

DESTINATION MARKETING WORKSHOP
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Getting the most of Public Private Partnerships (PPP) in Tourism

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Getting the most of Public Private Partnerships in Tourism

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Typical Cycle of a Destination



Source : THR, Spain

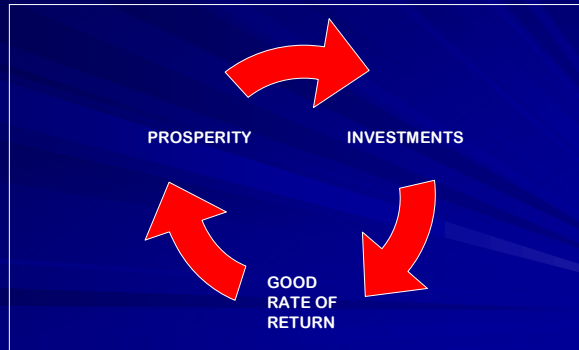
Reversing the decline...aiming towards becoming a World Class Destination

- High value of assets and properties
- Higher rate of return on investments
- A steady flow of investments
- Sustained demand to charge higher prices – higher yield
- High value of social and environmental well-being
- Positive attitude towards tourism by host community
- Good job opportunities & good working conditions
- Sustainability structures

The above factors together generate
prosperity, and drive the "wheel" of prosperity

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The Wheel of Prosperity (Economic & social prosperity)



Source : THR, Spain

PPP.....a VEHICLE

"Sustaining the "wheel" of prosperity is no easy task, as whilst the destination needs to invest in tourism products and services, it must ensure that it remains competitive."

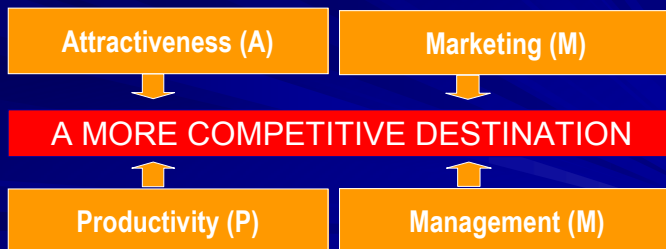
But what is competitiveness?It's all about the capacity to compete successfully against the best in the industry.

PPP could be a vehicle to achieve this process!"

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Areas most suitable for PPP

The UNWTO identified the areas most suitable for PPP that can improve a destination, which it terms as the **AMPM** Model, and which can help to improve its:



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PPP - optimises operational efficiency

...making the destination more competitive

PPP projects can improve:

The destinations **Attractiveness** resulting to:

- achieving an increased satisfaction level,
- a higher level of recommendation,
- increased repeat business, a higher loyalty base,
- maintaining a higher price level & a perceived higher value.

The effectiveness of its **Marketing** by:

- developing innovative systems & products,
- adapting better to the market demand,
- maximising the potential of new & emerging market segments,
- increasing sales efficiency.
- investing in projects that improve market intelligence,
- investing in projects that improve marketing and promotion,

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PPP - optimises operational efficiency ...making the destination more competitive

PPP projects can improve:

The **Productivity** of a tourism destination, through:

- human resource development and increased output
- raising the quality value,
- raising the return on investment,
- profitability & a higher yield

The **Management** of a tourism destination which will:

- support the growth potential of a destination,
- make investment more appealing,
- improve the feeling of well-being all round,
- achieve a system for the efficient management of the industry's assets, particularly tourism zones, and highly visited sites,
- help in maintaining sustainability.

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The evolution of PPP

The concept of public-private partnership is not a recent phenomenon, however it has now developed into a series of elaborate and sometimes sophisticated implementation models.

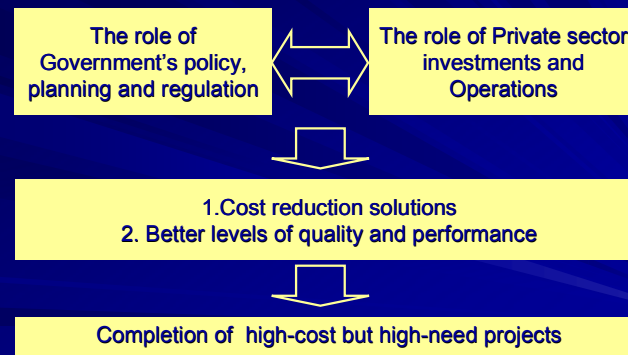
Projects ranges : Tourism, education, transportation, waste services, parks, telecommunications, social services, prisons, even defence and security.

In the age of tight public spending, the “value” of PPP is key to the renewal of our public services. However in the process, nothing must be wasted or duplicated, and consistency based on consensus must be the approach!

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Characteristics of a PPP :

Partnership between the private and public sector is a natural process



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Characteristics of a PPP:

Influences triggering this form of privatisation:

PRAGMATIC INFLUENCE - As Governments seek to provide a more cost effective public service through privatisation

ECONOMIC GROWTH – Private sector investment and the narrowing of the gap for less Government dependency

IDEOLOGICAL INFLUENCE - Diminishes the role of Government, becoming less intrusive in peoples life, and more progressive

COMMERCIAL INFLUENCE - Opens the horizon for state-owned companies to shift to a more efficient private sector companies

POPULIST UNFLUENCES – The empowerment of people, showing them that they can provide for their needs, and to distant them from the bureaucratic structures. This helps people becoming more receptive towards privatisation

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PPP can be a problem solver for Government can achieve a set of objectives:

- Reduce the cost of Government spending.
- Generate revenues, both by leasing/selling assets and by collecting taxes from the revenues generated by new commercial activities.
- Reduce Government debt.
- Supply infrastructure or other facilities that Government cannot otherwise provide.
- Bring in specialized skills needed for technologically and advanced activities.
- Initiate or expand a service quickly.
- Lessen Government's presence in society.

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PPP can be problem solver for Government can achieve a set of objectives:

- Accelerate economic development.
- Decentralize the economy and broaden the ownership of economic assets.
- Show commitment to economic liberalization to increase business confidence.
- Promote the development of capital markets (by creating and selling shares).
- Attract new foreign and domestic investment.
- Satisfy foreign lenders (including international bodies such as the World Bank.)
- Improve living standards.

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PPP – Key factors

Transfer of risk concept:

One of the benefits of PPP's is the allocation of risk to the party best able to handle it. Generally it is expected that the party taking over the risk is compensated.

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Each party has to recognise its role in the PPP process

Critical success factors:

- The right legislative tools to ensure optimal performance.
- A balanced structure of the partnership, with clear roles and responsibilities for all partners.
- Shared leadership between the public and private sector well-defined shared goals, realistic expectations, and identification of benefits for each partner.
- A flexible approach on the part of all partners, combined with a willingness to understand each other's needs, and to contribute to shared resources.

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Each party has to recognise its role in the PPP process

Critical success factors:

- Understanding between all partners that the project must be sustainable - economically, socially and environmentally.
- Good communication between the partners, and partners with all stakeholders.
- Periodic evaluation of the efficiency of each partner's role.
- A long-term commitment, combining a strategic vision and plan with short term goals and measurable initiatives.

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PPP... is it always the answer?

PPP's are not always an easy procurement option for the public sector, nor do they offer a universal solution. However, in the right circumstance, they do provide a flexible framework for a better quality, sustainable, and more cost-effective public services.

But.....

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→ Opposition to PPP ←

A main argument against the involvement of the private sector in public affairs is that the profit motive cannot operate for public good. The profit motive, which drives the private sector, may seem to be in contrast with the notion of "Public Good".

Those against PPP's argue that this concept is an official license to facilitate the private sector to make financial gains through the exploitation of public assets and/or services provisions.

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→ Opposition to PPP ←

- A perception that corporate profits will be achieved by diminishing the quality of services or by a drastic reduction in the number of employees.
- Perceived job uncertainties or instability brought about with the shift of public sector employees to the private sector.
- Unions opposition and insistence on guarantees before PPP process is applied.

These issues normally lead to lengthy negotiations which may jeopardize an entire project.

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PPP's Models

A PPP's typical structure is based on the desire by a public body to :

- Engage in a commercial enterprise by utilizing public assets, or
- Procure a Long-term service

This can take a number forms.....

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The most common PPP's

■ Franchises or Concessions

Two forms of franchises exist:

1. Involving the use of public domain such as rights on airways, air spaces, harbours, etc.
2. Involving the management of service utilities, such as airlines, public transport, and services such as gas, water, telecom, etc.

■ Leasing

By which tangible assets owned by Government, such as land or property, is used by the private sector engaged in a commercial enterprise.

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Funding

Various approaches and formulae apply depending on the nature of the collaboration. Some of the options that may be considered are:

- **A joint venture**, (relevant only when the development involves commercial operations) Return is tied to capital outlay of each partner.
- **The conventional public sector - development infrastructural projects**, whereby the Government provides all the necessary infrastructure for the site and then leases or sells off the developable land to the private sector.
- **A special tourism development fund**, finance could take the form of a lump sum provided by Government and matching contributions drawn from private sector, other options, e.g. in the form of tax credits, or other forms of tourist levies.

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Forms of PPP

PPP MODELS:

- Design – Build – Finance - Operate
- Build – Transfer - Operate
- Build – Own – Operate - Transfer
- Build – Own - Operate
- Lease – Build – Operate
- Buy – Build – Operate
- Build - Design – Operate
- Others

STRUCTURES:

- Joint Venture
- Consortium
- Strategic Alliances
- Co-operatives
- Management Company
- Business Networking
- Others

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Summary: PPP's Challenges

- Flexibility and patience between partners
- High level and efficient communication
- Willingness between partners to share control
- Willingness to share information
- Willingness to adjust and adapt plans
- Adapting to a new form of management structure
- An open mind & trust between partners
- A formula that adequately raises the finance required

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Summary: PPP's pitfalls

- Weak start
- Conflicting objectives of partners
- Inefficient and lack of communication between partners
- Incompatibility between partners
- A partner falling short from his obligations
- Lack of flexibility
- Mistrust between partners
- Source of financing damaging or punitive to operations

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PPP is set to continue Growing

The future lies in
partnerships & alliances!



The opportunities where the PPP concept
can be applied to Tourism are many.

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Areas where PPP can be applied to Tourism

PRODUCT DEVELOPMENT:

New products
Resort Development
Resort Management
Service areas
Quality standards
Transport, etc

MARKETING:

Advertising
Trade Shows & Trade missions
Publications
Direct Marketing
Data Base Development
Trade Missions, etc.

OTHER AREAS:

Human resources:

Recruitment, apprenticeship
schemes, Skills development,
Training, staff takeovers, etc.

Operations:

Procurement services, insurance,
management, staff sharing, etc.

Financing:

Credit sharing, Private financing, joint
investment, etc.

Technology:

Development of products, support, etc.

Research:

Trend forecasting, benchmarking,
Product research, etc.

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Successful examples of PPP Tourism Projects

Some varying examples of PPP tourism projects recently applied in Malta, involving:

- Greening of the environment
- Cruise passenger sector
- Beach development

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ENVIRONMENTAL LANDSCAPING PPP PROJECT

Launched in 2002



Government issues & concerns:

(Regarding upkeep and landscaping of all public green areas)

- De-motivated workforce – output measured at all time low of 12%
- Workforce largely unskilled requiring training – no management structure – very little direction
- Investment needed to finance training, plant and machinery at a time when public finances are tight
- Specialised expertise to reach objectives is non-existent
- Environment and upkeep of all main roadways and public gardens remain in a dilapidated state with situation worsening
- No return on Governments fixed annual capital outlay

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ENVIRONMENTAL LANDSCAPING PPP PROJECT

Government issues a call for a PPP project:

Government to:

- Guarantee the employment and payment of wages of entire workforce at a cost of circa 7 million euros annually
- Pay the Consortium an annual management fee
- Provide public land for nurseries and green houses

Consortium to:

- Take-over entire workforce of circa 350 and train all personnel
- Provide management and execution of approved plans
- Finance investment required for all training, plant and equipment
- Greening of all roadways & public gardens, maintenance and general landscaping
- Implement 5-6 new projects annually across the island
- Offer its services to Government agencies and private sector at a charge

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ENVIRONMENTAL LANDSCAPING PPP PROJECT

Successful bidder – a Consortium made up of a major building contractor, a landscaping firm, an agricultural products firm, and a "green" expert :

Main Success factors:

- No interferences from Government in the entire management and implementation process
- Consortium is made up of partners which represents a mix of expertise necessary for the project
- Flexibility on the part of Government in first years of operation through fiscal support, e.g. Tax credit, etc.
- Unions support to flexibility of workforce - supported by incentives
- Consortium free to offer its services to Government agencies and private sector – providing additional revenues

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ENVIRONMENTAL LANDSCAPING PPP PROJECT

Results of PPP Project in just 3 years:

- Significant and highly visible greener environment
- Highly skilled and motivated workforce, increased earnings, (performance based) & better conditions of work
- Consortium is now Largest single employer of over 40's
- Significant investment in recruitment and training, plant and equipment
- Services now extended to Local councils and recently also to private firms.
- Better appreciation and better quality of life for local community and tourists.....

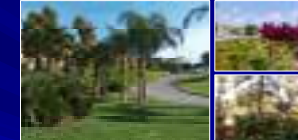


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ENVIRONMENTAL LANDSCAPING PPP PROJECT

Results of PPP Project in just 3 years:

- New projects - public gardens, and highly visited tourist sites
- Further Investment to support Eco-friendly practices – e.g. recycling of green waste into compost, etc.
- Consortium is making a profit, generating increased economic activity further contributing to Government revenues
- Government has now capped its capital outlay, achieved a higher rate of return, and is guaranteed value for public money spent, to the benefit of the general public.



A Win-Win situation for Government, Private Sector, Workers, and Public at Large!

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CRUISE PASSENGER & FERRY TERMINAL PPP PROJECT

Launched in 2001

Government issues & concerns:

- Port infrastructure was lacking, and the activities and the demand for the port was not sufficient to support the necessary investment
- The industrial and commercial activities were moving to another new port at the south end of the country
- The physical state of the dockside historic buildings required major attention but Government lacked the necessary funds
- The expanding cruise market became an important objective for Government but in the prevailing conditions, prospects were bleak
- Malta's strategic location offered an excellent opportunity to obtain a fair share of the market growth, but it was losing out on this potential

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CRUISE PASSENGER & FERRY TERMINAL PPP PROJECT

Government issues a call for a PPP investment for the development of a Cruise and Ferry Passenger Terminal & Facilities:

Government to:

- Grant a 65 year lease concession to develop ferry & cruise terminal
- Lease circa 46,200 sq.m of public land to the developers
- Grant an operating licence for the cruise terminal facilities and related services for the duration of the lease

Consortium to:

- Develop a new Sea Passenger & Ferry Terminal and improve the service
- Increase and attract the market share potential of this emerging industry
- Reuse and rehabilitate the historic waterfront buildings primarily to support Malta's bid to become a cruise destination.
- Rehabilitate the historic fabric of the area and regenerate the commercial activities along the port area
- Improve the environmental and design qualities of the built environment and the open spaces.

CRUISE PASSENGER & FERRY TERMINAL PPP PROJECT

Successful bidder – Consortium made up of Successful business and commercial establishments, Airport Operating Company, National Bank Institution, Foreign Investments from the sector and other Investors with cruising background.

Main Success factors:

- No interferences from Government apart from the regulatory aspect of the development and operational seaside activities.
- Consortium made up of a mix of partners having the necessary expertise for the development, successful implementation requisites and management skills.
- Sound financial backing made available immediately at the start of the project realisation.
- Appointment of a motivated team of experts and consultants, to focus on the end execution of the objectives and aims of all partners.

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CRUISE PASSENGER & FERRY TERMINAL PPP PROJECT

Results of PPP Project in just 3 years:

- Project development completed on time and within the stipulated budget of 25 million Euros.
- Ship visits increased at a sustained growth rate - future growth looks very bright.
- The local tourism sector is capitalising from this activity through the promotion of the country's tourism potential and encouragement of repeat visits.....



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CRUISE PASSENGER & FERRY TERMINAL PPP PROJECT

Results of PPP Project in just 3 years:

- The historic fabric and the buildings is preserved and rehabilitated offering a unique experience.
- The multiple effects from the activities generated, have benefited the commercial community around the port.
- Established a new leisure facility for the local community & tourists alike
- Government is capitalising on the earnings from the various activities generated by the project.

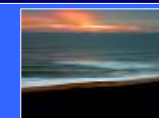


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BEACH DEVELOPMENT PPP PROJECT

Launched in 2002



Government issues & concerns:

- Urgent need to replenish, extend and create sandy beaches – current very high density beach use started to become a concern
- Strategic resort areas with high concentration of hotel accommodation crying out for beach space
- No proper provision of essential beach services and facilities
- Local community complains of lack of beach space which is being taken over by tourists, risking conflict between locals and tourists
- Hindered growth of certain market segments because of lack of beaches
- Complaints received by beach users re lack of proper beach practises
- Lack of funds to finance beach management on basis of Blue flag

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BEACH DEVELOPMENT PPP PROJECT

Government issues a call for a PPP project:

Identifies a strategic location for the replenishment of a sandy beach as a pilot project, with the scope of establishing a model for other beach projects:

Government to:

- Carry out beach replenishment & establish development parameters
- Lease public land for the development of catering & beach facilities, and provision of services
- Transfer legal title & responsibility of the beach management on the basis of Blue flag to the Malta Tourism Authority
- Grant exclusive rights to developer for the provision of services & facilities within entire beach parameters

Developer to:

- Develop the beach & catering facilities in accordance to Government plans
- Provide services & facilities for public use
- Provide security for beach and upkeep of identified areas
- Pay Government an annual fee for lease
- Pay the Malta Tourism Authority an annual fee to finance beach Management

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BEACH DEVELOPMENT PPP PROJECT

Successful bidder – an international hotel chain

Main Success factors:

- Roles clearly identified - effective legal framework to ensure that every party keeps his side of the bargain
- Responsibilities and roles delegated to those that best have both the interest and expertise to maintain it - Tourism Authority & Hotel operator
- Necessary high fees needed for success of project acquired because of high perceived value of project
- Government declared commitment & support to this project – won the cooperation of all government agencies needed to make project successful
- Long term commitment by all parties involved

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BEACH DEVELOPMENT PPP PROJECT

Results of PPP Project in just 18months:

- Government is guaranteed the provision of public services and management of the beach on basis of international practices for 50 years
- 1.2m euros investment will potentially earn Government additional revenue in tax and VAT amounting to circa 33m euros over a 10 term.
- Return on investment for Government in a very short time - 2 years
- Extensive use of beach: Local residents: 33%, Tourists: 67% - high satisfaction level
- Real Estate value increased by approx 5% in immediate area.....



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BEACH DEVELOPMENT PPP PROJECT

Results of PPP Project in just 18 months:

- Positive impact on accommodation, leisure and retail sector
- A positive effect which improved both the tour operators' and general tourist's perception on Maltese beaches.
- Public investment's positive affect resulted to institutional strengthening at a national context, thus strengthening Government's image.
- Project served as a model for other beaches - now underway.



A Win-Win situation for Government, Private sector, Workers, and public at large!

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*Thank you for your
attention!*

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