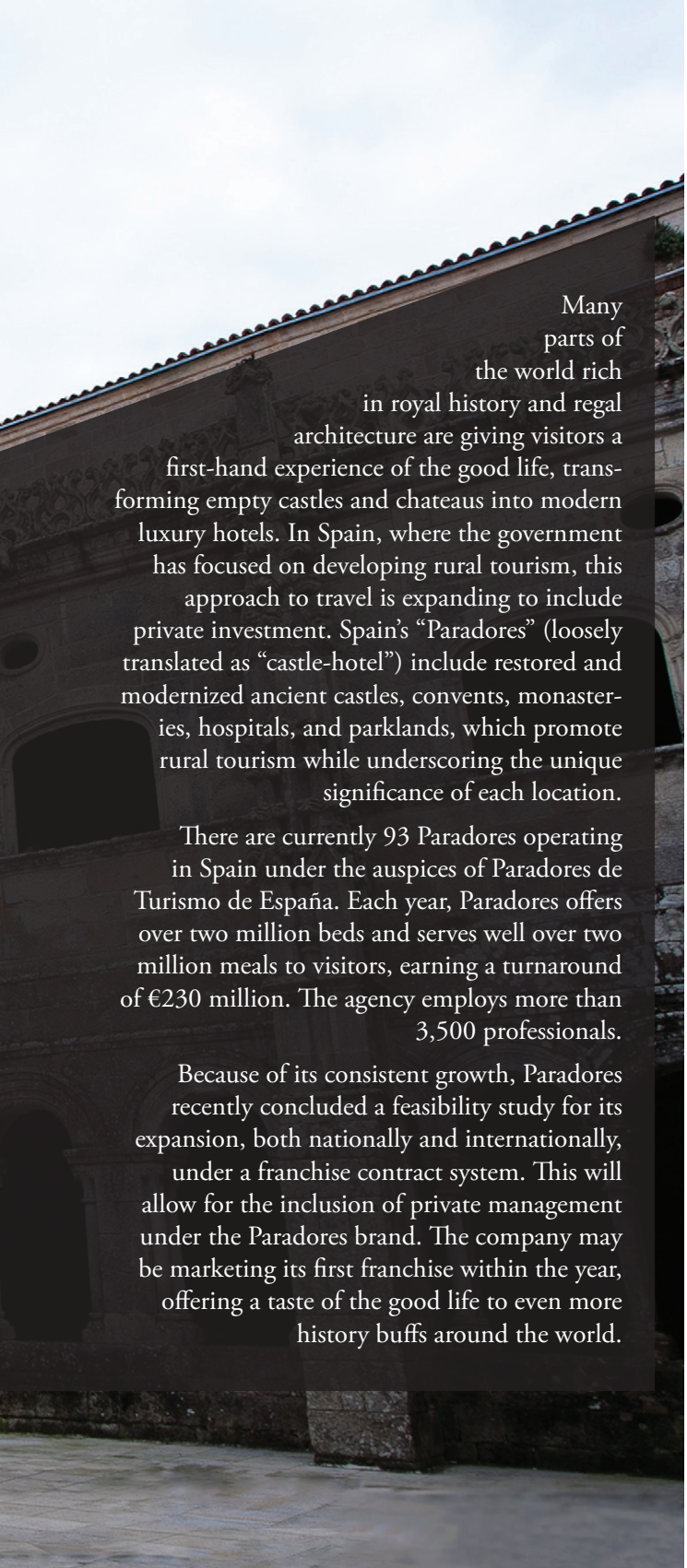
Ultimately, these travelers bring more democratic ideas and attitudes to extremely unequal developing countries. Tourists' views may seed democratic change, leading to a more just society—because long after bags are packed and photos are developed, ideas remain.



Living History

By Juan José Zaballa

SPAIN'S "CASTLE-HOTELS" OFFER LODGING AND LEARNING

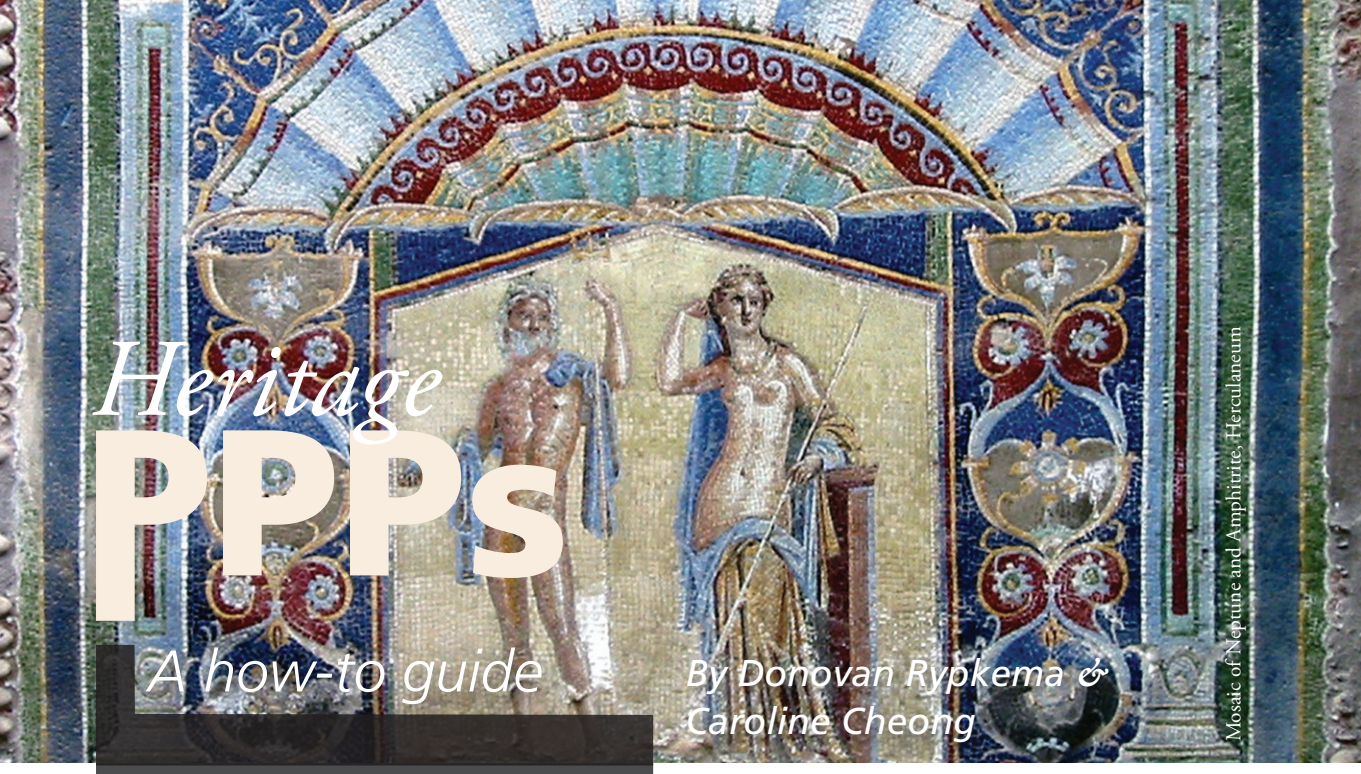


Many parts of the world rich in royal history and regal architecture are giving visitors a first-hand experience of the good life, transforming empty castles and chateaus into modern luxury hotels. In Spain, where the government has focused on developing rural tourism, this approach to travel is expanding to include private investment. Spain's "Paradores" (loosely translated as "castle-hotel") include restored and modernized ancient castles, convents, monasteries, hospitals, and parklands, which promote rural tourism while underscoring the unique significance of each location.

There are currently 93 Paradores operating in Spain under the auspices of Paradores de Turismo de España. Each year, Paradores offers over two million beds and serves well over two million meals to visitors, earning a turnaround of €230 million. The agency employs more than 3,500 professionals.

Because of its consistent growth, Paradores recently concluded a feasibility study for its expansion, both nationally and internationally, under a franchise contract system. This will allow for the inclusion of private management under the Paradores brand. The company may be marketing its first franchise within the year, offering a taste of the good life to even more history buffs around the world.

Photos © Jr G Montero, Parador de Santo Estevo



Heritage PPPs

A how-to guide

By Donovan Rypkema & Caroline Cheong

Mosaic of Neptune and Amphitrite, Herculaneum

Not even the richest of countries has sufficient public sector financial resources to own, rehabilitate, and maintain all the heritage buildings worthy of preservation. While in many countries the NGO sector has developed expertise in education and advocacy, rarely do these organizations possess the capital or the development expertise to undertake the rehabilitation of heritage buildings. By process of elimination, then, it will fall to the private sector to play the primary role in redevelopment and ongoing stewardship of historic buildings if they are to be kept in active use. At the same time, it is essential to provide protections so that the defining characteristics of the buildings are conserved and can be understood and enjoyed by future generations. New approaches to financing, developing, operating, and maintaining historic buildings are needed, and public-private partnerships (PPPs) are one promising approach.

In some ways, heritage PPPs are the same as the most common large-scale infrastructure projects: given their complexity and long-term nature, all partners need to be transparent about their goals, needs, and outcomes throughout the entire process. Needs may change within what can be a 10-year or longer project cycle, due to a change in governments or an economic downturn. However, transparent communication can help alleviate potential roadblocks—and this is especially important in heritage PPPs, in which the goals and measures of success of the public and private partners may be very different.

There have been enough heritage-building PPPs to begin to draw conclusions about their characteristics and common denominators. While not every success story in heritage-building PPPs has all of the characteristics described below, the majority include most of them.

CHARACTERISTICS

For many (but not all) heritage PPPs, the public partner is local government. There are notable exceptions, however. In the U.S., for example, national government agencies including the Department of the Army, the General Services Administration, and the National Park Service have been public partners in PPPs. Multiple levels of government might provide incentives, but usually only one would be the "public partner."

Many heritage PPPs are actually public-private-nonprofit or NGO partnerships, with the third sector playing a pivotal role in success. Often, several NGOs may be involved, but most only passively in a limited or advisory role.

Most heritage PPPs are "white elephant" buildings—those difficult to reuse properties for which the private sector, by itself, rarely takes the lead. In fully developed economies, PPPs most commonly address white elephant buildings. Heritage PPPs usually involve finding creative new uses for an existing structure; this is known as "adaptive reuse."

MIND THE GAP

Often the reason the private sector won't take the lead in heritage redevelopment is the gap between cost and value. The major purpose of heritage PPPs is often to close the gap.

Unfortunately, the terms "cost" and "value" are often used as synonyms. They are not. Cost is the sum of the dollars that will be expended between the idea and the completed project. Value is what the marketplace is willing to pay for that property (to buy or to rent) after completion. When value exceeds costs, the private sector will usually act on its own without requiring incentives or a public sector partner. However, it is common with heritage buildings, particularly of the white elephant variety, that cost exceeds value. This difference is known as the gap. To recap: the existence of a substantial gap is often the catalyst for considering a heritage PPP.

SIGNS OF SUCCESS

The majority of successful heritage-building PPPs share a predictable set of common denominators. Chief among these is the recognition of the heritage building as a community asset (regardless of who actually holds the property title), involvement of various levels of the public sector, and multiple sources of financing from traditional and nontraditional private and public sector institutions. Other important denominators of success are:

- **The presence of a core group that initiates action.** This core group often comes from the NGO sector. There is also broad-based support for the project within the local community that horizontally spans sector and political interests.
- **There is an imaginative catalyst to move the redevelopment idea forward.** This may come from the business community, local government, an NGO, or elsewhere, but rarely

comes from the current owner of the property (even if that owner is a part of government).

- **There is a commitment by all parties to be as flexible as possible** in use, financing, timing, and particulars of the transaction until a mutually acceptable and feasible alternative scenario is developed. This requires compromise and patience from all partners. Even the most successful heritage PPPs tend to experience significant public skepticism during the planning process.

ASK THE RIGHT QUESTIONS

The cornerstone of a successful heritage PPP lies in asking, "What is the unmet or undermet demand in this market?" and "Could this building be developed to meet that demand or demands?" It is critical to remember that a heritage-building PPP project is rarely developed for a single use. Nearly always, heritage PPPs focus on a mix of uses for the building, thereby meeting market demands and mitigating the volatility of any particular use.

Photo © Cliff1066/flickr, Hotel Monaco

Hotel Monaco, *Washington, DC*

The Old General Post Office sat vacant for 15 years in the 1980s and 1990s, before a public-private partnership between the U.S. government, via the General Services Administration (GSA), and The Kimpton Hotel and Restaurant Group transformed the once-derelict building into the now-thriving Hotel Monaco.

GSA ran a competition for development of the building that was won by the Kimpton Hotel and Restaurant Group in 1999. The building was converted to a boutique hotel, operating under Kimpton Hotels management for the duration of a 60-year lease. GSA invested $5 million for exterior restoration while Kimpton invested $40 million for the entire renovation and received $8 million in federal historic rehabilitation tax credits. GSA payment is based on hotel revenues, but is estimated to be $50 million over the life of the lease. The building was rehabilitated according to national preservation standards. In 2002, the Hotel Monaco opened its doors and has since been considered an exemplary adaptive reuse project, receiving numerous awards and becoming a neighborhood landmark.

RECONSTRUCTION OF THE WESTERN GATE, ALBA CAROLINA CITADEL, ALBA IULIA

Citadel Alba Carolina,
Alba Iulia, Romania

Within the walled citadel of Alba Iulia, also called Citadel Alba Carolina, construction converted the ancient Manutanta building—a former storage house—into a five-star hotel. The local government is providing the land and building to the Grup Corint SA, which is rehabilitating the building and will oversee its management and operations through a 49-year lease. Grup Corint will pay the local government 10 percent of its annual revenues. Plans call for the creation of 42 guest rooms. The hotel development is part of a larger arrangement involving the local municipality, various national ministries, and the United National Development Programme to rehabilitate the entire Alba Iulia Citadel.

Photo © Horia Varlan, Citadel Alba Carolina

ALL ABOARD

Union Station's triumphant comeback

By The National Council for Public-Private Partnerships

The successful collaboration of the public and private sectors made Washington, D.C.'s Union Station restoration a triumph that benefits both the partners and visitors to the unique historic site. The public-private partnership succeeded due to a political commitment and public sector involvement throughout the project. Moreover, the project followed a well-conceived, carefully executed plan that included a dedicated income stream, open communication and dispute resolution channels, and the right private partner.

At the time of its opening on October 27, 1907, Union Station was the largest train station in the world and a monumental example of Beaux-Arts architecture. By the late 1970s, the building had deteriorated so severely that it was uninhabitable and in danger of demolition.

Citizen groups and politicians began searching for an effective rehabilitation approach, one that could overcome the District and Congress' funding troubles. Finally, the U.S. Congress enacted the Redevelopment Act of 1981. Under the Redevelopment Act, Union Station's lease was transferred from the Department of the Interior to the Department of Transportation (USDOT), which began the process to transform the station into a thriving transportation terminal and commercial center. Because of restoration costs and the potential commercial economic benefits, a public-private partnership was identified as the best tool to accomplish the restoration.

The transformation process involved the efforts of USDOT, the District of Columbia, Amtrak, and private developers. The $160 million project took almost five years to complete, including the three-year renovation. The project goals included the authentic restoration of the original architecture, the reintroduction of train and urban mass transit services, and the addition of a wide range of retail, dining, and entertainment options. As a result of the public-private partnership, Union Station has been restored to its original grandeur and utility and is now the most frequented site in the District, with over 25 million visitors each year.

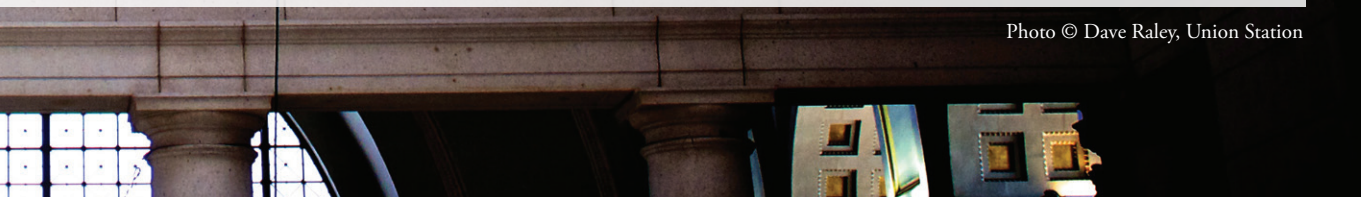
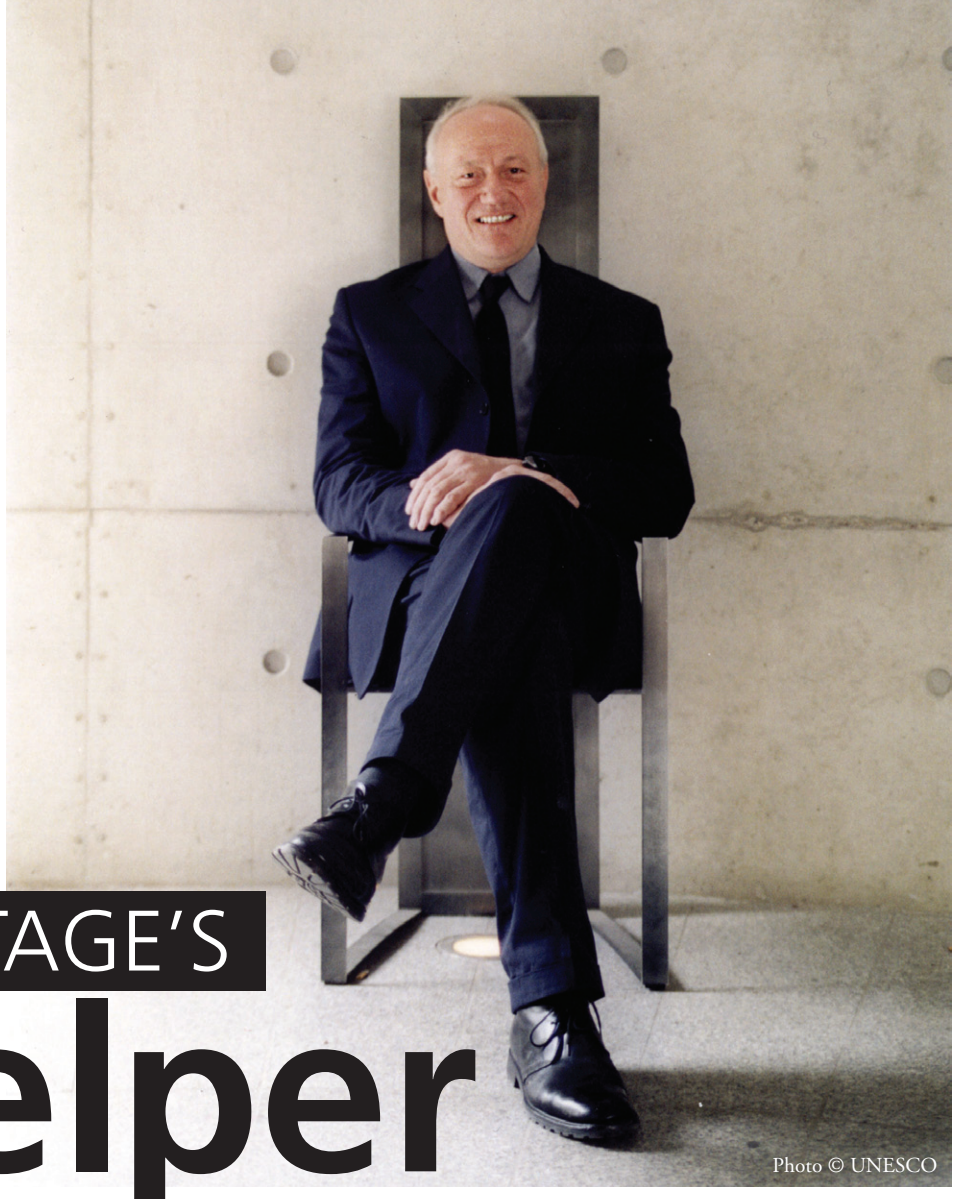


Photo © Dave Raley, Union Station



HERITAGE'S helper

Photo © UNESCO

Francesco Bandarin, former Director of UNESCO's World Heritage Centre, was appointed UNESCO's Assistant Director-General for Culture in 2010. As a specialist in architecture and urban planning, Mr. Bandarin previously worked in both public and private institutions in the fields of built heritage, cultural heritage conservation, environmental heritage, and cultural events, as well as architectural and urban design in developing countries. In 2002, under his leadership, the 30th anniversary of the World Heritage Convention was dedicated to exploring public-private partnerships for World Heritage cities.

Interview by Alison Buckholtz

As director of UNESCO's World Heritage Centre, you were a vocal and active proponent of public-private partnerships (PPPs) for World Heritage Sites. Why are PPPs a good solution?

Over the past 10 years we've had an increased level of attention to World Heritage Sites, and there's been a subsequent expansion in the number of sites as a result. When you have an expansion of your core business the first question you ask yourself is, "How do I keep delivering the same quality of services?" For us, this includes monitoring services, support to member states, tracking and responding to trends, and trying to use tourism as a resource instead of just a force of destruction. We want to deal with tourism in a way that's constructive. PPPs can help us do that.

How are cultural heritage PPPs different from other industry PPPs?

Our partnerships are more strategic than legal or financial in nature, and targeted to certain sites that have problems due to conflict, disaster, or anything that can happen [to harm the site].

What partnerships help your organization achieve recognition for World Heritage Sites?

We work with the online tourism operator Trip Advisor, and National Geographic is also a partner. Our campaign with them is called "People Protecting Places"—another PPP. But these aren't traditional partnerships; our traditional partners are governments and foundations that contribute to the World Heritage foundation because of their mission.

World Heritage Sites are focused on conservation rather than tourism per se, but the operation of these sites aims to help local communities. How do these elements mix?

The idea was to try to have a World Heritage Sites benefitting local communities through tourism operations. We had a number of pilot

sites including Sian Kan in Mexico's Yucatan and in Baja California, trying to give more emphasis to the role of local people. Too often you have tourism projects where no local people see the benefits. Our sites raise the visibility to local, state, and federal governments, and we try to help the communities benefitting from World Heritage Sites. Last year, our 40th anniversary theme was "Benefitting Local Communities." In these 10 years we went from partnership-oriented outlook to a community-focused approach. You can see the trajectory.

> "We want to deal with tourism in a way that's constructive. PPPs can help us do that.

How do you work with individual World Heritage Sites after they are named, to assure that they are managing the tourism flow?

What we do is conservation. We think that listing a site [on the World Heritage list] has an impact on conservation because it forces the government to invest in the site, to protect it, to maintain a high level of standards. This has nothing to do with tourism, and everything to do with conservation. But often, sites that are unknown become known, and even famous, after the listing; so we are aware there is a potential impact. We encourage sites to have a clear management plan, to orient themselves toward the future and manage tourism as well as conservation. Having a management plan is not a panacea, but at least it creates an awareness of what should be done. The negative cases are where the site's operators lose control, and this often depends on local and international investors. Sometimes a site becomes very big and they don't have the capacity to manage this impact.

Are you working with any countries that would have surprised you just a few decades ago?

Now we work closely with the emerging market of China—there are a number of new agreements supporting many programs in China. It's fortunate we have that because traditional European and American donors are in crisis at the moment. We also have partnerships with individual Chinese cities. It's a new market—too new to draw lessons from yet.

What's the most compelling trend affecting tourism at World Heritage Sites?

We have a phenomenon today unknown 10 years ago: massive cruises. Nothing in the world is growing like the cruise business right now. Of course, there were always cruises, but not this model, essentially floating cities. They condition the way harbors are built so there's a big impact on infrastructure and the environment. Then they have day excursions and the sites are completely invaded. A good example is Chichen Itza, the most important Mayan site in the Yucatan. You go today and you can't even walk because of all the people coming from the cruises. It's like being in the Tokyo subway station mid-day. The quality of the visit is severely hampered. Ephesus in Turkey faces the same situation, and of course Venice is the epicenter of this. We need to work more with the industry to ensure that this new phenomenon turns into a positive force for the conservation of the sites.

Why have cruises become a problem for these cities?

It's not the kind of tourism that one wants because it brings very little to the local economy.

> There is a gap between what we can do and what the markets want. ”

Visitors are not contributing to the local community; their presence does not bring development—hotels, services, or restaurants. But cruise operators have found enormous success and there is no limit there; the ships just get bigger and bigger. In Venice, where the city is so fragile, the ships are bigger than the city. So you have a visual and physical impact. But we can't do much about this except try to manage the flows. There is a gap between what we can do and what the markets want and we need to seriously discuss the way forward with the key operators.

By Peter Debrine

A NEW DIRECTION

Tourism goes sustainable

UNESCO's World Heritage Sites create jobs, promote local activity through arts and crafts, foster tourism, and generate revenues. The new World Heritage and Sustainable Tourism Programme was founded on the principle that it is important not only to promote heritage conservation, but also to advance socio-economic development in the communities surrounding these sites.

We all know the impact of ill-planned and mismanaged tourism. There is an Asian proverb that sums it up best: "Tourism is like fire. You can use it to cook your soup, but it can also burn down your house." It's especially important to heed those words of caution now, given the dramatic projected growth of travel to World Heritage Sites. International tourist arrivals grew by 4 percent in 2012, reaching 1.035 billion, according to the latest UNWTO World Tourism Barometer.

Sustainability is key to planning and managing this growth. Sustainable tourism relies on the development and delivery of quality visitor experiences that do not degrade or damage any of the property's natural or cultural values and visitor attraction. It requires effective, cooperative commitment and coordination among site management, the nearby communities, and all relevant public agencies and private enterprises.

This can be achieved through:

- A focus on early intervention and the overall nomination process to ensure tourism management is included.
- Strengthening the enabling environment for effective policies and governance.
- Co-operating and partnering with the tourism sector as it is the industry that creates the products.
- Taking a destination approach to tourism management as most tourism occurs outside a World Heritage property boundary.
- Promoting capacity development for site management and local communities to more effectively manage the properties.

In the end, World Heritage Sites do truly involve the global community. All of us working together can ensure that our soup is cooked and that our houses are left standing.

Illustration © UNESCO, toolkit design by Creative Concern

Photo © Pepe Barbe, Clearwater State Park, California

"Whole Park" PPPs

Rethinking the private sector's role in state parks

By Leonard Gilroy, Harris Kenny, & Julian Morris

Although most state park operations and management are run on a top-down, public sector delivery model, the private sector has long played a role in the operation of public recreation areas and parks. A "whole park" PPP promises tremendous benefits for the hundreds of millions of visitors to U.S. state parks every year.

Like much of America's infrastructure, the state park system that once seemed inviolable desperately needs a new management approach to ensure its fiscal sustainability. Among the most compelling proposals is the use of whole park concessions: long-term public-private partnerships (PPPs) used for holistic park operations and implemented via performance-based contracts between the government agencies responsible for overseeing parks and recreation management companies.

THE WHOLE PARK PROMISE

Whole park concessions differ from the more traditional food/retail-style concessions in place in many parks today in various ways. Broadly speaking, public and private roles and responsibilities are as follows.

Public:

- Public ownership of the parks.
- Public oversight of strategy, planning, character, and facilities for each park.
- Public control over policy decisions, user fees, and facility and capital investment planning.

Private:

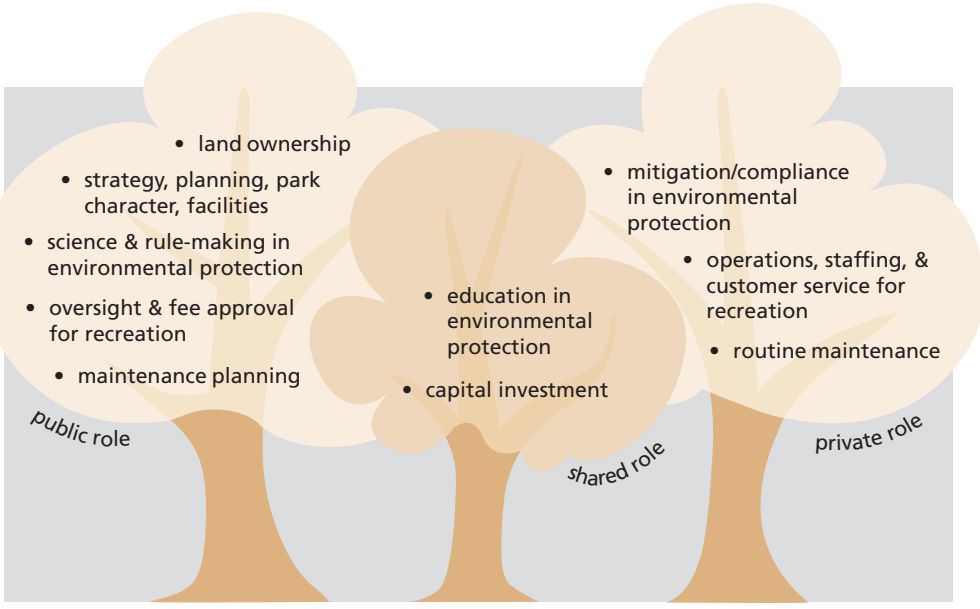
- Concessionaire is responsible for day-to-day park operations and maintenance functions, such as visitor services, routine maintenance and repairs, landscaping, waste services, and utility payments.
- Concessionaire operates (typically) a 5–10 year commercial lease contract with a possible role for private financing for capital investment, which would lengthen the contract to 15-20 years.
- Concessionaire collects gate fees to fund its operations and maintenance costs, including labor.
- Concessionaire pays state a competitively bid percentage of the gate revenues to the public agency as an annual lease payment, allowing the minimization or elimination of public subsidies.

Private, for-profit recreation management companies currently operate over half of the U.S. Forest Service's (USFS) thousands of developed recreation areas nationwide under whole park concession agreements. For example, Colorado, California, Oregon, and Washington each have over 100 USFS recreation areas and campgrounds operated by private concessionaires. This USFS program has been in place for over 25 years, prompted originally by fiscal pressures on the agency in the 1980s.

BENEFITS OF PARK PPPs

The U.S. Forest Service (USFS) realized more than 25 years ago that while ecology and land preservation were core competencies for park agencies, running recreation and commercial enterprises was not. USFS then began rapidly expanding its use of whole park concessions, and the agency estimates that over half of its thousands of developed recreation areas (such as campgrounds and day use areas) nationally are now run under park operation PPPs.

In 2012, California became the first state to embrace park operation PPPs in an effort to prevent the closure of several parks during a fiscal crisis. Analysis of these experiences allows us to make the following inferences about the benefits of park operation PPPs.



Source: Adapted from Warren Meyer, Recreation Resource Management, Presentation to Arizona State University Symposium on the Private Management of Public Parks in Arizona, November 9, 2010.

Financial Self-Sufficiency in Park Operations

Unlike traditional park concessions, park operation PPPs don't just add a few more dollars in concession fees to the state coffers. They change the entire cost structure of operating the park by transferring the operating costs to the concessionaire and therefore reducing or eliminating the need for public subsidy. This is achieved by requiring the concessionaire to pay a set percentage of the annual park revenues back to the public agency as rent for the land.

This transfer of operating costs has the important benefit of significantly mitigating the appropriation risk facing many parks authorities across the country, where parks and other non-vital infrastructure must yield to other core funding priorities in the state budget process. States still face costs not directly related to the operation of parks, such as the costs of owning land, maintaining the title, and contract management, which still may require state budget allocations.

Optimizing Staffing and Operations

Financial self-sufficiency is a major draw—made more compelling by the opportunity to optimize operations through whole park operation PPPs. The key lies in the ability for concessionaires to dramatically lower operating costs, primarily through a more efficient staffing model. The traditional public operational model relies on high cost, inflexible labor that is ill suited to meet the needs of parks.

For example, state park agencies typically hire full-time employees for year-round jobs, and these employees often have credentials that overqualify them for the job at hand. These employees also require costly public pensions and other post-employment benefits, like

healthcare. However, this top-heavy staffing model is inconsistent with the seasonal nature of parks visitation, which requires seasonal labor to conduct straightforward tasks such as cleaning bathrooms and maintaining campsites.

Collective bargaining and state procurement rules exacerbate these challenges, and often drive up the costs of public park operation relative to those seen in the private sector.

Quality Guarantees

The government can set quality and maintenance standards at its own discretion and hold the private company accountable to meet them through a performance-based PPP contract. Well-written PPP concession contracts enable (or in fact require) the private sector to provide unprecedented quality in park service delivery, while maintaining (and often expanding) public sector oversight.

Accountability

PPPs improve accountability over the status quo. State-run parks typically suffer from a conflict of interest because the state is responsible for both service delivery and oversight. By separating these functions, the private sector can specialize on innovating service delivery improvements, while the public sector can provide more effective regulation through structuring and overseeing compliance with the PPP contract.

Enhanced Risk Management

One of the most powerful and least recognized benefits of PPPs lies in the ability to use them to transfer major (and often hidden) financial and operational risks from the public sector—and thus, taxpayers—to the private sector. With regard to state park systems, PPPs offer an opportunity to better handle the full spectrum of associated risks, including revenue/demand, operational, legal/liability, and project delivery.

Tapping Private Capital for Park Improvements

PPPs can also mobilize private financing to upgrade or modernize facilities at a time when public funding is constrained by state fiscal challenges. For example, in recent years California's state parks lacked the funds to complete a redevelopment project in one of its parks—it ran out of funding in the middle of the project. The parks agency modified an existing "traditional" concession in this park to extend the term of the contract out to 20 years, and expand the scope to include completion of the project. This allowed the concessionaire to get financing to develop the new loop, purchase and install the cabins, and deliver a project that otherwise would not have been completed by the state on its own.

With the right partners, a whole park concession accomplishes exactly what its name implies: maintaining America's state parks as intact, natural resources, accessible and useful for generations to come.

This piece was derived from a larger study written for the Conservation Leadership Council (January 2013).

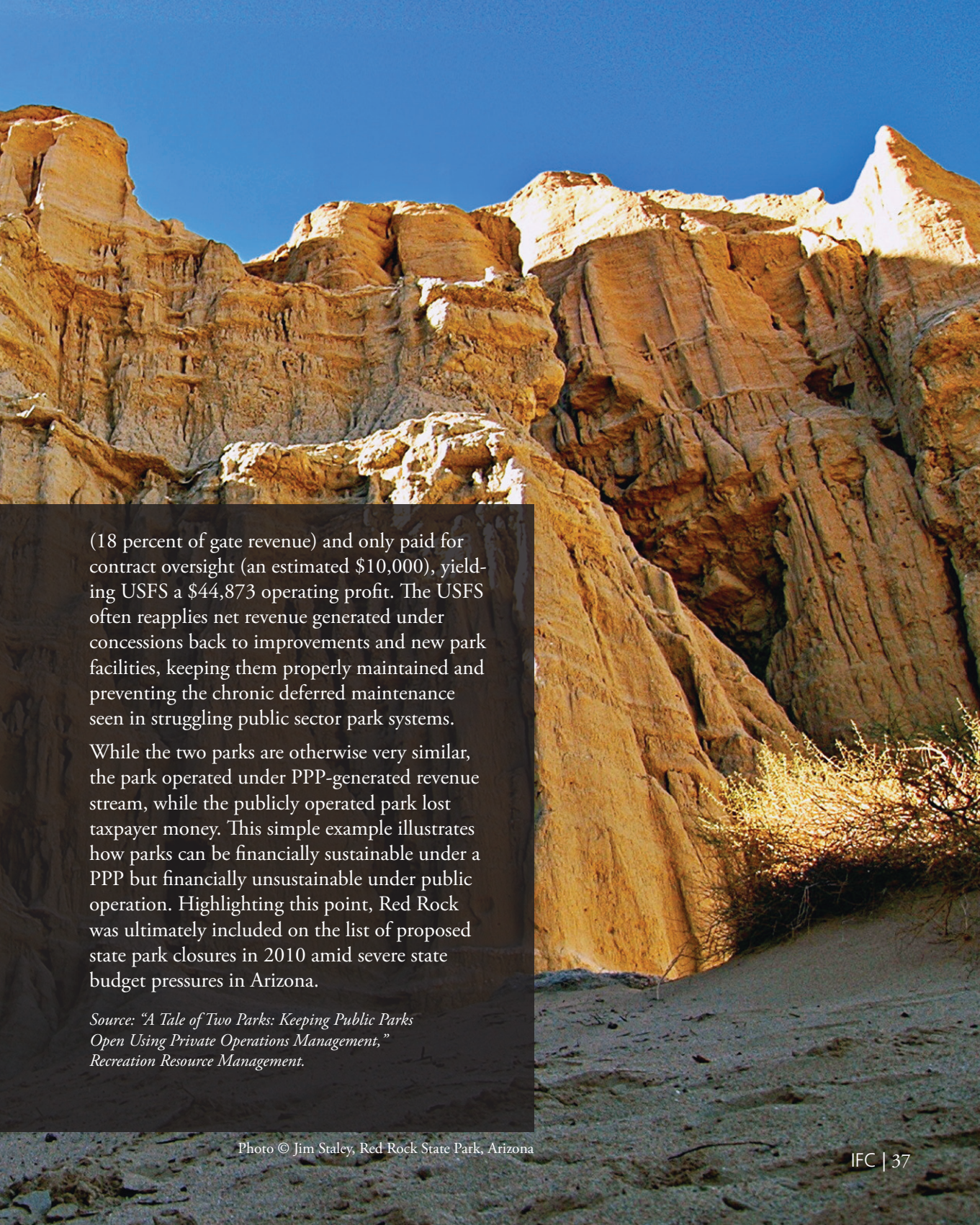
A Tale of Two Arizona Parks

In 2011, parks concessionaire Recreation Resource Management (RRM) prepared a case study of two publicly owned parks near Sedona, Arizona that illustrates the dramatic differences between traditional agency park operation and the PPP concession model. The case study compared Red Rock State Park, operated by Arizona State Parks (a public agency), and Crescent Moon/Red Rock Crossing Recreation area, a U.S. Forest Service (USFS) property operated under a concession by RRM.

Aside from the fact that one park is run by a public agency and the other run by a private concessionaire, these two parks are very similar in many respects. Both have public bathrooms, picnic and group shelters, parking facilities, and trails. They are adjacent to each other, with similarly sized visitor areas and staffed gatehouses to collect fees and provide visitor information. Both charge similar entry fees ($10 per vehicle at Red Rock, $9 per vehicle at the privately operated Crescent Moon). More important, the parks are also very similar in revenue and number of visitors. In 2009, revenues totaled $281,000 at Red Rock and $304,854 at Crescent Moon.

The dramatic difference comes in the parks' financial picture, which illustrates the transformative power of park operation PPPs. In 2009, Red Rock had direct costs of $370,943, plus an estimated $24,062 share of regional agency operations office costs and an additional $120,000 in operations support costs at the state park headquarters level (e.g., IT, human resources, etc.). Hence, Red Rock cost the state $515,005 to operate but generated only $281,000 in revenue, a loss of $234,000 for Arizona taxpayers that year.

By contrast, the USFS generated revenue at Crescent Moon that year under a park operation PPP. The concessionaire paid all park operating expenses from the fees it collected, taking those off the USFS balance sheet. USFS received $54,873 in revenue from the concessionaire



(18 percent of gate revenue) and only paid for contract oversight (an estimated $10,000), yielding USFS a $44,873 operating profit. The USFS often reapplies net revenue generated under concessions back to improvements and new park facilities, keeping them properly maintained and preventing the chronic deferred maintenance seen in struggling public sector park systems.

While the two parks are otherwise very similar, the park operated under PPP-generated revenue stream, while the publicly operated park lost taxpayer money. This simple example illustrates how parks can be financially sustainable under a PPP but financially unsustainable under public operation. Highlighting this point, Red Rock was ultimately included on the list of proposed state park closures in 2010 amid severe state budget pressures in Arizona.

Source: "A Tale of Two Parks: Keeping Public Parks Open Using Private Operations Management," Recreation Resource Management.

Photo © Jim Staley, Red Rock State Park, Arizona

a passion for PARKS

Interview by Alison Buckholtz

Warren Meyer is president of Recreation Resource Management, President of the National Forest Recreation Association, and a board member of the California State Parks Hospitality Association. He is the author of the website ParkPPP.com and conducted the first national conference on using public-private recreation partnerships to keep public parks open.

How does privatization work?

Generally, private operators are more efficient than the government in the park operations. In part, this is because these companies have focused their whole business model on park operations, so they have developed proven processes for park management. A private work force tends to be less expensive and more flexible than civil servants. Perhaps more importantly, civil servants typically are paid all year long, even when the park is not very busy or is closed. In contrast, concessionaires have identified a large pool of workers who are flexible and actually are looking for seasonal work. Using these efficiencies, private operators take on public parks that are typically losing money for the government and convert them to a financial asset, generating cash for the government in the form of rent payments while still serving the public.

Perhaps most important, privatizing parks takes them off the government budget, and makes them immune from being pawns in government budget battles. In the 1990s, when a disagreement between President Clinton and the Republican Congress shut down the government, the only federal parks open were those operated by private concessionaires.

What impact has the U.S. government sequester had?

The sequester has not had a big effect, as yet, on the concession model in National Parks—but it should. For those of us who love parks, it is

exasperating to see that they are constantly used as a political football in budget debates. One advantage of concession operation of parks, beyond the expense reductions, is that the park budgets become untouchable in these political food fights.

How does the private company get paid?

With a few exceptions, most recreation concessionaires are paid entirely by user fees—for example, by the fees at the gate, for camping, and from certain retail sales within the park. The concessionaire is not paid by the government, and receives no subsidy. In our company, 100 percent of the revenues we receive are from visitors.

Won't private companies just build a McDonald's in front of Old Faithful?

This is one of my favorite questions, because it is absolutely predictable that it will get asked whenever I discuss park privatization with a group of government officials. Typically I give three answers:

1. It simply is not possible. Under the terms of a typical operating contract, a concessionaire cannot change fees, facilities, operating hours, or even cut down a tree without written approval from the parks organization.
2. Generally, the parks we take over are popular for their natural or historical attractions. Diluting these attractions in any way is just business suicide for operators.
3. It doesn't happen. We operate over 100 parks in this manner across the country and you would not be able to tell the difference between the facilities we manage and any other public park.

We aren't trying to take ownership of the land. We are willing to accept whatever recreation mission or preservation mission the public owner of the park sets and manage the park to that mission.

Will private companies increase the entrance fees?

Generally not. First, operators cannot raise fees without their government landlord's approval. Second, public recreation is generally attractive to visitors because it is low-cost and offers real value—raising prices and reducing value would only drive customers away. Here is a real-world example to underscore this point: California State Parks charges $30 a night for a campsite with no utilities. Our private company operates hundreds of public campsites for other government agencies in California, and not one of those has a nightly rate greater than $20.

Photo © bcdixit/flickr, Badlands National Park, South Dakota

"to dream & plan"

By Ilan Dunsky & Lampros Stougiannos
Heenan Blaikie LLP

Since the 1872 dedication of Yellowstone National Park—the world's first national park—governments have continuously sought to set aside and protect lands deemed important enough to maintain in their natural state. In doing so, governments typically seek to support expenditures by promoting park tourism. Historically, as was the case with many infrastructure projects, government authorities have sought to maintain full control over the development, management, and revenue of public parks and wildlife.

However, public-private partnership (PPP) models for public parks based on structures developed for more traditional projects can be an attractive option and should be considered by authorities seeking to develop parks' tourism potential. This article focuses on three areas which deserve particular attention in any planned whole park PPP concession, where the bulk of the day-to-day development, management, and maintenance of the park is allocated to an operator.

GOVERNING LEGISLATION

A key issue for the authority to consider—even before it begins to structure a PPP in the parks sector—is whether applicable legislation permits it to concession the park's continued development, operation, and maintenance to a private operator. The relevant legislation may prohibit the authority from granting concessions over some or all of the park's operations. In addition, in some jurisdictions—particularly those that follow the civil law tradition—authorities may be constitutionally forbidden from allowing any non-state entity to manage assets considered to be part of the public domain.

In most jurisdictions, however, legislation will likely allow some form of private participation in public parks, although the specific operational features of the park that can be concessioned to a private party will vary from jurisdiction to jurisdiction and, in some cases, from park to park.

Creative payment mechanism models can be considered… Payments and deductions tied to specific ecological or sustainability benchmarks may be attractive.

Even where such concessions are not permitted, a PPP model may often be structured to take such restrictions into account.

DEMAND RISK AND STRUCTURING THE PAYMENT MECHANISM

Assuming that the governing law permits an operator to manage a park on a long-term basis, the authority can consider a broad concession to the operator to maintain and operate a variety of park services in exchange for a performance-based availability payment.

Payments to the operator pursuant to a PPP structure are generally spread out throughout the term of the PPP agreement. Although this risk is easy to manage from an operator's perspective where a project allocates a simple managerial function to the operator, if the project instead requires upfront or ongoing capital investments the operator may be required to obtain third-party financing. This would typically be repaid during the term of the PPP from the availability payment. The PPP agreement's payment mechanism therefore needs to be structured so as to ensure the financeability of the project.

The payment mechanism is also structured to incentivize desired outcomes. For example, authorities could tie the operator's payment to the level of visitors to the public park, in order to incentivize the operator to perform any promotion-related obligations. The demand risk associated with a visitor-based payment mechanism may need to be mitigated, however, if the

project is financed, since lenders are unlikely to finance a project if repayments are subjected to the ups and downs of the tourism sector.

In such circumstances, shadow tolling arrangements similar to those used in the transportation sector should be considered. Under a shadow toll structure, the authority would pay the operator a performance-based availability payment that could be adjusted based on visitor numbers. Entrance fees would be allocated to the authority directly, with a defined portion thereof being paid over to the operator. The PPP agreement could control the fees that can be charged—or not. Fees generated by services offered at the public park, such as hotels and restaurants, could also be shared in this manner.

This structure permits the operator a level of stable income (subject to appropriate performance of its obligations). This makes most projects financeable while at the same time ensuring that the operator is motivated to maximize the number of visitors to the park.

More creative payment mechanism models can also be considered. Payments and deductions tied to specific ecological or sustainability benchmarks may be attractive to authorities—for example, allowing for additional payments or deductions calculated on the basis of increases or decreases in the forest cover, vegetation, or of a particular animal species. Structuring any such mechanisms would likely require great care, given the number of variables involved.

A TAILORED APPROACH

The PPP agreement will include a number of performance and output specifications that address the operator's obligations with respect to its management of the park. Traditional services, such as security, hospitality, food, and sanitary services, can be combined with more capital-intensive requirements such as the building of additional hotels or the establishment of an in-park network of roads and trails.

Authorities should be creative about imposing requirements specifically tailored to the natural parks and tourism sectors. For example, the authority could require the operator to offer guided tours of the park, market the park in appropriate outlets, or ensure easier accessibility for visitors. Creativity is key so that legal structures and guidelines can continue to encourage the original purpose behind national parks.

As American naturalist Enos Mills said, "Within National Parks is room—glorious room—room in which to find ourselves, in which to think and hope, to dream and plan, to rest and resolve." The dedication of Yellowstone National Park set this mission in motion and it is as important today as it was in 1872. To ensure the mission continues, we need to make a little room for PPPs as well.

park privatization *in* practice

A concession contract for a National Park should be thought of as a commercial lease. The concessionaire will sign a contract allowing it to run the park for profit, and then pay the public entity a rent in the form of a percentage of fee revenues. With a few exceptions, the private company pays all the expenses associated with operating and maintaining the park and is allowed to keep the customer fees paid at the gate as revenue. Public authorities retain an immense amount of control over the appearance and service level at a privatized facility, and generally have procedures in place for terminating contracts where private companies underperform the standards.

In crafting the lease agreement, one of the key issues that varies case by case is the division of labor for major capital maintenance. In shorter term contracts of 1-5 years, the public authority generally retains responsibility for major maintenance, as it is nearly impossible for a private entity to get a return from large capital expenditures in such a short period of time. Longer terms of 10-30 years allow the private entity to take on more of the major maintenance and capital improvements (most ski areas are a good example). However, even when private companies invest in facilities, these facilities become the property of the public at the end of the contract.

—Warren Meyer

Photo © World Wide Gifts, Yosemite NationalPark, California

Photo © multilisks/istockphoto

Seeking sustainability

AFRICAN PARK PPPs

Public-private partnerships (PPPs) can be the key to ensuring the sustainability of national parks and protected areas in emerging markets like Rwanda and Mozambique, especially when businesses and investors can have concessions to operate within the parks. Without private sector involvement, visitor services run by government agencies are often operating beyond their usual capacity.

By Scott Wayne

As the sky lightens in Nyungwe National Park in southern Rwanda, land cruisers and park rangers bring sleepy visitors to a dirt road at the edge of the forest. After the cool, tropical air awakens the senses, and the piercing screams of the chimps awaken everything else, the Nyungwe chimp tracking experience begins. This heart-pounding experience is novel for most visitors because Nyungwe was founded in 2004, and is one of Africa's newest national parks. With over 1,000 square kilometers, it is also Africa's largest protected mountain rainforest.

Tourism is gradually taking hold in the park, thanks to the efforts of the Rwanda Development Board, with the support of USAID. Now, with a recently approved national concessions policy, their efforts are expected to help attract more visitors and increase spending, which in turn increases employment and income opportunities for local communities and leads to higher standards of living. In the long run, this should provide the park with more resources to ensure that it is protected.

PROGRESS VIA PPP

For the past three years, the USAID-sponsored Nyungwe Nziza Project has been successfully working with the Rwanda Development Board and local communities to help the park realize its potential. But more visitors are needed to make it a fully self-sustaining park, generating opportunities for local communities. Links in the value chain of Nyungwe's tourism experiences are strengthening, but Kigali-based and international tour operators are not yet convinced.

The new concessions policy could make all the difference. As it goes into effect, eco-lodge development sites near the source of the Nile are expected, as well as other ventures, such as restaurants, cafes, and additional tourism service providers. In time, this will expand options for tour operators, visitors, and local communities.

The new concessions policy seeks to achieve the following:

- Raise investment in protected areas via PPPs;
- Streamline proper management and conservation of protected areas through concessions;
- Provide quality visitor/tourist infrastructure, facilities, and services within the protected areas;
- Generate revenues to the government that can be channeled for management and conservation of these protected areas; and
- Promote sustainable tourism that generates employment and reduces poverty.

The policy is also expected to provide a transparent and objective framework for awarding and managing concessions and to facilitate obtaining support from other government offices, ministries, and agencies.

A MODEL IN MOZAMBIQUE

Two thousand kilometers south-south-east, in southern Mozambique's Maputo Elephant Reserve, private investment for an eco-lodge development is the goal of another ambitious African project. To support its six-phase "Investment Generation Approach" (IGA), an IFC team began working with the government, local community, and investors in 2007 to generate an "anchor," or strategic investment, which could serve as a catalyst for additional investment.

Though the process was interrupted by 2009's economic recession, investor interest returned by 2011. With a more structured investment and concessions program in place, officials signed an agreement for a 35 room eco-lodge in the Reserve. Now that the framework is in place, additional investments are being explored.

But as with most large-scale investments, the path to the Maputo Elephant Reserve was paved with challenges. Some of Mozambique's biggest hurdles were solved in ways that could apply to other parks.

Just like fingerprints, no two parks are exactly alike, and these two African parks demonstrate the variety of ways that concessions can serve the goal of sustainability. It's not as heart-pounding a journey as tracking screaming chimpanzees in the early morning light, but the end result—protection of pristine parkland—has just as much heart.

OVERCOMING ROADBLOCKS

Challenge: Lack of clarity on the role of special licenses in awarding tourism concessions in conservation areas.

Solution: The program designed a concessions structure whereby local communities could be the concessionaires and then partner with the private sector for implementation and management. Related to this was the piloting of an approach that required investors to commit to community development activities.

Challenge: No framework for awarding commercial concessions in conservation areas.

Solution: The program developed guidelines and recommended that regulations be put in place for the awarding and management of concession agreements.

Challenge: No model to generate income from tourism investments in conservation areas.

Solution: The program helped establish an approach requiring investors to pay market-based fees for commercial concessions and then recommended that most of the fee revenue be reinvested in the Reserve.

As Africa's concession policies take hold, examples from other park systems around the world can offer some best practices and lessons learned for developing concessions and PPPs.

One of the world's benchmark examples is the "Commercial Services Program" of the U.S. National Park Service (NPS). The program administers 575 concessions contracts in more than 100 national parks and protected areas, grosses more $1 billion annually, and during peak seasons employs more than 25,000 people. The services provided by private sector concessionaires cover 26 categories including auto and gas service stations, campgrounds, food service, lodging, motor coach tours, rafting tours, and vending machines.

This has its roots in the 1998 Concessions Management Improvement Act, which sets policy and a process for ensuring that concessions "are consistent to the highest practicable degree with the preservation and conservation of the resources and values of the unit." The process includes a competitive proposal and contracting process, Management and Advisory Boards, close environment management, and franchise fees paid to NPS.

Photo © James Brooks

Forecast: bright

TOURISM'S INVESTMENT CLIMATE

The travel and tourism industry is growing, and all indications suggest that it will continue to do so. Key factors include increasing wealth, the aging of the population, liberalization of air transport, and rapid advancements in technology that affect transport systems, passenger handling, sales and distribution, reservations, and inventory management. Global travel last year grew faster than the global economy—and it is growing fastest in the transitional economies. Much of the future growth is going to come from and will happen in these economies.

By John Perrottet

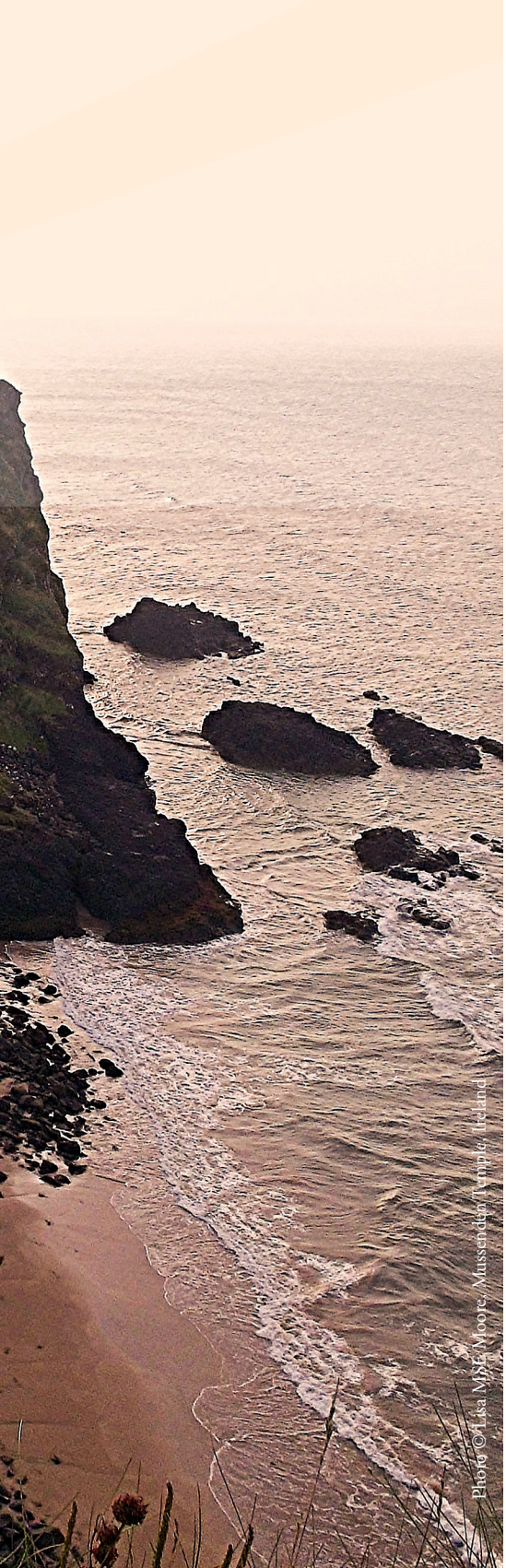


Photo © Lisa Moore, Mussenden Temple, Ireland

The developing world is well-positioned to take advantage of the fast-growing travel and tourism industries. Many emerging nations have attractive tourism assets with an increasingly high level of recognition and exposure among consumers. The challenge for governments in the developing world is clear: how can they capture a share of this growth and manage it so that it can drive prosperity?

Government officials know that the right answer to that question is key to transforming their economy. But they also know that competition is fierce. For developing countries to flourish in this environment there must be good underlying tourism assets, both natural and man-made, on which to build an attractive offer. Then the public and private sectors must work together to convert those assets into productive income earning businesses which generate jobs.

A CLEAR DIRECTION

To succeed in this competitive climate, governments must set clear direction for their tourism and travel industry. Unfortunately, too many governments treat the industry as a short term cash generator, levying taxes and applying regulations which result in high transaction costs and which discourage participation and limit growth. They make poor decisions based on inadequate sector analysis and short term political gains. Others fail to see investment as the driver of growth. They don't manage their own assets to deliver a satisfactory return on

investment—or there is an absence of a commercial framework to facilitate private sector investment. Others turn visitors away by hanging on to outdated visa regimes.

In addition to attractive assets and sound policies, there must be a capacity to mobilize the private sector and facilitate the investment that will commercialize the underlying assets. This process translates assets into attractive tourism products, supported by efficient infrastructure and an effective environment for doing business.

It is now well recognized that the overall investment climate is key. If a destination does not offer an attractive investment environment, it will not attract foreign investment. Nor will it mobilize local investment. Both are required for tourism to transform an economy.

While it is true that many needed reforms can take a long time to implement, it is also true that countries don't need to wait until every business indicator has improved in order to generate investment. Many government tourism officials ask, "We have implemented a lot of reforms but we still don't attract the level and type of investment to enable us to compete effectively—what else can we do?"

In short, they have discovered that reforms alone don't generate investment—at least not at a speed that allows them to stay in the race.

A TARGETED APPROACH

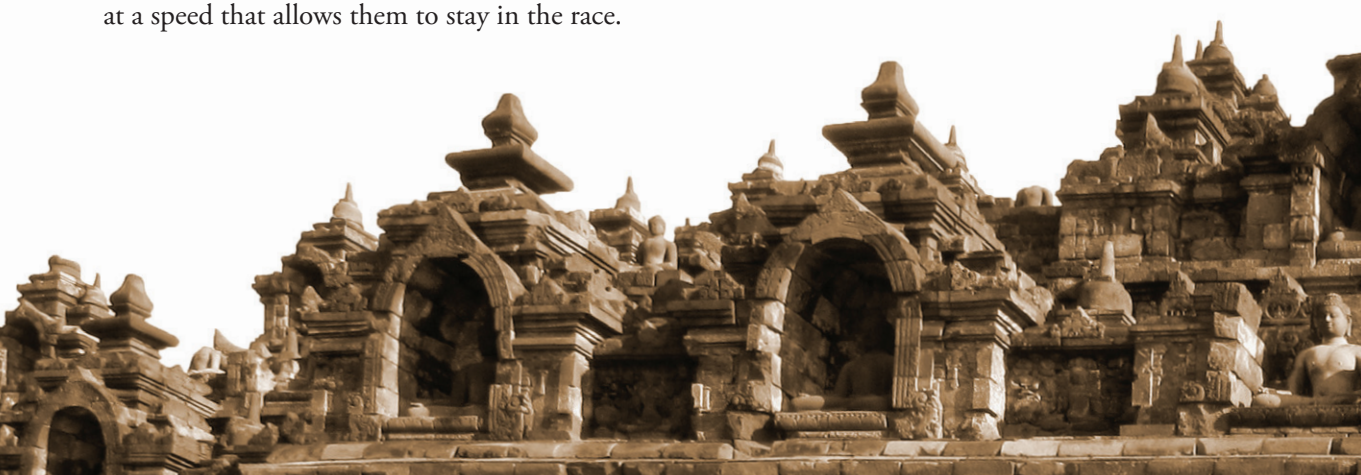
A targeted approach to competition recognizes that reforms need to be bundled into a more integrated program, with a clear focus on generating investment. There are three components:

1 Defining Market Position and Growth Opportunities

This helps countries understand their competitive position and develop rapid responses to foster growth. While longer-term thinking is essential, and policy settings need to be right, all governments want results quickly. This approach helps them by providing a targeted and commercially realistic analysis of their destination and a rapid assessment of the steps needed to effectively organize for short, medium, and long-term investment results.

2 Fostering Market Development

This unlocks investment opportunities and converts them into completed transactions that will generate incomes and jobs. Governments must mobilize capital for tourism business with high



potential. This can involve commercializing key assets, accessing new and emerging sectors such as health, sports, or religious tourism, and strengthening core tourism products in more mature markets where reinvestment or rejuvenation is warranted.

3 Building Market Improvement

Removing regulatory constraints to visitor access and economic growth is the first step toward success. The most urgent work toward this goal typically involves building investor access and smart incentives, visa reform and opening visitor access to destinations and key sites, and sector licensing and inspections that support brand standards and encourage inclusion. It is also important to look at reforms, which impact access to labor, and other key inputs which build competitiveness. Environmental and economic sustainability are also key areas to focus on.

REMEMBER RELATIONSHIPS

By taking a more commercial approach, governments can focus on building a pipeline of transactions that generate jobs while better understanding the drivers of growth and the impacts of negative policies, procedures, and business conditions.

This market-driven orientation also helps governments connect more effectively with private sector partners, allowing them to demonstrate leadership and build the confidence necessary to attract the investment community. Investors stress time and again that these relationships are critical to building a positive climate for tourism investment.

Photo © swifant/flickr, Borobudor, Indonesia

the accidental TOURIST

Interview by Alison Buckholtz

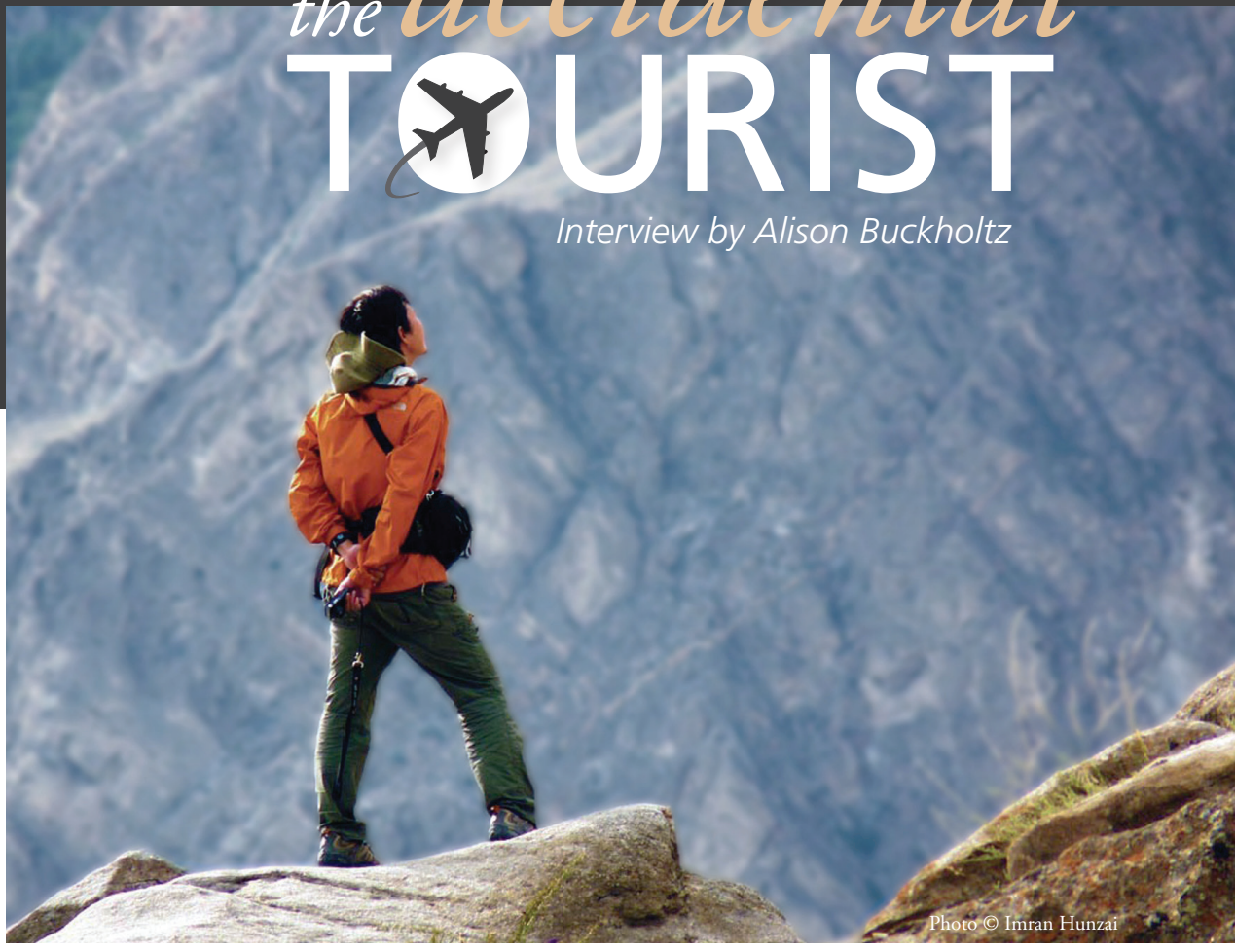
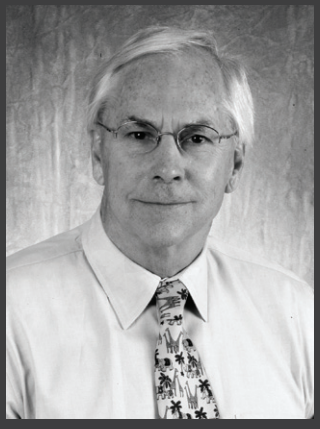


Photo © Imran Hunzai

Researching tourism trends worldwide



Don Hawkins was appointed as the Dwight D. Eisenhower Professor of Tourism Policy in 1994 and is a Professor of Management in the George Washington University School of Business. He has been Special Advisor to the UN World Tourism Organization (UNWTO) Secretary General for the UNWTO Knowledge Network since 2012. He has recently been engaged in sustainable tourism consulting activities, including policy analysis, workforce development, higher education reform, strategic planning, value chain analysis, and technical assistance.

For tourist spots, the most visible, tangible benefits of a successful tourist trade typically include the number of jobs created. What are some of the more subtle, less visible ways that an area benefits from tourism?

It's important to focus on the impacts of tourism at the local destination level. Jobs are important, but they are created by business (mainly SME) start-ups or expansion activities. Local people who live in the destination directly benefit from infrastructure created to serve the needs of visitors—solid waste disposal, road, airports, telecommunication, and energy, among others.

How have investments in tourism changed over the last 20 years? Are there any notable trends surfacing?

Tourism as a development strategy for developing economies has waxed and waned over the years. Tourism today is being analyzed as value chains relevant not only to tourism, but also potentially applicable to other production and service sectors. As tourism increasingly appears on the economic growth agenda for developing countries, a more robust analytical lens is needed to help resolve overarching issues such as poverty alleviation, land, labor, and finance.

There have been significant advances in accessing knowledge about how tourism can contribute

to sustainable development. After five years of USAID funding of the Global Sustainable Tourism Alliance, I coordinated an effort to compile best practices, cases studies, and tool kits resulting from this effort.

What are the most formidable barriers to tourism investment?

It is important to stimulate travel between countries through the easing of entry requirements and expansion of visa waiver programs. Of the 656 million international tourists who visited G20 countries in 2011, 110 million needed a visa, while millions more were deterred from traveling by the cost, waiting time, and difficulty of obtaining a visa. According to the UNWTO, facilitating visas for these tourists, many from some of the world's fastest growing source markets, could create over five million additional jobs in the G20 economies by 2015 and generate an additional $206 billion in international tourism receipts.

Accessibility can also be increased through the adoption of open skies policies and improvement of the quality and maintenance of road, air, and water transportation infrastructure. The overall investment environment for tourism can be improved by eliminating corruption and establishing "one stop" windows to reduce the time it takes to execute an investment project. Investors often lack reliable, comparable, and timely tourism data and other information necessary to adequately forecast and plan for development. The inability to gauge potential demand increases project risk.

Have you seen examples of places with significant barriers to investment turn themselves around? How have they done this?

Often destinations with great potential flourish by being connected through trip circuits and tour routes. For example, the Go Blue Central America Geotourism Program has organized 164 active businesses from Roatán and Bocas del Toro in Central America through a National Geographic Society web site. I have also seen remarkable progress for place-focused tour routes. These include the Silk Route in Asia; wine routes in Kakheti region in the Republic of Georgia and the Douro Valley in Portugal; and the Mundo Maya Route lining archaeological sites in Belize, Guatemala, Honduras, El Salvador, and Mexico.

What role do public-private partnerships play in tourism investment?

PPPs are essential to develop tourism. Let me focus on Jordan, a country with a wide array of PPPs. In 2007, the government of Jordan awarded a 25-year concession for the Queen Alia International Airport in Amman following a competitive bidding process assisted by IFC. The project included rehabilitating existing facilities, constructing a new terminal with a capacity of 12 million passengers per year, and operating the airport. In 2001, the Aqaba Special Economic Zone Authority was established as the statutory institution empowered with regulatory, administrative, fiscal, and economic responsibili-

ties for both the Aqaba Regional Authority and the Aqaba Municipality. The Royal Society for the Conservation of Nature (RSCN) is another outstanding example of a PPP—in this case, devoted to the preservation of Jordan's natural resources.

What do you look for when considering whether or not to recommend investing in a tourist location?

An effective tourism policy and regulatory framework at the national and local levels is essential. It's also important to coordinate tourism and investment promotion strategies at all levels. Tourism needs to be considered an export, with an understanding that the customer travels to the destination as contrasted with product outbound distribution systems.

I also use indexes for benchmark comparisons—for example, the World Economic Forum Travel and Tourism Competitiveness Index published every two years compares tourism-related performance of 140 economies.

Lastly, I try to determine how a tourism destination deals with planning paradoxes. For example, the tension between globalization and localization or the need to cooperate to build market share while maintaining rivalry and competitiveness. It's important that tourism destinations do not consider these alternatives as "either-or" but rather as realities that need to be understood and addressed to create a viable tourism sector.

THE BIGGEST BARRIERS TO INVESTMENT

Some major investment barriers that need to be addressed include:

- The lack of political stability and respect for rule of law are major constraints and drive visitors away, as the "Arab Spring" has demonstrated.
- Environmental sustainability is a growing concern for competitive tourism destinations; particularly the need to address issues such as coastal zone management, water pollution, and waste management.
- Inadequate licensing and concession policies inhibit private sector investment and operation of tourism facilities in parks and protected areas.
- Commercial banks, venture capital firms, and institutional and individual investors often lack the expertise to work with small- and medium-sized tourism enterprises.
- Tourism as a service-oriented, labor-intensive industry requires semi-skilled and skilled workers and well-trained managers to deliver the service quality required by international tourism companies and visitors.

—Don Hawkins

Photo © phvolmer/flickr, Chicago Skyway

tourist TRAP

By John Kjorstad

INVESTING IN TOURISM INFRASTRUCTURE

What is infrastructure? It's a fairly simple question with no distinctive right or wrong answer.

A text book, or in this case *Investopedia*, might define infrastructure as "the basic physical systems of a business or nation"—such as transportation, communication, sewage, and water and electricity networks for a start. One's definition of this asset class is often dependent on their appetite and understanding of risk. A toll bridge under a public-private partnership (PPP) with an availability-based payment structure will require a high cost of initial investment, but returns steady yield with relatively low maintenance costs and a semi-sovereign risk profile. A crematorium by contrast might be less expensive to build, but carries significant operation and maintenance costs—and although death and taxes are two of life's great certainties, natural gas prices and predictable consumers are not.

For many investing in infrastructure, low volatility and predictable cash flows are the main attraction. For those procuring infrastructure, it's about delivering an affordable public service to promote social and economic development that facilitates local prosperity.

Tourism's place at the table

So where does tourism factor into this discussion? Tourism is clearly a driver for some infrastructure, but it also represents a significant risk for its potential lack of certainty. After all, why people use infrastructure is key to its attractiveness. If one observes that people need to commute to earn a living—and that few outside the "one percent" would consider doing this by wing and jet engine—then a tolled suburban road network should perform better in an economic downturn than a tolled airport expressway.

For hard evidence on this casual observation, compare the recent experience of the Airportlink M7 in Brisbane, Australia with that of Chicago Skyway in the United States—two road concessions managed in part by the Australian firm Macquarie.

BrisConnections, the SPV for AirportlinkM7, entered into voluntary administration following a failed restructuring process earlier this year. The 6.7 km, multi-lane, free-flow toll road crashed because its financiers accepted traffic risk and predicted that 135,000 vehicles would use the tunnel each day when it opened in 2012—ramping up to 160,000 within 18 months. The actual number turned out to be 53,000 vehicles per day, and in fact only 85,000 used the tunnel when the connection was briefly offered for free.

Meanwhile, the privatization and financing of Chicago's existing Skyway Bridge has been far more successful—largely living up to its expectations. The 7.8-mile toll road was originally built in 1958, with a long history of performance. Moreover, the traffic on the Skyway has remained consistent throughout the financial crisis because it relies on a steady stream of commuters who live in Indiana but work in Chicago. Commuting is an essential activity, and therefore offers more certainty to investors.

Measuring risk

The cloud of uncertainty is an obstacle to investment in tourism infrastructure, but global statistics suggest it doesn't have to completely fog it out. Data from the UN World Tourism Organization (UNWTO) says international tourism receipts hit a new record in 2012, reaching an estimated $1,075 billion worldwide, up 4 percent in real terms from $1,042 billion in 2011.

The industry seems resilient despite several high-profile economic crises and natural disaster challenges in recent years. The long-term trend indicates further expansion, yet tourism projects really do need to be closely examined on an individual basis.

A quick search of *Infrastructure Journal*'s transaction database using the simple keyword "tourism" returns the following assets attracting private investment—only half of which have reached financial close (indicated by *):

- Geelhoutbos Tourism Development PPP (South Africa)
- Autopista de Nordeste Toll Road Long-Term Funding* (Dominican Republic)
- Brisbane Southbank TAFE PPP* (Australia)
- Hong Kong Ocean Park* (China)
- Tamoios Highway Expansion (Brazil)
- Mamallapuram Museum PPP (India)
- Naoussa Ski Resort PPP (Greece)
- Mundaring Water Treatment PPP* (Australia)
- Saudi Landbridge PPP (Saudi Arabia)
- Punta Cana Airport Expansion* (Dominican Republic)
- Dubrovnik Passenger Port* (Croatia)
- Aqaba New Port (Jordan)
- King Shaka International Airport* (South Africa)

At some level, each of these projects is seen as a direct investment supporting tourism as well as the local communities. In several cases, PPPs are being used as an effective tool to facilitate that development. Yet each of these projects is clearly individual. Like the definition of infrastructure itself, there is no right or wrong answer.

Photo © Dietmut Teijgeman-Hansen

Fighting poverty *with* PASSPORTS

By Jonathan Mitchell

Developing country tourism is not the preserve of middle-income countries. Some of the lowest income countries, such as Ethiopia, The Gambia, and Tanzania, have small tourist flows by international standards, yet depend on international tourism for a quarter to a third of their exports. Mounting empirical evidence shows that such "pro-poor tourism" can transfer significant benefits to local economies and communities around tourist destinations. In these and other low-income countries, tourism can be a considered a mechanism for poverty reduction.

Around the time of the Millennium Development Summit, a small group of researchers coined the term "pro-poor tourism" (PPT). PPT was based on three assertions:

- Tourism can be pro-poor;
- Tourism can be made more pro-poor; and
- Any type of tourism can be pro-poor.

These simple assertions were a revelation a decade ago. At the time, the development sector tended to see tourism as a private sector activity that had little relationship with poverty reduction, while the commercial tourist sector saw poverty reduction at destinations as the responsibility of others. Ultimately, PPT aimed at putting tourism on the development agenda and development on the tourism agenda. Has this worked?

Behind "alternative" tourism

Analysis by the Overseas Development Institute (ODI) suggests that it is very important for mainstream tourism to develop and maintain tourism/poverty linkages. But from a development perspective, the quest for an "alternative" tourism that benefits local communities by excluding mainstream tourist operators has largely failed. Small-scale tourist interventions are unable to reduce poverty at the scale required by the Millennium Development Goals. Large-scale poverty reduction implies working with large-scale tourist activity. Improvements made by development agencies and governments to the enabling environment for tourism are more likely to be effective if the private sector is involved in identifying problems and articulating solutions.

From a tourist company perspective, PPT can result in rapidly improved profitability. Expanding the tourist sector while spreading the benefits of tourist spending throughout the destination economy is also the most effective mechanism for increasing the scale of benefit flows to the resource poor. This results in a confluence of interest between the tourist industry and the population living around the destination.

Developing countries are littered with well-intentioned community-based tourism and eco-tourism projects which, with notable exceptions, are delivering limited benefits to few people.

The results are in

Where this confluence of interests is recognized, PPT has been successful. An assessment would include its impact on the donor community. Several multilateral donors (notably the World Bank, IFC, Asian Development Bank, and UN), some bilateral ones, and a number of NGOs have provided significant support for PPT proj-

ects over recent years. One of the more successful examples has been the partnership between the private sector and NGOs in The Gambia through its International Centre for Responsible Tourism. This initiative linked low-income communities with tourism, and improved the pro-poor impact of tourism in one of Africa's smallest, and poorest, destinations.

Some researchers still believe—despite the mounting evidence—that the destination impacts of international tourism are almost always negative.

Some key mainstream commercial tourist operators have recognized their responsibility for destination impacts and are seeking to enhance those impacts. The emergence of sustainability initiatives at the major European tourism fairs is evidence of this. For example, the Federation of Tour Operators—the umbrella organization for the largest tour operators in the U.K.—encourages suppliers to respect minimum wage legislation, to create corporate social responsibility and sustainable development structures in mainstream corporations, and to establish sustainability accreditation and award systems for suppliers.

Seeking consensus

However, there is still a great deal to do before there is consensus among the development, commercial, public, and research domains concerning PPT. In the development sector, some agencies remain skeptical about including tourism projects in their portfolios for a variety of reasons. Among the enthusiastic supporters of tourism projects, like NGOs and external donors, many are still seeking their own alternative to mainstream tourism. Developing countries are littered with well-intentioned community-based tourism and eco-tourism projects which, with notable exceptions, are delivering limited benefits to few people. Developed in isolation from private sector and commercial distribution channels, they lack the client volumes needed for commercial sustainability, and generally fail soon after the supply of concessionary funding dries up, as research has shown.

The view that mainstream tourism should have a prominent place in poverty reduction programs for low-income countries with a competitive tourist sector is probably not even held by the majority in the development sector—let alone a consensus view.

Mainstream tourism has been timid in adopting PPT principles, and its embrace of social and environmental sustainability has been late and piecemeal. With the majority of European mainstream customers being unwilling to pay for more pro-poor holidays, according to industry evidence, mainstream operators have understandably taken destination impacts into account.

Glimpsing the future

An important driver for change has been the flurry of recent mergers and acquisitions that has resulted in some organizations becoming listed on Western stock exchanges. Several outbound tour operators and hotel chains have a market capitalization of $2.6 billion to $5.2 billion, subjecting them to onerous review and reporting responsibilities. Corporate management is aware of the impact of negative stories emerging from developing country destinations. In this context, PPT initiatives can play a strategic role in reducing reputational risk. As tourist companies work in complex environments, they appreciate that positive socio-economic benefits can increase their "social license" to operate.

In the research community too, PPT does not yet play the role it may eventually assume. While there have been many academic articles and several special editions of tourism journals focusing on PPT, researchers concerned with the destination impacts of tourism operate in contested territories. In addition to PPT, many use alternative terms—such as "responsible," "inclusive," and "sustainable" tourism. There is no harm in this trend continuing—in fact, it can be helpful, as researchers with similar principles and goals operate under different labels.

Some researchers still believe—despite the mounting evidence—that the destination impacts of international tourism are almost always negative. However, tourism researchers generally have not yet fully encompassed mainstream development economics, the tourist industry, and the general public. This is another change that is anticipated.

Following this reasoning, ODI concludes that the tourism sector in its current incarnation is failing to capitalize on the good news story that tourism may already be benefiting destinations. Where tourism is not yet pro-poor, improving performance can only be achieved with an awareness of the problems and solutions. In the medium term, PPT can improve monitoring of business impacts on development, reduce reputational risk, and increase social licenses to operate in developing countries.

In the longer-term, when most mainstream tourists start to demand enhanced socio-economic performance in developing country destinations, the companies that have anticipated this change in demand will reap significant early mover commercial advantages.

Adapted from "An unconventional but essential marriage: pro-poor tourism and the mainstream industry," Private Sector & Development, *Issue 7, September 2010.*

Flying HIGH as fares FALL

Low-cost carriers revitalize tourism

By Charles Schlumberger & Nora Weisskopf

Photo © Matt Hintsa

Numerous studies have indicated that the entrance of low-cost carriers (LCCs) has a significant impact on lowering airfares, not only in their own network, but across the whole aviation market. This has in turn stimulated traffic, with routes often experiencing a many-fold growth in passenger numbers. However, the effects of reduced fares from LCCs reach far beyond increased passenger traffic: there is a well-documented correlation between LCCs' entrance into the market and a positive impact on the tourism sector as a whole.

ABUNDANT BENEFITS

The European Low Fare Airlines Association groups LCCs' benefits to tourism into four categories:

- Reduces fares.
- Increases the number of tourist destinations due to usage of secondary airports. (For example, the London-Strasbourg route, previously used primarily for business, has proven to become a popular tourist destination with the entrance of Ryanair.)
- Distributes traffic more evenly throughout the year, reducing "seasonality effects" (passengers limiting their travel to traditional peak periods).
- Lowers off-peak fares, which have enabled mid-week holiday travel. This development distributes traffic more evenly across the week and reduces congestion at airports.

REGIONAL RESULTS

Empirical evidence suggests that when a low-cost carrier enters a market, prices fall by an average of 20 percent over the first four years, resulting in traffic increasing by about 50 percent over the same period. In the European market, for example, the entrance of LCCs has had a significant impact on tourism demand for the major six Comunidades Autonomas (autonomous communities) in Spain. One study forecasts that a 10 percent rise in the number of visitors using LCCs would increase tourist per capita figures from similar EU countries by 0.2 percent. Since LCCs' share of passenger traffic has risen from 10 percent in 2000 to 53 percent in 2009, that projected impact is substantial.

Similar findings exist in other EU countries. One study that estimated the impact of Ryanair on the rural area around Frankfurt Hahn (known as the Hunrueck region) found an increase from 2.17 million of total number of overnight stays in 1998 to 2.34 million in 2002.

LESS ISOLATED ISLANDS

Island tourism has been particularly affected by the entrance of LCCs, especially in the areas of employment and accommodation revenues. The government of Malta's decision to "incentivize" the entry of LCCs in 2006 is seen as a key driver for the country's increased tourism figures in 2007. Tourism had experienced very little growth prior to 2006.

A separate study, which looked at the Korean island of Jeju, attributes the growth in number of tourist and accommodation revenue between 2005 and 2008 almost entirely to the entrance of Jeju Air, a low-cost Korean carrier. This research shows that LCCs accounted for 35 percent of total passengers in 2009 on the Seoul-Jeju Island route, corresponding to an average growth rate of 161.7 percent between 2005 and 2009. This stands in contrast to a -0.3 percent growth rate for full-service carriers.

ECONOMY-WIDE EFFECT

The stimulation of new demand from reduced fares is especially important to the tourist economy. ("New demand" refers to passengers who have, due to a variety of reasons, never flown before.) Research confirms that the traffic generated by LCCs is a result of demand stimulation rather than cannibalization of existing carriers' traffic.

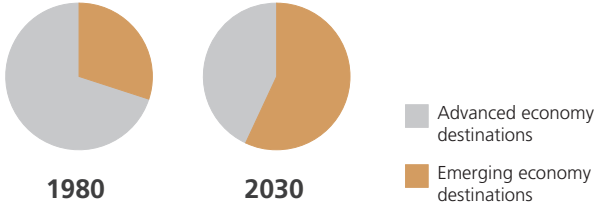
These first-time flyers are also taking advantage of the host region's service economy—hotels, restaurants, museums, and attractions. As this demonstrates, the emergence of affordable air services can have a crucial impact not just on the aviation market, but on the entire economy of a country.

Productivity in LCCs

PASSENGERS PER EMPLOYEE:

INTERNATIONAL ARRIVALS

Arrivals to emerging economies are expected to surpass those to advanced economies by 2015.



Sources: European Low Fares Airline Association & Global Report on Aviation, AM Reports: Volume 5, *UNWTO, 2012.*

QUANTIFYING *"The Southwest Effect"*

In 1993 the U.S. Department of Transportation (DoT) conducted a study on the impact of low-cost carriers' (LCCs) entrance on the U.S. airline market. Terming this phenomenon the "Southwest Effect," the researchers focused on three different aspects of how Southwest airlines impacted the aviation market, specifically:

- Direct competitive effect in terms of passenger growth and fare reduction on a given route that Southwest had entered;
- The lowering of fares at surrounding airports through Southwest's entry; and
- The role model effect, exhibiting the impact Southwest has on the business models of new entries in other markets.

The study presented evidence that Southwest's entry had a significant impact on all three aspects of the market. In Europe, the entrance of LCCs has also led to similar substantial market stimulation, with 50 percent of additional flights between 1995 and 2004 having been provided by low-cost airlines.

Photo © Beth Jusino

Ambassadors *of the* AIR

SAMOA'S LOW-COST CARRIER TAKES OFF

Photo © Virgin Australia

As a small, isolated country in the Pacific, Samoa is heavily dependent on tourism for jobs and economic development. The government's objectives for the aviation industry included providing safe, modern, efficient, and affordable international air transport to Samoa to support expansion of the tourism industry. Operating Polynesian Airlines in a commercially and financially sustainable manner was also a high government priority.

But prior to 2005, neither objective was being met. Polynesian Airlines' inappropriate route and fleet structure, expensive aircraft leases, overstaffing, and uneven demand levels contributed to a $7.5 million loss (70 percent of the government's total budget deficit) in 2004. Tourism was growing only 4 percent a year, far below neighboring destinations such as Fiji, Tahiti, and Cook Islands. Recognizing the seriousness of the situation, the government approached IFC to find an alternative to liquidating Polynesian Airlines.

After recommending that the government implement a public-private partnership (PPP) with an international aviation investor, IFC served as lead advisor to the project.

A SIGNIFICANT IMPACT

The PPP that has paved the way for Virgin Samoa (the rebranded airline which took over the jet operations of Polynesian Airlines) has had a significant and lasting impact on the nation's tourism business. Specifically:

- **Increases in direct flights and frequency of flights between Samoa, Auckland, New Zealand, and Brisbane/Sydney, Australia have resulted in increased travel choices for travelers**: the re-branded Virgin Samoa currently runs 14 flights per week to Apia from Auckland, three flights from Sydney and one flight from Brisbane. Air New Zealand has daily flights between Auckland and Apia, and Air Pacific operates less frequent flights to Fiji's Nadi Airport and Hawaii.
- **Increased seat capacity on international flights has resulted in increased competition among airlines and in lower cost of travel for consumers.**
- **Increased tourist arrivals from 101,807 in 2005 to 172,713 in 2012 has led to increased investment in tourism infrastructure and related services.**

The transaction model was designed to take advantage of the international partner's cost structure, leverage marketing and distribution strengths, and maximize profitability. Significantly, the structure allowed a low-cost carrier to participate, a first in airline privatization.

The restructured Polynesian Airlines, which retained the turbo prop operations focusing on servicing the domestic and international flights to American Samoa, has also achieved profitability. It is now being prepared by the government for privatization.

Kolone Vaai, the co-Managing Director of KVA Consult, LTD, a Samoan consulting firm, was involved in the team assembled for the PPP transaction. He shared the same positive assessment of the benefits realized by the restructuring of the airline to date. However, he pointed out that the key challenge now facing the local tourist industry is mapping out how Virgin Samoa and Polynesian Airlines can diversify the international airline routes to develop effective and sustainable air links to the growing and developed markets in the northern hemisphere and Asia.

FINANCIAL RESULTS
(AS OF 2010)

- The realized level of private sector investment for the evaluation period is $10 million (2009), compared to the expected level of private sector investment of $5 million.
- Since 2005, indirect taxes collected from additional tourist arrivals is estimated at $1.86 million per annum.
- From 2005-2009, 243,000 people have been positively impacted by the improvement in airline services and improved services to the Samoan economy, compared to an original estimate of 80,000 people benefitting from the partnership.
- Indirect benefits of the additional tourist facilities resulted in new employment for 671 people and contribution to national salaries and wages of $1.4 million (2009).
- Consumer savings from the general reduction in regional airfares since the joint venture over the 2005-2009 period is estimated at $57.7 million. About 243,000 people have benefitted by the reduction in airfares over the same period.

Advising the advisors

Travel industry experts offer solutions for more effective development approaches

"Traveling light" applies to theories of development just as it does to packing a suitcase for a mission. For tourism officials and experts in the travel industry, development institutions that arrive with bags overflowing with outdated ideas can be the most unwelcome visitors of all. To help development personnel plan projects, *Handshake* editors approached a diverse group of industry leaders with the same question:

> "On what aspects of the tourism industry in developing countries can development institutions have the most impact? Where specifically should these institutions focus their attention and resources?"

Their focused, constructive responses point to emerging trends and important lessons for development agendas worldwide.

Geoffrey Kent

Founder and Executive Chairman of Abercrombie & Kent

Travel can change lives and attitudes, and most importantly, build bridges between people. Sustainable tourism offers the best hope of protecting endangered places because it provides a compelling incentive to protect wildlife, habitat, and culture. It's encouraging that a new form of community development assistance is evolving from informal partnerships forged by the owners of forward-looking travel businesses who connect civic-minded travelers with local non-governmental organizations committed to making a difference in conservation, health, education, and community development.

International development institutions can foster such partnerships by providing financing for innovative camps and lodges committed to sustainable practices and sourcing food, products, and workers locally.

Stéphanie Balmir Villedrouin

Minister of Tourism, Haiti

It is not possible to conceive of a tourism industry without dynamic private sector participation. The state is there to provide regulation and hand holding—in other words, to create a structural and regulatory framework allowing operators to implement their tourism development projects without constraints. That is why Haiti's government established the Advisory Council on Tourism last December, to respond to the need for harmonization and synchronization between the public and private sectors.

Above all, and regardless of location, the tourism industry requires an attractive environment endowed with natural, cultural, or heritage sites that will support its full development. Access to these areas requires the establishment of infrastructure that will encourage visits or stimulate interest in these destinations. Lack of infrastructure is one of the major challenges that some developing countries currently face, and therefore infrastructure development projects would have the greatest impact in these societies. However, these projects should follow sustainable tourism and development practices so that the country and its people can benefit from the investment. These institutions should also invest in management training to ensure quality services for the benefit of the sector clients.

Specifically, development institutions should focus their attention and resources on considering which tourism investments will generate direct and indirect employment. Development institutions should also stimulate investment by setting up guarantee funds to benefit investors.

PG58

John Tribe

Professor of Tourism,
Surrey Tourism Research Centre,
University of Surrey

When I travel I am still amazed by how much spending gets vacuumed up by formal, established, foreign businesses and yet what a huge potential there is for tourism to create opportunities for informal, new, and local trade. Development institutions have made inroads here, but there is still much to do. **Effort needs to be concentrated on the key areas of confidence, means, ability, support, access, and trust.**

Confidence is that start. Could I do it? Who are the local role models? How are these inspiring others and through what mechanisms?

Means means money. User-friendly micro-finance schemes can penetrate deep into local economies and provide a significant social and economic return to investments.

Ability is developed through skills training. Not complex, not expensive but flexible and very tailored to immediate needs.

Support means access to networks and specific, local, accessible problem-solving advice.

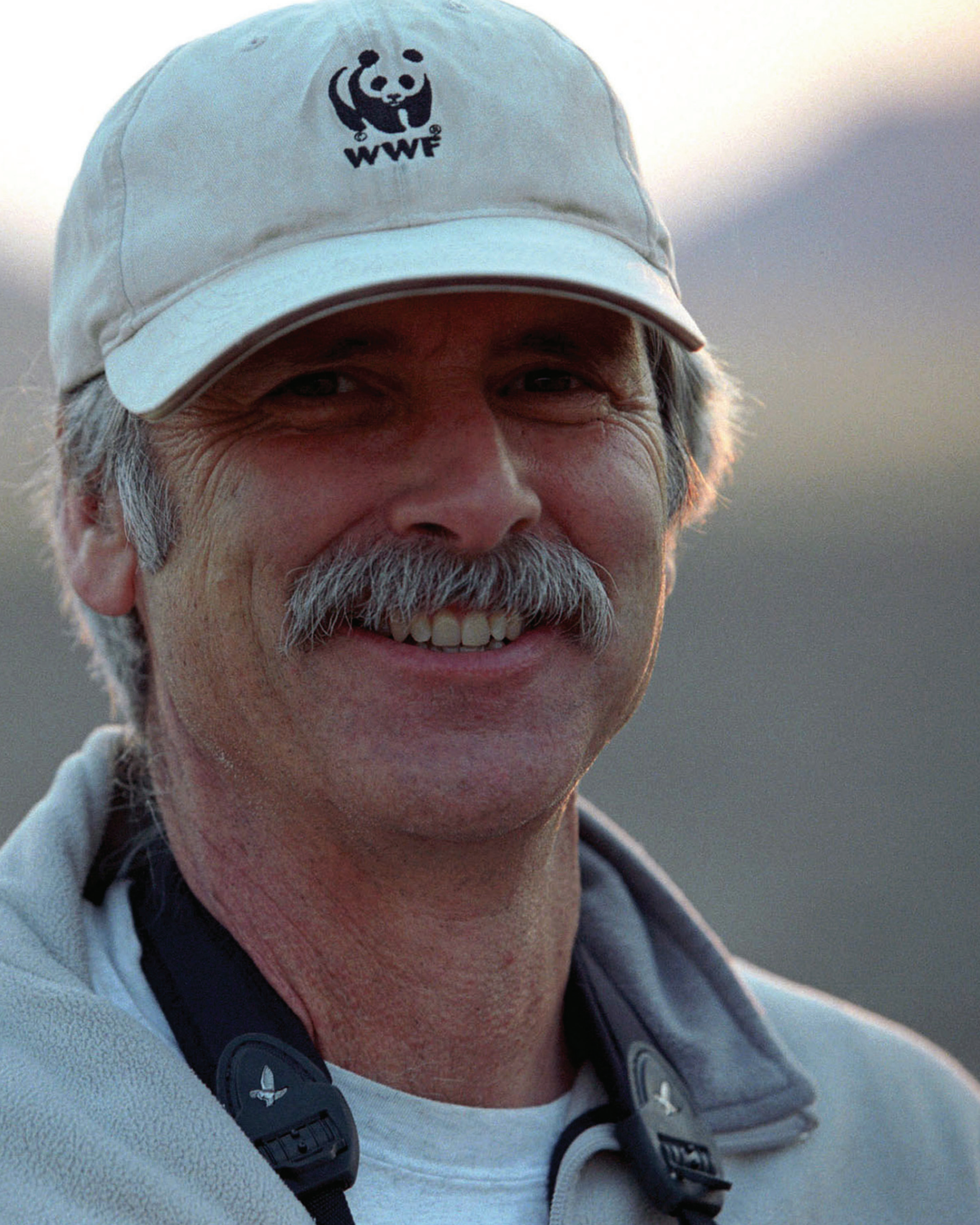
Finally, *access and trust*. Local businesses need help to connect with tourists perhaps on a co-operative basis but certainly deploying new technologies. Tourists need to be able to trust local services. This is a serious challenge to be worked on.

Hannah Messerli

Senior Private Sector Development Specialist for the Africa Region, World Bank

Tourism is a cross-sector, multi-impact activity that can be an important economic generator for developed and developing economies—but tourism is not a panacea. Just as there are many benefits, there are also negative impacts that can be difficult to manage over time. However, tourism can be a powerful tool to engage communities, build the private sector, and encourage national pride. **Development institutions can support tourism value chain development that raises awareness and capacity about tourism trade-offs while also having positive economic, environmental, and social impact.**

Development institutions have a critical role to play given their ability to support the sector over time. It's important that they remain realistic about what tourism can and cannot do and support public and private sector collaboration to manage impacts. From the immediate through the long term, development institutions must make it possible for diverse public and private sector stakeholders to come together as partners.


WWF

Chris Weaver

Managing Director of the World Wildlife Fund, Namibia

In many developing countries, the development potential of the tourism industry is weakly harnessed. As a result, tourism is frequently seen as an exploitive industry that: 1) exploits rural poor; 2) poses a threat to sensitive ecological systems; and 3) uses tax loopholes or offshore accounts to sidestep tax payments, creating the impression of an industry that also exploits governments. These perceptions are further re-enforced by tourism operators who rationalize they are creating jobs that wouldn't otherwise exist, but at the same time provide meager wages and benefits to staff. Then there are tourism operations that are constructed and operated in some of the most pristine and attractive venues, which also frequently are unique and highly sensitive biodiversity hotspots.

These consequences are a result of weak tourism policies and legislation that do not create a development-oriented framework for responsible tourism. For example, few countries have devolved tourism concession rights to organized community bodies, and surprisingly few countries have linked nature-based tourism with performance-based natural resource management initiatives. Furthermore, most developing countries do not have environmental legislation that ensures construction and operation of tourism activities in a manner that minimizes the tourism footprint and impact on sensitive biodiversity assets. Finally, in addition to the above, very few developing countries put in place strategic mechanisms (such as tax deferrals, tax breaks, or co-funding) that provide incentives for the private sector to partner with communities in tourism operations.

Namibia is an exception in promoting responsible tourism. Communal conservancies (legally-recognized community natural resource organizations) have been given rights to commercial tourism and tourism-derived benefits are being linked to the responsible management of wildlife, wildlife habitats, and other tourism assets. Tourism companies are required to contract with conservancies for tourism activities, with such contracts ensuring that most staff are employed from the resident community, that staff receive professional training, and that a fair portion of the income is returned to the conservancy to pay natural resource management costs and to support rural development. This approach has empowered rural communities while also promoting better natural resource management and provided participating communities with revenues. This framework has resulted in the creation of 35 operational joint venture lodges, with another 10 under development.

Namibia's successes demonstrate that much can be achieved in developing countries by focusing on the policies that harness responsible tourism to support development.

Anita Mendiratta

Founder & Managing Director, CACHET Consulting

The travel and tourism sector has become a recognized, respected driver of invaluable economic, social, cultural, environmental, and competitive advancement of nations across the globe. Many developing countries are now able to attract interest and investment that would have been unthinkable just a decade ago.

This is where the role of development institutions is critical. These agencies see both sides of a sustainable supply and demand equation, they access and leverage experience and best practices from across the globe, and they act as a neutral, full-circle facilitator for public and private sector partnership development. **Therefore, development entities can become the key enablers when it comes to turning possibilities into valuable, equitable propositions. Development institutions can act as a bridge between vision and execution.**

Mahmud Janmohamed

Managing Director,
Serena Hotels, Africa

Although developing countries still hold a marginal position in international tourist flows, reports indicate that their performances are improving at a faster rate and are expected to become the main engines of growth in the sector. For these countries where economic activity is often based on a handful of sectors of activity, responsible tourism development provides real potential for diversification. It provides valuable foreign currency exchange, government revenues, creates jobs, deepens the local supply chain through inter-industry linkages and infrastructure development, and catalyses economic development and social progress through positive pressure to help improve the investment climate and best practices.

Development institutions must ensure that prior to supporting new tourism developments, the project includes elements that bring about economic growth and develop local human resources as well as cultural and natural heritage. This needs to be done while reducing the ecological footprint of establishments to a minimum. The promoter must rely on an ethical framework, in-depth risk analysis, and a policy of constant innovation.

Taleb Rifai

Secretary-General,
UN World Tourism Organization

In recent decades, international tourism grew most notably in emerging markets and developing economies. In 2012, international tourists spent $386 billion in these countries—up from $104 billion in 1995. Tourism is today one of the main wealth creators for many developing and least developed countries and often the most economically viable and sustainable development option. The sector represents 56 percent of the service exports of Least Developed Countries (LDCs) and was central to the graduation of two of the three countries that graduated from the LDC status: The Maldives and Cape Verde.

It is thus ever more obvious that with careful planning and management, tourism's vast potential can be harnessed for stimulating growth and development. To achieve this objective, tourism should be placed higher on the development agenda and, most importantly, the level of assistance in tourism should match the potential of the sector to contribute to the development objectives. Today, the tourism sector represents a mere 0.13 percent of all Official Development Assistance (ODA) and 0.5 percent of Aid for Trade, as compared to a 6 percent share of all exports in the LDCs.

To understand where the impact of aid development can be more effective, it is important to understand the process of tourism development and which factors boost competitiveness. According to the World Economic Forum's Travel and Tourism Competitiveness Index, the 49 LDCs rank the lowest in factors such as tourism infrastructure, health and hygiene, air transport infrastructure, ICT infrastructure, policy and regulations, statistics, and human resources; these should be some of the priorities in aid development in tourism.

Furthermore, any project should be fully adjusted to the state of tourism in the country. **Countries where tourism is still at a nascent stage may benefit more from support in master planning, product development, human resources, regulation, and investment promotion. Countries that have already managed to build a thriving tourism sector can benefit more from support in the field of marketing and promotion, SME development, supply chain interventions to reduce leakages, and strengthening mechanisms for governance and management of the sector.**

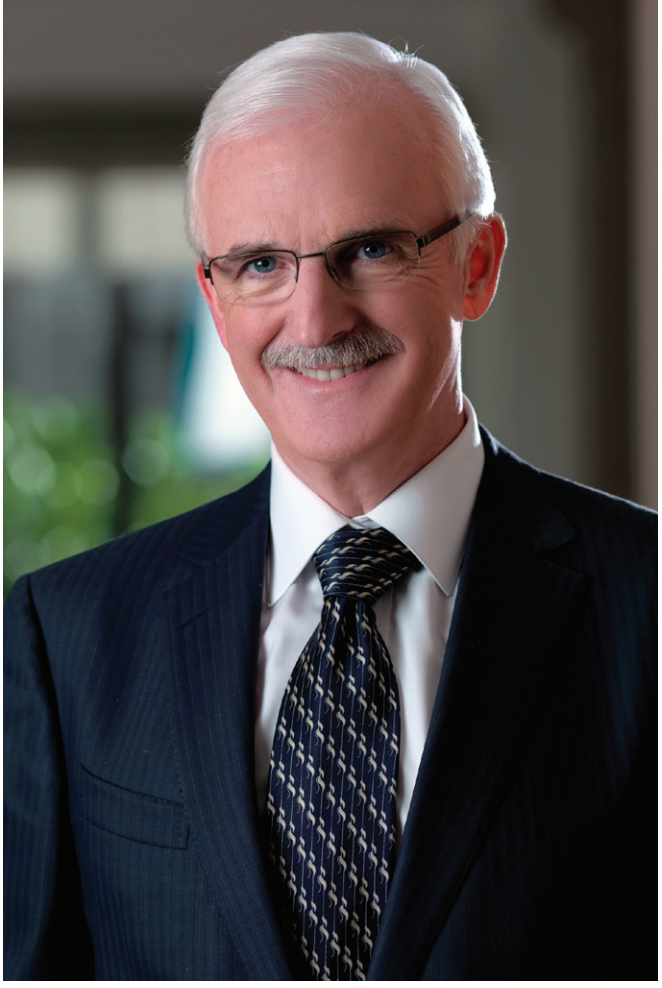
To guide development institutions and benefiting countries, UNWTO has just published, with the support of the European Union Directorate General for Development and Cooperation, a "Sustainable Tourism for Development Guidebook."

Brett Tollman

Chief Executive Officer and President, The Travel Corporation

Effective, efficient tourism development for the long term is a vital part of the advancement of any tourism business, as well as any tourism industry in an economically vibrant country. For travel specialists, hoteliers, or any other business with links in the travel experience chain, having confidence in a destination occurs when there is a vision for long-term viability—economically, environmentally, and otherwise. This is critical to private sector entities within the tourism industry.

From our perspective, development agencies act as a form of conceptual reassurance. The presence of, and partnership with, development agencies in nations provides a clear signal that exploration of investment opportunities in developing nations is wise. The active, visionary, and visible leadership by development agencies acts as a compass, providing valuable insight into what is required to turn opportunity into real results.



Gerald Lawless

President and Group Chief Executive Officer, Jumeirah Hotel Group

Travel and tourism services are not only a direct export. These services provide a financial injection into local economies, and on a larger level, they are a social virtue. Governments are beginning to recognize the role of travel and tourism in creating essential employment opportunities, and that it actually can be the conduit to provide much needed entry-level jobs for young people. Therefore, strategic investments should be made into vocational institutions that provide specific education in travel and tourism.

Over the next decade, total industry employment is forecast to increase by more than 70 million jobs, with close to 70 percent of those additional jobs in Asia. **Working closely with governments, development institutions can play a crucial role in creating tourism infrastructure that would result in further engagement of local communities into economic cycles, providing access to education and healthcare.**

FAST FACTS

Tourism is the **4th** largest industry in the global economy

after
- fuels
- chemicals
- food

82% of developing countries name tourism as a key foreign exchange earner.

1/3 of the world's poorest countries pinpoint tourism as the leading export earner.

3.3% The expected increase per year of the number of international tourist arrivals worldwide from 2010 to 2030.

Travel & tourism's total economic contribution in 2012

9% of global GDP | **1 in 11** jobs | **5%** of global investment | **5%** of world exports

Sources: United States Institute of Peace, World Tourism Organization, and World Travel & Tourism Council.

“Travel makes one modest. You see what a tiny place you occupy in the world.”

—Gustave Flaubert

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