



World Tourism Forum Lucerne Think Tank 2018 Costa Navarino, Greece, 2–3 March

Preparation paper for the Think Tank discussions on Saturday, 3 March
Topic: “Public-Private Partnerships for Sustainable Tourism Growth”

Partners:



**REGION OF
PELOPONNESE**



COSTA
NAVARINO

Table of Contents

World Tourism Forum Lucerne	1
Executive Summary	2
Background.....	3
1. Discussion Theme I: Connected Thinking	6
2. Discussion Theme II: Sustainable Development	8
3. Discussion Theme III: Innovating PPPs in the Face of Technology Disruption	10
3.1 Physical & Digital Infrastructure	10
3.2 Human Capital	12

World Tourism Forum Lucerne

World Tourism Forum Lucerne (WTFL) is the leading engagement platform where CEOs, Ministers, Academics, Financiers, Start-Ups, Next Generation and Young Talents interact as a strong multi-stakeholder community addressing the future challenges of the travel, tourism and hospitality sector.

WTFL Think Tank

Shaping the future. By convening some of the most inquisitive minds and some of the busiest people from inside and outside the tourism sector, WTFL Think Tank aims to contribute to a sustainable and prosperous future for the sector. The Think Tank is not about forecasting the future, but about helping to shape it through robust and constructive dialogue.

The art of conversation. WTFL Think Tank is also about reintroducing the art of real conversation. In an era where we rush past each other at industry conferences, airport lounges and in cyberspace, the need to connect influential ideas and individual leaders at a personal level is greater than ever.

Diversity of voices. Annually, WTFL Think Tank provides an opportunity to take a pause in a unique setting, to reflect on critical issues facing the sector, and to share thought provoking solutions. Its' strength lies in the diversity of voices and unique perspectives from around the world and from different sectors that are represented, including decision-makers and experts from governments, industry, the investment community, academia and NGOs.

Outside the silo's. WTFL Think Tank is multi-disciplinary, multi-sectoral and inter-generational. At the Think Tank, we put aside competition and politics. We focus on working together for the good of humanity, advancing a sector that has proven itself as a force for good.

WTFL Think Tank 2018

WTFL Think Tank 2018 in Costa Navarino will explore the conditions for innovative and sustainable public-private partnerships (PPPs) in the tourism value chain.

Executive Summary

Growth depends on infrastructure. Tourism growth depends on a range of factors, for example political stability, peace, economic growth, et cetera. To sustain the impressive growth in tourist arrivals, and its benefits for employment, GDP and social change, massive new investment in physical, digital and ecological infrastructure as well as human capital will be required. This includes more efficient utilization of existing assets.

Co-creation & connected thinking. Visionary leaders in government, industry and civil society would have to collaborate to create the needed infrastructures, or face growth and competitiveness barriers. Government policy, significant new funding, the deployment of innovative technologies and appropriate skills development and learning are indicated. For the public and private sectors as well as stakeholders and citizens, it is about collaborating and empowering each other as opposed to merely informing and consulting each other.

Public-private partnerships. To create adequate infrastructures in support of tourism growth, destination attractiveness and competitiveness, public-private partnerships (PPPs) have always been part of the solution. The role of PPPs in raising capital and injecting expertise to close infrastructure gaps, including by better utilizing existing infrastructure, takes even greater prominence in a constrained fiscal environment. In a globally competitive marketplace for private capital, carefully managed government policy is needed to attract private investment in support of quality infrastructure that is simultaneously environmentally sustainable and socially inclusive.

Uncertainty & disruption. The future will not be a simple linear extension of the past. Disruption is coming from unexpected places and will happen in unexpected places. Even the disrupters are being disrupted. Innovative PPPs will have to proactively factor in technology disruption (the so-called 4th Industrial Revolution), existential environmental and resource pressures, shifting demand patterns and consumer behavior, geopolitical changes, and social challenges.

The dilemma. In the face of significant uncertainty in a non-linear world, the extent of disruption is often underestimated. The respective roles of the public and private sectors in financing, development and partnership at the scale required are not always clearly defined or understood. The importance of public policy, long-term planning, stakeholder engagement, citizen buy-in and timely decision-making are often undervalued. Furthermore, the UN Sustainable Development Goals (SDGs) and Paris Agreement on climate action are often neglected.

New models & approaches. Innovative PPPs are proving successful around the world. New sources and blends of funding and new ways to co-create PPPs are emerging. Some PPPs place the SDGs and climate response at its center. Others leverage the exponential opportunities offered by the 4th Industrial Revolution to optimize asset utilization and enhance visitor experiences. Much can be achieved by benchmarking against best practices and by learning from successful models for conducting PPPs.

Background¹

Tourism, Infrastructure and Public-Private Partnerships

Impressive tourist arrival growth. The UNWTO estimates that international tourist arrivals will grow to more than 1.8 billion by 2030. That represents a near doubling in arrivals since 2010. In 2017, it totaled 1.3 billion. Domestic arrivals will grow even faster. Global air passenger journeys will follow similar trends, with IATA projecting annual growth of 3.7% through 2035.

Uneven tourism growth. This composition and direction of this growth will be unevenly spread between source markets and destinations, and within countries. Growth rates track the multi-speed GDP and middle class growth respectively for emerging and advanced economies.

Force for good. Tourism is a key driver of socio-economic progress. The sector's meaningful contribution to job creation, GDP growth, enterprises development, export revenues and infrastructure development are well documented. It contributes 10.2% of global GDP and supports 1 in 10 jobs (total impact).

Infrastructure needs. Destinations that wish to grow and compete have to invest in infrastructure that delivers "unique, high quality tourism experiences for a more diversified and demanding tourism consumer". In the absence of such investment, supply-side bottlenecks could undermine tourism growth and destination competitiveness. The creativity and efficiency of the private sector, combined with the constructive engagement of civil society, are essential.

Projected capital investment. In support of the projected growth, capital investment in travel and tourism is expected to grow by 4.5% annually over the next decade to reach US\$1 307bn in 2027 (WTTC).

Interconnected infrastructures. The hard and soft infrastructure requirements are interconnected and interdependent. It includes physical infrastructure (e.g. airlift, road and rail transport, ports, border posts, accommodation, hospitality facilities, and tourist attractions such as theme parks, museums and heritage sites), digital infrastructure (i.e. ICT systems), ecological infrastructure (e.g. national parks and biodiversity) and soft infrastructure (e.g. human resources in hospitality, tourism marketing & management; the institutions that support culture, learning, social order and health in destinations; as well as efficient public services, good governance, visa processing, financial systems, and law enforcement).

Convergence of infrastructures. To understand the extent of convergence of digital and physical infrastructures, consider smart buildings and smart cities (e.g. kinetic street furniture, predictive maintenance, AI-driven wayfinding, smart street lighting, just-in-time waste management, integrated air/water quality monitoring). Or the convergence of ecological and urban infrastructure in vertical forest cities and purpose-built eco-cities

¹ A fully referenced version of this paper is available on request. To aid readability, references have been removed. The paper draws on publications and research reports by the UNWTO, WTTC, IATA, PATA, WEF, OECD, Skift, ACI, IFC, ICAO, UNFCCC, World Bank and other UN agencies.

driven by smart technologies. The evolution of airports from transport hubs into entertainment and community spaces is a further example (e.g. the ice rink in Seoul, IMAX movie theatre in Hong Kong, yoga room in San Francisco, butterfly garden in Singapore).

Benefits beyond tourism. ‘Good’ infrastructure is not only ‘good’ for tourism. Infrastructure development “collectively benefit tourists, local residents, and the wider economy”. It strengthens connectivity and mobility, drives trade, reduces poverty, attracts FDI, creates jobs, supports biodiversity conservation and enables new opportunities for communities and businesses alike. New urban-rural networks, communications infrastructure and improved public services unlock economic development opportunities far beyond tourism.

Infrastructure gaps. Globally, and across all sectors, the required infrastructure capital to realize currently expected GDP growth up to 2030 is estimated at US\$57 trillion – an amount that exceeds the current value of all infrastructure worldwide (McKinsey). Admittedly, this amount could be reduced by as much as 40% through practical steps that boost productivity in the infrastructure sector. New tourism infrastructure is required in many parts of developing countries and secondary and tertiary cities. However, for the developed countries and first cities, rather than a gap, there may be under utilized infrastructure assets that could be repurposed or shared.

Innovation in PPPs. Global change dynamics (including technology disruption, the tight fiscal space, limited access to traditional financial markets, the focus on the triple bottom-line and natural resource constraints) create a sense of urgency for the tourism sector to stay ahead of the curve. Leveraging the potential of innovative PPPs by addressing market or public sector barriers are critical enablers for future tourism growth.

Managing the downsides. Where PPPs are responsible for operating quasi-monopolies (e.g. airports), the risk is that shareholder returns come to the detriment of the consumer in terms of service levels and prices. The challenge is to finance infrastructure at an affordable cost to operators and consumers. The key question is: What is the role of the government, the private partner and the regulator in ensuring that PPPs (e.g. in aviation sector) deliver on all fronts – first and foremost to the consumer, but also to operators and investors.

Focus areas for tourism-related PPPs. PPPs in the tourism sector present an opportunity to combine the required resources (e.g. land, capital, knowledge and skills) from different stakeholders to enhance destination competitiveness, support inclusive growth, embed sustainability, and develop memorable tourism experiences. PPP’s in tourism typically focus on:

- Developing the supply side (e.g. collaboratively developing, funding and innovating destination product and service offerings);
- Developing the demand side (e.g. collaborative destination promotion by contributing expertise and funding);
- Developing human talent (e.g. training and capacity building); or
- Investing in gateway and other supporting infrastructures.

Examples

National parks: Many national parks and protected areas in both developed and developing economies would not be financially sustainable, nor offer enticing visitor experiences, without PPPs (e.g. retail and accommodation concessions, overall management, capital mobilization, or commercialization).

Heritage assets: PPPs have played a key role in the doubling of the number of UNESCO World Heritage Sites over the last 15 years.

Inner-city renewal: Revitalizing dilapidated urban areas while monetizing underutilized assets requires local government capital for public infrastructure and private sector investment in redeveloped sites, all with critical support from local communities.

Accommodation: PPPs can address acute supply-side gaps (e.g. in post-conflict societies) or enhance the quality of accommodation where the public sector creates access to underutilized assets for private sector partners.

Convention and exhibition centers: These are often developed as PPPs – from the initial planning and fundraising, to operation, maintenance and MICE bids.

Airlines: Various low cost carriers depend on a mix of public-private investment, thereby enabling access to remote destinations. There are also numerous examples of PPPs turning lossmaking national carriers into financially sustainable ventures.

Airports: 14% of airports globally, handling some 40% of global traffic, have some form of private sector participation. The most common arrangement is concessions, followed by outright ownership and management contracts.

Air navigation service providers (ANSP): PPPs in ANSPs have a solid track record, carrying the support of governments, investors, airlines and airports.

1. Discussion Theme I: Connected Thinking

Out-of-the-silos decision-making

Seeking new forms of partnership is of particular relevance to a sector such as tourism which only flourishes when multiple and diverse stakeholders collaborate.

Moving outside traditional decision-making structures, with cross-cutting government, industry and civil society engagement – including on strategic economic development, sustainability and investment policies, is very important. Any investment in tourism infrastructure should always be aligned with broader government policy and national development/spending priorities.

It is all about integration across infrastructure portfolios, across sectors and by all affected players inside and outside the travel and tourism value chain. **Portfolio level decision-making** renders infrastructure more productive, reduces overall capital expenditure, and could lead to greater social welfare and environmental benefits.

Common vision

A shared vision for tourism development by the different partners involved from government, industry and civil society is essential. In its absence, it becomes difficult to develop the supply and demand sides of tourism in a synchronized way; to align tourism development with environmental, social and cultural considerations; to maintain the public trust, and to create the essential enabling conditions.

If the 'right' stakeholders do not reach a meeting of the minds during the PPP concept and policy formulation stages, things may well fall apart during the implementation stage.

Creative sources and blends of funding

The strength of PPPs has always been the ability to creatively find new ways to mobilize funding for development. This includes blending multiple sources of public and private financing, leveraging public/private financing instruments (e.g. bonds), securing long term lease obligations, accessing state land, underwriting risk, or securing incentives to support cash flow (e.g. tax abatements).

New instruments include impact investing, social enterprises, development impact bonds, et cetera. Evolving crowdfunding platforms are not only raising money, but also play a role in validating product development. Philanthropic foundations and multilateral development institutions often lead the charge in designing new PPP approaches.

With destinations competing for foreign investment, governments have an important role in proactively creating policy environments and advancing value propositions to lure investors who are interested returns as well as the investment process and policy certainty.

G20 Agenda for 2018

Infrastructure for Development and the participation of the private sector is at the core of the G20 agenda in 2018. Argentine G20 President, Mauricio Macri:

"Investment in infrastructure spurs growth and productivity. It also generates better physical and digital access that allows us to take advantage of future opportunities."

Important questions

- G20 Agenda 2018: What are the top three messages that Tourism Executives wish to convey to G20 Heads of State and Government in 2018 in respect of Sustainable Tourism Infrastructure for Development?
- How can whole-of-government approaches and public policy create enabling conditions (political, legal, financial and institutional frameworks) for innovative PPPs?
- How can PPPs support long-term destination planning and address disjointed financing and development of infrastructures in tourism destinations?
- Identify best practice examples where public monies are effectively leveraged to boost private investment in high quality tourism infrastructure, or where new sources and blends of capital are delivering replicable results. What can others learn from these experiences?

2. Discussion Theme II: Sustainable Development

The triple bottom-line. To maintain its status as a force for good, tourism growth and infrastructure development cannot come at the expense of precisely those people and cultures in destinations that it is supposed to benefit, or the natural environments which underpin the sector's growth and competitiveness.

Sustainable Development Goals (SDGs). Travel and Tourism is specifically recognized for its role in driving economic growth and employment (Goal 8), for the opportunity to achieve sustainable consumption and production (Goal 12), and its importance in providing sustainable livelihoods in coastal areas (Goal 15).

Paris Climate Agreement. The organized tourism industry is committed to contributing its fair share to mitigating climate change. Yet, this message has not yet hit home in all quarters.

Aviation emissions. International and domestic aviation emissions (2% of global emissions) is growing fast. Under the auspices of ICAO, countries have agreed new goals, which include a 2% annual fuel efficiency improvement, and carbon neutral growth from 2020. A market-based mechanism will support achievement of these targets.

Transparency & scrutiny. Many players in the tourism value chain, including major hotel chains and outbound operators, are global operations with massive market capitalizations. Consequently, they have arduous reporting responsibilities and are exposed to public scrutiny. Overall, there is greater pressure for transparency and increased public and shareholder scrutiny.

Greening PPPs and integrating the SDGs. Integrating the SDGs with PPPs in travel and tourism is both a responsibility vis-à-vis future generations and it makes business sense. Innovative PPPs have to fully integrate environmental concerns over the full life cycle of projects as well as the needs of the most vulnerable sectors of society.

'People first' principle. Whereas environmental impact assessments are relatively well-established, the 'people first' aspects of PPPs require more active consideration and transparent disclosure.

Overcrowding. The issue of overcrowding in tourist destinations was highlighted in a recent WTTC report. It is critical to ensure that tourism growth does not undermine the social, environmental or cultural integrity of destinations. The UNWTO's Convention on Tourism Ethics could become an important reference point to guide action.

Climate risk management. The tourism sector must build greater capacity to understand climate change and resource risks, including for PPP infrastructure investments. Resilient destinations must be able to deal with disruption due to climate change and destination degradation. New forms of partnership across the travel and tourism value chain will be required to support climate resilient infrastructure development as well as the transition to a low-carbon economy.

Important questions

- Are we doing enough to align evolving investment frameworks for tourism development with the UN SDGs and the Paris Climate Pact?
- What more can we do to make the UN SDGs and the Paris Climate Pact central focal points in infrastructure development for tourism?
- What are the respective roles of governments and investors in terms of greening PPPs, and fully integrating the 'people first' principle?
- What can governments do to better leverage public resources to boost private investment in support of the transition to low carbon, resource efficient and climate resilient destinations?
- What are the appropriate systems and common metrics, aligned with the SDGs and global carbon commitments, for assessing the social, economic and environmental impacts of tourism-related PPPs?

3. Discussion Theme III: Innovating PPPs in the Face of Technology Disruption

3.1 Physical & Digital Infrastructure

Portfolio-level decision-making. Given the disruptive potential of emerging technologies as well as the interdependencies, connectedness and accelerating convergence of infrastructures, better informed portfolio level decisions (as opposed to project-by-project decisions) are required.

Disruption. Disruption is coming from unexpected places and will happen in unexpected places. Even the disrupters are being disrupted. Although it creates many new opportunities, it raises big questions about how we manage its development and impacts. There are sectors that are begging for disruptions, for example the banking industry, insurance, health and education. In travel and tourism, the areas that have not (yet) been disrupted are the supply chain and distribution.

4th Industrial Revolution. Much has been written about the so-called 4th Industrial Revolution's (4IR) disruptive impact on the job market of the future, business models, the automation of services, travel consumer service preferences and infrastructure planning. The near-term impact of accelerated digitalization of information, artificial intelligence (AI), big data, Blockchain, the Internet-of-things (IoT), supercomputing, and virtual/augmented/mixed reality on the travel and tourism industry will be significant.

Adjacent industries disrupted. The disruption in adjacent industries – from automotive to traditional media to payment services – will also have profound impacts on the travel and tourism value chain. The transition to electric cars, autonomous vehicles, drone transport, new patterns of car ownership and the sharing economy will forever change land transport services. In payment services we are fast approaching a cashless society, be that based on crypto currencies or other technologies.

Sharing economy & infrastructure design. New digital technology-driven business models (e.g. 'sharing economy') could help us to optimize asset utilization and reduce the pressure for conventional infrastructure investment. For example, with the arrival of Uber and driverless cars, we can expect airport parking revenues to decline, 'new build' parking spaces to become smaller, kerbside drop-off facilities to become bigger, and existing garages to be converted for more profitable use.

Smarter infrastructure. Driven by sensors, AI, machine learning, smart grids, automation and cognitive computing, urban infrastructure is becoming much smarter and greener. The 'smart city' transformation requires big investment in digital infrastructure, but simultaneously it reduces the pressure for capital-intensive 'new build' by rendering existing infrastructures more productive.

Taking the pain out of travel. Digital technology opens a myriad of opportunities to improve the visitor experience and create more empathetic end-to-end visitor journeys – from airports and immigration, through land transport, luggage handling and local accommodation, to customized destination experiences. Amongst the many potential game changers that could transform the customer experience is single biometric foot printing, or what IATA refers to as ‘one identity’.

Important questions

- How do policy makers, investors and business leaders seize the opportunities and deal with the challenges (e.g. ethical, security, privacy and job displacement) posed by the 4th Industrial Revolution?
- What new modes of thinking and new PPP approaches are required to take advantage of the 4th Industrial Revolution?
- Which new business models do we expect to emerge as the 4th Industrial Revolution accelerates – and how will this deepen disruption in our sector?
- What are the opportunities to address tourist pain points throughout the visitor journey by better utilizing digital technologies? Can we agree on unified standards acceptable to the public and private sectors for biometric data capture?

3.2 Human Capital

Talent shortages. There is no doubt that there is currently a huge talent shortage in our sector. This may change in the foreseeable future as automation replaces many jobs. In some cases, the current shortage is accelerating the development of automation. According to the WTTC, at a global level, “the industry is facing a shortfall of 14 million jobs ... and stands to reduce its contribution to global GDP by US\$610 billion over the next ten years, 5.8% less than our baseline forecasts”.

New opportunities. In the light of technology disruption across the travel and tourism supply chain, job descriptions are rapidly changing, some traditional hospitality and travel services jobs are disappearing, and new careers are emerging. It is not all bad news. As fast as airline check-in counter staff are disappearing, new opportunities are arising – from data scientists, to philosophers that can engage with the ethical parameters of writing algorithms, to tour guides that can create personalized experiences for discerning travelers.

Embrace, don't fear, change. We have no choice other than to embrace the digital revolution – be that through innovation in our industry or in the way we equip students for roles that robots, AI and cognitive computing cannot cope with. Besides creating learning systems that produce the right talents for future job descriptions and careers in aviation, tourism and hospitality, the challenge is also to train more ‘job creators’ and entrepreneurs, rather than mere ‘job seekers’.

Learning and re-learning. As a result of all these changes, we can expect our education and training systems to come under immense pressure to adapt. Human capital with appropriate and versatile knowledge, skills and attitudes will be required if industry players and destinations are to remain, or become, competitive. Lifelong learning, reskilling and redeployment of human capital will also place pressure on current social systems.

New partnerships. As training and skills development patterns shift, so would the governance and financing needs for the lifelong learning systems created by the public and private sectors. This calls for new partnerships between government, industry and educational institutions.

Important questions

- How do we prepare both the tourism industry and the next generation of employees for a world of accelerating technological change?
- How do we ensure that the new technology-driven supply and demand chains in tourism and aviation are resourced with adequately trained people?
- What changes are required in lifelong learning systems and policies?
- How can governments, industry and educational institutions better coordinate or combine their investment in appropriate talent creation in the future?