

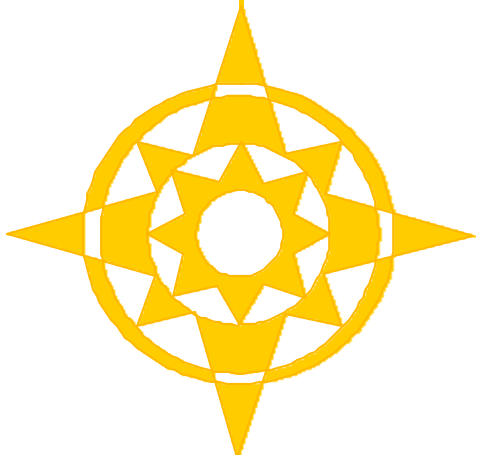
Horwath Tourism & Leisure Consulting
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**Investment and Privatisation
In International Tourism**

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Foreword

This is a time of rapid change in the global economy. Governments are increasingly privatising industries and looking to the private sector for investment as a means of stimulating their economies and creating jobs. This is happening in established market economies, in transition economies and in the developing world.



Tourism, the world's largest and fastest growing sector plays an essential role in these nations. Buoyant demand for travel provides excellent opportunities for employment and for foreign exchange earnings. Tourism also improves international cultural and commercial ties and strengthens the identities of nations.

This booklet *Investment and Privatisation in Tourism* explains the great importance of privatisation as a means of creating an efficient private sector. It discusses privatisation as a means of attracting funds from international development agencies and it outlines the various methods of privatisation.

Authors Jonathan Bodlander and Martin Gerty, two directors of Horwath UK, have contributed to many endeavors of the World Tourism Organisation, including two seminars on privatisation. This booklet draws on their expertise and other presentations made at these seminars.

While experience throughout the world has proven the value and efficiency of private ownership, there is nevertheless an important leadership role for governments in tourism. An effective National Tourism Administration is essential to establish an appropriate legal and fiscal framework, create a favorable climate for investment, and develop a national tourism policy – including transport infrastructure, environmental standards, and marketing strategy.

These are some of the fundamental issues currently being addressed by many governments. I warmly commend this booklet to those who are leading the process of change in their own countries and to all tourism professionals.

Antonio Enríquez Savignac
Secretary General
World Tourism Organisation



Introduction

This booklet examines investment in tourism projects and ways in which governments can create a favourable climate for, and stimulate, investment within their country, or within a specific region of the country. It is intended as a guide to governments and non-governmental institutions. It is emphasized that the paper is concerned with investment only, and is not intended to be a global treatise on tourism in all its facets.

Emphasis is given to investment at micro level, concentrating on investment in individual projects, which are components of the macro level tourism product. However, there is clearly an overlap between micro and macro levels.

The paper assumes that the decision to invest in a particular tourism project is based on commercial criteria. It therefore excludes investment considerations based on political or social criteria, examples of which are as follows:

- Investment aimed at strengthening politically or economically vulnerable countries, thus providing stability or growth.
- Government investment in domestic projects to earn hard currency, regardless of their overall profitability.

During the present era, privatisation has become the predominant theme because it is accepted as the most efficient way to conduct commercial affairs, and because it is perceived in developing countries as well as in former socialist countries, that foreign investment is more likely to follow. Privatisation is currently taking place in a number of West European countries (e.g. France, Italy, Greece, Portugal); it is a major issue in Central and Eastern Europe and many of the C.I.S. countries; it is also a critical trend in many parts of Africa, Asia and Latin America. So it is clearly an issue of great public importance and interest.

Although the booklet was perceived by the WTO Executive Council to be an urgent need in the late 1970s, its need at the present time, and in prevailing market conditions, is perhaps even more timely. Governments of developing countries worldwide now recognize much more than they did in the 1970s that, not only is foreign investment needed, but most of that investment will only be provided on normal commercial criteria. So far as funding agencies are willing to become involved in providing investment funds, whether in the form of equity or loan, the agencies will wish to ensure that there is a clear cost benefit to the local economy and that their investment will seed an additional or future private sector investment.



The original paper was prepared by a Working Party, under my chairmanship, set up by the Affiliate Members of the World Tourism Organization (WTO) in 1979. The paper was drafted by Martin Gerty, and I acted as editor. It was emphasized that it did not necessarily reflect or represent, and nor was it intended to represent the unanimous views of the Affiliate Members.

A second edition was published at the request of a WTO seminar in December 1991. This has now been updated, and partially rewritten by Martin Gerty and me with an extensive discussion on privatisation added. I am grateful for Colin Clark's valuable contribution in suggesting some additional comments in the privatisation section as a result of his presentation to a WTO seminar held in Athens in April 1995.

The section on privatisation has been drawn mainly from the background and summary papers which were prepared for the seminar held as part of the WTO Asian Commission meeting held in Colombo, Sri Lanka in July 1994. These in turn drew heavily on the papers for an earlier WTO seminar on tourism in London, in November 1993. The documents for these seminars clearly indicated and acknowledged the various sources; these included background material drawn from Horwath Consulting Ltd at a time when I was chairman.

This booklet has been issued with the kind permission of the Secretary General of the WTO who has allowed us to draw freely on all WTO documents and sources described above. The attention of the Secretary General is drawn to two recommendations contained on pages 24 and 25 at the conclusion of this document on (i) an international dispute mechanism, and (ii) a framework of regulation needed after privatisation of a business previously owned and operated by governments or their agencies.

I hope that this updated version will provide a useful background to all those many developing countries hoping to attract foreign investment.

Jonathan Bodlender CBE

Chairman Horwath UK Ltd

Chairman Horwath Consulting Europe

Special Adviser on Tourism Investment to the Secretary General of WTO

July 1995

1. Definition of the Tourism Product

Reference is made in the Introduction to the tourism product. This relates to all activities and facilities needed for a location, region or country to function as a tourist destination. The essential components of the tourism product can broadly be categorized as:

Physical, Climatic, Cultural and Other Attractions

Positive attributes such as beaches and sunny climate, mountains and snow, history, flora and fauna, culture and “way of life” which attracts tourists. Environment and ecology can be positive features, which enhance the tourism product. Pollution and other negative attributes can significantly reduce the marketability of a destination.

Infrastructure

The construction “required by any inhabited area in intensive communication with the outside world and as a basis for intensive human activity within it. It includes roads and parking area, railway lines, harbours and airport runways as well as utility services of water supply, drainage and sewage disposal, electricity and power supply”*.

Superstructure

Facilities necessary to accommodate, sustain and entertain tourists, such as passenger and vehicular traffic terminals, hotels, alternative accommodation (including camping and caravan sites and holiday villages), restaurants, entertainment, congress facilities, shopping and internal transportation services.

Accessibility

The external means of transporting tourists to the particular location, for example airline, trains and ferries, including services, capacities and fares.

The first three elements comprise the destination product. The inclusion of access gives the total tourism product. It must be stressed that both availability

and the suitable location of the components of a destination product are important.

* Definition based on *Tourism Past, Present and Future* by Burkhart and Medlik

2. The Decision to Develop Tourism in a Country or Region

The major factors to be considered in deciding if tourism should be developed, promoted or supported by the government of a country or region are:

- (i) An evaluation of each element of the tourism product:
 - Physical, climatic, cultural and other attractions.
 - Infrastructure and superstructure facilities and services.
 - Accessibility to major markets.
- (ii) The motives for developing tourism and an evaluation of the alternative types of development, which would satisfy particular motives. For example, a government may consider establishing a car manufacturing industry, developing agriculture or developing tourism as alternative ways of increasing the levels of employment. The requirements for capital investment and annual support costs may differ widely for each.
- (iii) The economic implications of developing tourism. These include consideration of the availability of resources (eg. land, labour, capital, water), the cost of developing the sector and the benefits resulting (eg. foreign exchange, employment, income, taxation/duties) taking into account linkages with other sectors of the economy and leakages resulting from the importation of goods and services.
- (iv) Social, cultural, environmental and ecological implications of tourism development. It is widely accepted that unplanned or badly planned tourism development may have a negative impact on the social, cultural, environmental and ecological characteristics of the destination. However, if adequate research and planning is carried out, tourism can have a positive impact, for example by justifying otherwise non-viable facilities or services which benefit the local population; by conserving and enhancing traditional cuisine, crafts and arts which may otherwise die out; by tackling environmental and ecological problems which affect the local population.
- (v) The type of tourism which should be developed. For example, the decision to develop mass tourism with a relatively low spend per head, or to concentrate on higher spend tourism, albeit with lower volume. Another example is the relative prominence that should be given respectively to domestic, intra-regional and international tourism.

- (vi) An evaluation of the saleability including seasonality of the tourism product, or potential tourism product. Clearly an evaluation can only be carried out effectively after defining the tourism product.

Whilst the factors to be considered in the decision-making process are the same for developed and developing countries, it should be emphasized that they have different requirements and problems.

3. Investment Criteria

The decision to invest in a project is dependent on an evaluation of investment criteria relating to the country/region in which the project is to be developed, as well as an evaluation of the project itself.

Factors Influencing Investment in a Country/Region

The main criteria for external or private sector investment in a country/region are:

- (i) Existing and future likelihood of political stability.
- (ii) Existing and future likelihood of economic (including currency) stability and growth.
- (iii) Sympathetic government, which co-operates with parties investing in its country.
- (iv) Provision of government or other acceptable guarantees to back an investment. To be effective it is essential that the government or guarantor has currency available to meet such guarantees.
- (v) The legal framework of the country should not discourage foreign investment. For example, legal provision should be made for foreign participation in companies; the expatriation of debt service funds, profits and capital; foreign ownership of land.
- (vi) International commercial banks and individual governments have not exceeded any lending quotas imposed on specific industries, countries or regions. Certain countries are currently regarded as being over-borrowed or over-quota by many financial institutions.
- (vii) When considering tourism investment, an important factor is the government's attitude to the sector. Well researched, reasoned and structured policies and objectives, together with a realistic action programme for their achievement, will increase investor confidence for projects which are compatible with the overall policies and objectives.

Investment Criteria for a Specific Project

The main investment criterion for a specific project is its ability to generate adequate profit, financial returns and cash flow to service the investment, both in terms of return on equity, and loan interest and repayments.

Evaluation of the return required on a project is related to the risks involved. The main risk factors relate to:

- Market factors: for example, the risk is greater where the project is dependent on a single demand-generating source, or one which is dependent on fashion.
- Existing and future accessibility to the project by existing markets.
- The currency of dominant currencies of the project's cash flow (e.g. are contracts in 'hard' or 'soft' currency?). Is there a currency exchange rate risk between income and financing commitments?
- The anticipated life of the project.
- The reputation and track record of the developer and intended operator of the project.
- The financing structure (the loan: equity ratio) and the conditions attached to the financing.

Commercial Investment Appraisal

Investment on a commercial basis comprises one, or more usually, both of two components. Loans: Interest-bearing finance, requiring pre-determined repayment and security. Equity: Risk capital*.

To secure the loan finance it is essential to demonstrate that the cash flow will be sufficient to comply with the terms of the loan.

The means of measuring the attractiveness of an equity investment are:

- (i) **Payback period.** The time in which the cash flow surplus, after servicing loan finance, accumulates to the amount of the original equity investment. Generally, the higher the risk relating to the project the shorter the payback period required. This method does not take account of the effect of devaluation of the original equity, resulting from inflation.

- (ii) **Simple return on capital.** This expresses the annual surplus, before debt service, as a percentage of the total investment, or expresses the surplus available to equity as a percentage of the equity investment. No account is taken of the time value of money.

- (iii) **Discounted return on capital.** This determines the return on investment (either total investment or equity), giving consideration to the incidence of surpluses, placing greater relative value on surpluses in early years (i.e. account is taken of the time value of money). For all projects, changing the relationship between equity and loan finance (gearing) can significantly alter results as measured above. Changing the terms of loan finance, and in particular the repayment terms, can have a similar impact. It should be noted that a lengthening of the term of the loan, thus reducing the annual repayments, can have the same, or an improved, effect on the viability of a project as an equivalent reduction in interest rate. Generally, cash flow surpluses are small during the initial operating periods when debt service tends to be greatest. It is often necessary to arrange the terms of repayment to allow a moratorium during initial operating periods.

* Note: Capital may be assembled from internal cash flows

4. Government Incentives to Improve the Climate for Tourism Investment

The investment criteria outlined in the previous section are applicable to an investment decision. If incentives offered by governments to stimulate external or private investment in their country, or a particular region of that country, are to be effective they should be aimed at meeting one or more of these criteria.

This section relates to examples of government incentives offered to help meet these investment criteria. The list is illustrative and not intended to be comprehensive. Reference is also made to the role of statutory organizations in the administration of these incentives.

Government Co-Operation

The overall climate for investment in a country will improve if the government is regarded as actively encouraging investment. Government action covers the following areas:

- (i) Providing information and advice to prospective investors.
- (ii) Provision of government guarantees to investors.
- (iii) Legislation which is conducive to foreign investment.
- (iv) Other measures, such as provision for arbitration in the case of a dispute between the foreign and domestic interests in a project.

Provision of Infrastructure

The availability of infrastructure, or its provision by the government in a virgin region, improves the potential viability of a project in that region by reducing the level of investment required. For example, the French government provided the infrastructure to encourage investment in the development of the Languedoc-Roussillon region of France.

Government Promotion and Facilitation

Successful government action to increase tourist volumes to a region or country will increase the potential market for a tourism component located in that region or country, and thus its potential liability.

Examples of government action aimed at increasing tourist volumes are:

- (i) **Promotion and marketing.** It is common for governments to finance a national tourist organization, whose roles include promotion and marketing of the country abroad.
- (ii) **Operation of a state airline.** The positive effect that a state airline has on tourist volumes to a country stems from improved access. However, establishing a state airline can have the reverse effect if this results in the government assuming an over-protective air policy.
- (iii) **Air policy.** Reference is made in the previous point to the adverse effect of tourist volumes of a restrictive air policy. A further example of the adverse effect of restrictive air policy is where a government routes flights to major destinations in their country through one city. This may result in discouraging tourism to a particular location by increasing the travel time, possibly necessitating a stopover en route.
- (iv) **Financial subsidies.** An example of government financial subsidies, aimed at increasing tourist volumes, is the scheme operated in Greece. The government paid tour operators, on a per head basis, for tours visiting in low season and also subsidised landing fees and fuel costs for charter flights.
- (v) **Subsidised internal travel.** Government schemes subsidizing internal travel for foreign tourists have a positive effect on tourist volumes. Examples of such schemes were petrol coupons sold to foreign tourists in Greece and Italy.
- (vi) **Facilitation of access.** The lifting of access restrictions such as visa requirements has a positive effect on tourism volumes.
- (vii) **Consumer protection.** Government measures to increase consumer protection, such as price control, classification schemes, health and safety measures, and improved telecommunications, intended to have a positive effect on the tourism image of a country, and to protect tourists. The British

government is currently considering how its accommodation scheme can be made more useful to consumers.

- (viii) **Environment policy.** Government measures to protect the environment and conserve the heritage.
- (ix) **Manpower training.** Government programmes for education and training to meet manpower requirements.

Reducing Level of Required Investment (Investment Support)

Common incentives employed by governments to stimulate tourism investment are those aimed at reducing the level of investment to be raised for a particular project.

Examples are:

- (i) Provision of land or construction labour by the government at less than market value, often in return for equity participation.
- (ii) Grants, usually with specific conditions, for a proportion of the cost of the project including, in some cases, pre-development consultant fees.
- (iii) Duty concessions on the importation of building materials, plant, furniture, fixtures and fittings.
- (iv) Investment support by the provision of funds for specific projects on favourable terms, such as an over-long period of time, with low interest rates, or a combination of both. This reduces the level of investment to be raised from other sources.

Fiscal and Operational Support

Measures aimed at increasing the profitability of a specific project, hence making the return on investment more favourable, will vary between developing and developed countries and include the following:

- (i) Profit tax concessions such as tax holidays, favourable depreciation tax allowances and reduced rates of taxation.

- (ii) Sales tax at a reduced rate of exemption.
- (iii) Operational subsidies such as meeting part of operational deficits, or subsidising payroll expenses.
- (iv) Increasing operational efficiency, for example, by providing or financing vocational training, or by allowing skilled foreign labour to be employed.

Role of Statutory Organisations

The means employed by governments to implement tourism development policies and to promote investment in tourism vary from country to country. The main areas of difference are:

- (i) Tourism development may be the responsibility of a government ministry, an agency of government, or the delegated responsibility of regional government (and its agencies).
- (ii) The government department/agency may be responsible solely for tourism or it may be responsible for a number of industries on a national or regional basis.
- (iii) The degree of independence and power of the agency/department varies. For example, it may be responsible for tourism development plans, for determining land use, and have the power to acquire and develop land.
- (iv) The relationship between the departments/agencies responsible for development, and for promotion. In some cases both roles are covered by the same organisation.

Experience shows that strong institutional arrangements are needed to co-ordinate the range of government activities bearing on tourism development. Most importantly, the ministry responsible for tourism must work effectively with other ministries, particularly those responsible for transport, economic development, land use and environment and also the private sector. There may, however, be advantage, whilst retaining control over budgets, objectives and direction, in delegating tourism marketing and development to a specialist agency.

5. Investment Trends - Privatisation

Trends in investment are worthy of consideration by governments actively engaged in stimulating tourism investment within their country. In recent years, privatisation has become a predominant theme and is widely accepted as being the most efficient way to conduct commercial affairs because it is perceived that foreign investment is more likely to be made available in such a climate. It is increasingly the prevailing wisdom that governments should not run business which can be operated more efficiently by the private sector, and tourism enterprises are frequently quoted as examples of this.

Privatisation is the sale of an asset or business by a government or state corporation. It can be sold to investors, to a private sector company, or to its management and employees. Not all privatisations are outright sales. Sometimes, a government sells only part of the business – a partial sale. The expression privatisation has come to be used to describe a number of different types of transactions, including global securities offerings, technology transfer joint ventures between Western partners and newly transformed companies in emerging countries, and private sector financed public infrastructure projects.

It is important to define in each country, and in each business sector, what type of privatisation is desired. At one end of the spectrum, there is the highly complex and very substantial IPO (Initial Public Offering) distribution of shares to the public, involving many billions of pounds of shares. At the other end, there are privatisations which are, in reality, strategic alliances or joint ventures in which former state enterprises are transformed by law into corporate legal entities under some existing or newly introduced corporate legal system. Usually, a minority share (eg. 35 per cent) is then sold to a strategic partner who will bring not only financial strength but also relevant management experience. Voucher privatisations, particularly popular in Central and Eastern Europe and in the CIS – in which vouchers are handed out to citizens virtually for nothing, enabling them to subscribe for shares in newly privatised companies – have not to-date found favour in the Western economies and are unlikely to do so.

The following are privatisation methods which can be considered:

- Public offering of shares in the Stock Exchange.

- Sale by private placement.
- Negotiated sales where pre-emptive rights are involved.
- Sale of enterprise assets.
- New private investment.
- Employee management agreements.
- Lease or management agreements.

The requirements for a successful floatation are:

- Good financial track record.
- Limited exposure to risk.
- Good relationship with customers, suppliers and market place.
- Complete management team.

For an employee or management buyout, cash flow is the key criteria, while for a trade sale, there are no particular requirements that have to be satisfied, provided that price is not an issue. However, increasing risk must be compensated by reduced price expectations.

When considering a privatisation programme, governments should keep the following points in mind:

- Sell the best assets first in a way which rewards buyers, thus tempting more buyers for the later privatisations. It is a mistake to try to sell the poor business first, because this is harder to achieve; the price will be lower and buyers may be put off. The programme then loses momentum and credibility.
- Keep the privatisations simple.
- Set up the right organization and structure to oversee the privatisation programme and learn from experience.

The legal aspects include the following:

- What warranties will be given by the vendor government with regard to, for example, unemployment; restitution problems; pollution problems and

clean-up costs? The extent, timing and limitation of warranties are relevant factors.

- Statutes/charter.
- Operating agreement.
- Nationality issues, including defensive controls such as golden share mechanisms.
- Problems of valuation. It is often believed these are overcome by selling by tender.

Voucher/Coupon Privatisation

Voucher privatisation works best when the scale of the process is large in terms of the number of enterprises and the share of economic activity that they represent. It is applicable when speed is a priority, and when there is not sufficient capital in private hands to make other methods work. It is politically acceptable.

However, distributing ownership of enterprises so widely creates problems of corporate governance. It is feared that the investment funds have, initially at least, no accountability. In addition, the speed, complexity and size of the process means that information is not available to investors for them to make an informed choice regarding their choice of shareholding.

The process does not introduce any new capital to the enterprise, a need which is very great in the context of many of the companies in the tourism sector of most countries. Borrowing is often too expensive for the new owners to contemplate, and the existence of such a diverse shareholding structure can be a considerable disincentive to foreign partners. Unless there is a market in the shares, which is not the case in many countries, the value of the company cannot be assessed by a new investor.

Management/Employee Buyout (MEBO)

This has some of the characteristics of voucher privatisation, but does not spread ownership so widely. To succeed, management must have solid experience of the sector in which the enterprise is operating, and must have

sound financial backing. A buyout must address the weaknesses existing in management, finance, operation and competitive position. The company must be able to stand alone if it is to be successful as an employee-owned enterprise. In general terms, MEBO works best as a method in enterprises which have a low capital requirement, and which are people-orientated.

Joint Venture

This has been the favoured method to date in the hotel industry of the countries of Central and Eastern Europe for deals that were conceived prior to the political changes in the region – primarily because there was no alternative available at that time. For the foreign partner, the local shareholder brought invaluable contacts and knowledge of a system in many cases impenetrable by an outsider.

Considerable difficulties were nearly always experienced, and still are, regarding the valuation of the local input. The local partners may also have different objectives, being there for short-term gain, instead of a long-term holding, vital in the hotel industry. A local partner may also take a quite different view of the need for reconstruction and its cost.

It is now being perceived in certain countries that there is no longer a need to buy local connections by taking a local partner. Investors are moving through the continuum of investment in the region, at a different pace from country to country – commencing with joint venture, then acquisition of an operation as part of the privatisation process, to greenfield development, and finally post-privatisation acquisition from the new owners.

Full Sales (Assets and Shares)

Auctions of assets are one of the purest forms of privatisation, in that under the right conditions, they allow market forces to work from the very onset. The proceeds for government are maximized, at the particular time, and are based on the current trading performance. A process of restructuring, however, may have resulted in a higher price being obtained. Auctions are therefore most appropriate for well-performing assets. However, as the purchase price is largely the only consideration, no regard can be given to the

future of the enterprise. An auction represents an, often acceptable compromise between total restructuring and voucher privatisation.

Public offerings of shares will transfer ownership, normally quite widely, but the achievement of other objectives will depend on who the new owners are. This process is also dependent on an efficiently working Stock Exchange to achieve a fair price for the shares. In general, only minority stakes have been offered in this way.

Sales by tender, and by direct negotiation subsequent to restructuring, can be seen as the most effective way to achieve the best new owner (best in that the enterprise has an assured future, and the owner is an acceptable party), whilst at the same time optimising the proceeds from the sale. But this method requires considerable resources if it is to be carried out properly.

Leasing

The benefits for the owning company are that they are guaranteed a regular income stream from the asset, and are able to concentrate their resources on other operations. The operation attains incentivised, stable and committed management, which was almost definitely not the case when managed as a State enterprise. The loss of control over the asset can be seen as a disbenefit if the lessee is not performing, as remedial action may take some time to implement – if at all.

The loss of control is certainly a disbenefit when full privatisation is considered. At present, the contracts allow the lessee to have his contract terminated on sale or other transfer of ownership of the asset, and enjoys no preferential right of protection or of pre-emption. In normal circumstances, such rights would be enjoyed by a lessee but this virtually blocks any possibility of introducing a joint venture partner, or of selling the asset outright, before the end of the contract.

In summary:

- Rapid transfer of ownership, as practiced by means of the voucher system, is incompatible with maximizing the proceeds which accrue to the State, and with any long-term view of an enterprise's future;

- In order to maximize the proceeds from privatisation, a case-by-case approach needs to be adopted but this is slow and requires considerable financial and human resources;
- Those countries which are most successful have centralized the process in a single, government-controlled agency, which can execute deals (relatively) quickly.
- Governments should consider what follow-up programmes are needed to support newly privatised businesses. For example, financial, marketing and other management skills – vital to the commercial success of the privatisation – may be in short supply.

Not everything can be privatised. Government will always remain responsible for functions such as immigration, police, licensing of certain activities such as alcohol and gaming, the provision of certain utilities, preservation of the environment, safety including fire regulation, health, and so on. But these are the minima. Public sector involvement must be more. Wherever tourism has been successful it has been as a result of a partnership between the private and public sectors acting in harmony, the private sector handling those operations which it does best and the public sector joining with it, not just to regulate but, also, to market and to plan. Strategic planning and marketing particularly are often more effectively performed as joint involvements and therefore partnership is beneficial.

But the need for this partnership should not blind the tourism industry to the considerable benefits which can result from privatisation – the synergy released; the funds invested in refurbishment and modernization; the drive to become customer-orientated and market-led.

6. Other Investment Trends

Major Integrated Developments

An important trend is the development of major integrated projects rather than piecemeal development as has traditionally been the case. For resort development, such a project combines a carefully selected and phased variety of components, which may include housing (for sale, rent or timeshare), hotels and other serviced accommodation, marina, conference centre, shopping, sports facilities (eg. golf, tennis, beach club, country club), entertainment facilities and a full range of support facilities and services. The range of ancillary and support facilities and services, which under piecemeal development may not be viable, can be provided viably because of the mix of more profitable components (housing, hotels and shopping) and because of the mutual benefit of the different components to each other – the impact of the overall project is greater than the sum of the individual components.

Viability is enhanced because such a comprehensive product can be promoted successfully to different markets (e.g. holiday tourism, special interest markets, incentive groups, conference markets, domestic markets, local residents and day trippers).

Multi-Ownership

Timeshare (a form of multi-ownership) has evolved in the accommodation sector. Individuals buy the right to use a holiday home (villa, apartment or hotel room) for a specific time period each year. This has the following benefits:

- For the developer, it provides a new market for the sale of real estate.
- It provides the operator with an alternative method of financing a project.
- It allows an individual to acquire the use of a holiday home for a relatively modest outlay (compared with conventional purchase of such a property). This makes a second home available to families who, by conventional methods, would only have been able to afford to rent.

New technology (and particularly micro-chip technology) is resulting in a decline in employment levels and the creation of higher levels of disposable incomes and more leisure time. This has two main effects:

- Increasingly, governments are looking to investment in tourism as a means of creating employment.
- Commercial lending institutions are becoming more aware of the potential increases in demand for tourism and leisure products, and hence their potential viability. Therefore lending institutions are more sympathetic to funding requests for such projects.

Supply-Led Development

Governments (national and local) sometimes take the role of the developer to stimulate tourism in under-developed areas. For example, a government will select a site for tourism project, outline the nature and scale of development, arrange a source of finance and then look for an operator or a commercial developer for the project. It must be stressed that, to be effective, the terms on which the operator takes on the project must result in a viable project for the operator.

Barter Finance

An example is an international trading conglomerate which is prepared to provide funding for a tourism project in exchange for the rights to future agricultural crops for an agreed number of years.

Loan Secured on Hard Currency Cash Flow

In developing countries, and other countries where the currency is not hard, providers of finance and investors seek to secure their hard currency loan or investment, together perhaps with the relevant interest or profits against hard currency guarantees or assets. Under new techniques this can sometimes be secured on the hard currency cash flow, which the hotel (or other enterprise) will earn.

Capital Gain

In developed countries anticipated capital gains can be an important criteria for investment in a project. This particularly applies at times of high inflation and rising property prices when a decision to invest in a project may be

influenced by the anticipated increase in the capital value of the development, which thus makes the investment more secure.

7. Conclusions and Some Recommendations

Government policy aimed at developing tourism and stimulating tourism investment may result from a single motive, or a combination, of motives – for example, the generation of foreign currency or the creation of employment. However, before encouraging tourism development it is prudent for government to:

- Take stock of their existing tourism products.
- Identify the potential tourism product(s) and/or improvements to it/them, which are marketable.
- Identify existing and potential markets categorised by geographical, demographic and social criteria.
- Be fully aware of all the economic, environmental, social and other implications of development.
- Evaluate alternative development opportunities.

The decision, by external sources or private sector, to invest in a project is dependent on an evaluation of the investment climate in the country, and investment criteria relating to the specific project.

Government incentives to encourage tourism investment must be related to these investment criteria. Commercial investment in a project will only be forthcoming if the project generates adequate profit and financial returns, and cash flow to service the investment, both in terms of return on equity and of loan interest and repayments. Therefore, to stimulate commercial investment effectively, support measures must result in the viability of an individual project. All too often governments overlook this important point.

Investment incentives offered by governments, and the structure through which they are administered, vary considerably from one country to another. Privatisation is an increasingly popular method by which governments encourage private investment.

The continued and uninterrupted operation of a project should be ensured both by the local community and government, and by the operator. This involves matters as diverse as observation of contracts, the continuance of logistics support, the even application of health, labour and other regulations, the maintenance of working capital and the active and passive support of all the parties concerned.

The attention of WTO was drawn in each of the previous two papers to the limited number of procedures available for international arbitration, for example as between a country and a multinational corporation, where either party may need to seek redress.

The General Agreement on Trade in Services (GATS) seems to provide progress in this direction. A recent WTO paper *Tourism and the General Agreement on Trade in Services*, which was produced in conjunction with GATT and UNCTAD – WTO, Madrid, April 1994 stated: “The GATS will also constrain – and over time should eliminate – government discrimination vis-à-vis foreign service companies. A dispute settlement mechanism would provide rights of compensation or retaliation in cases of violation of the national treatment principal.”

An international dispute settlement mechanism would improve trading conditions and therefore enhance possibilities of foreign investment. The authors urge WTO to use its best endeavours to progress this matter.

In some countries, inadequate attention seems to have been paid to the need for regulation once the government ceases to own and operate. For example, airlines recently privatised in some countries seem to be operating without safety regulations, particularly on their internal flights. WTO is urged to draw this need to the attention of appropriate member countries. It is also suggested that WTO should consider whether it should draw up a framework of matters which require to be the subject of regulation.