

# Private Participation in Tourism Development

A workable solution

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While the government needs to undertake long-term measures to address the constraints and exploit the untapped potential of the Indian tourism sector, there is an urgent need to stimulate private sector participation to create high-standard tourist attractions in the short term. CRISIL Infrastructure Advisory's experience as a transaction advisor to the Tirupathi Visitors' Zone shows that such workable solutions which can bring incremental gains in a short period are possible...

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With its potential to meld geographical barriers and propel the cross-border flow of people and capital, tourism is a powerful economic catalyst. Most Indian states have recognised its multiplier effect on employment generation and income-earning potential and granted it special status. Moving away from the traditional concept of travel and hospitality, tourism now encompasses a wide spectrum of products and concepts such as eco-tourism, recreation and business tourism. Attempts to develop these

products through private sector participation (PSP) have led to various issues, which, when appropriately addressed, would help sustain private sector interest. CRISIL Infrastructure Advisory's experience in the planning and implementation of tourism projects in various states has highlighted some of the key issues that need to be addressed to ensure effective PSP in the sector.

Globally, tourism has rapidly grown to emerge as one of the world's largest service industries. Global receipts from international

## Bottlenecks in tourism development

- **Limited product development and conservation of sites** While every state has abundant cultural and natural resources, they have not been developed into products. Instead, most heritage sites are in ruins or suffer from poor ambience and amenities.
- **Limited education, training and awareness** Service and hospitality standards are critical to the sector. But limited sector education, training and public awareness of the importance of tourism adversely affects the experience of incoming tourists.
- **Resource constraint** Limited funds are available to develop, market and promote tourist destinations. With no sustained private sector interest, the sector remains largely unorganised, leading to poor resource mobilisation and deployment.
- **Serious deficiencies in supporting infrastructure** Inadequate public utilities and services are a big deterrent for tourists. Creation of adequate infrastructure to deliver world-class services is imperative.
- **Need for effective administration structure** Tourism development often encompasses two or more states and involves several agencies such as local bodies, state tourism departments and agencies like the Archaeological Survey of India. Often, success is limited because of uncoordinated and ineffective administrative efforts.

tourism stood at \$463 billion in 2001. The World Tourism Organization's (WTO) Tourism 2020 Vision projects a 4 per cent per annum growth in global tourist arrivals to touch 1 billion a year by 2010 and 1.56 billion a year by 2020. (Please note that these have been estimated prior to the September 11, 2001 terrorist attacks and may vary to that extent in the short term.) While the September 11 terrorist attacks significantly affected the sector with a 7.4 per cent decline (in dollar terms) in demand in 2001, the World Tourism & Travel Council (WTTC) expects the sector to rebound by 2003 and grow by 4.5 per cent a year over the next decade. Most of this growth is expected to take place in South Asia. Hence, India has a vast untapped tourism potential.

### The Indian tourism scenario

Tourism is the second largest foreign exchange earner in the country. Moreover, it accounts for 5.6 per cent of the total employment, supporting around 18 million workers. Yet, the tourism industry's potential has not even been partially exploited. The country received close to 2.62 million international tourists in 2000, up from 1.68 million in 1991. But this is

minuscule, accounting for a mere 0.38 per cent of world tourist arrivals. Earnings are similarly low at just 0.68 per cent of the world receipts. Hence, to reach the targeted 5 million tourist arrivals a year, proactive policy measures are required at the national and state levels.

The Government of India (GoI) and almost all state governments have recognised the sector's potential by giving it industry status and providing a package of incentives. While the governments' resource constraints are known, another constraint is the inability to derive greater mileage from private sector capital and skills. Private sector investments

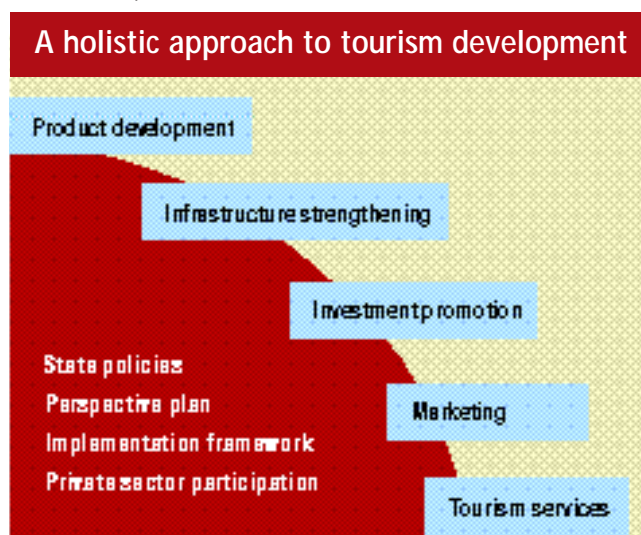
in tourism have typically followed demand but a proactive role envisages inducing investment to drive demand. Hence, governments need to intervene and attract private investment so that the sector can be developed with minimal budgetary resources. This would mean addressing the constraining factors on the one hand and, on the other, presenting bankable projects to the private sector, which are a function of appropriate environment, project structuring and packaging.

### Constraints in tourism development and private sector participation

Unlike other sectors, tourism presents a curious mix of "hardware" and "software", underlying the need to build critical infrastructure along with softer aspects like training, public awareness and ambience. A major problem facing most Indian tourism destinations today is that they are unknown and lack the positioning essential to attract tourists. Even when unconventional tourists manage to reach them, they face deficiencies in travel and tour support services. Tourist-related issues, right from their arrival at international airports to their travel within the country, stay and sightseeing till their departure, need to be identified and addressed through appropriate policy measures and action plans.

Recognising the limitations, the National Tourism Policy, 2002 has identified seven focus areas that are expected to drive tourism initiatives in the country: swagat (welcome), soochana (information), suvidha (facilitation), suraksha (safety), sahyog (cooperation), samrachna (infrastructure development) and safai (cleanliness). A long-term holistic approach to develop the sector would entail evolving perspective plans, implementing proactive policies, reorienting the administrative framework and attracting sizeable private sector expertise to plan, develop and market tourism products and services.

Increasingly, state governments need to adopt a larger role in plan-



ning, regulating, facilitating and promoting the sector within and outside the country. Various states such as Kerala, Andhra Pradesh, Rajasthan and Goa have initiated steps such as state-level tourism master planning, concerted marketing and promotion activities, and policy measures to encourage private sector participation. And others are realising the need to do so.

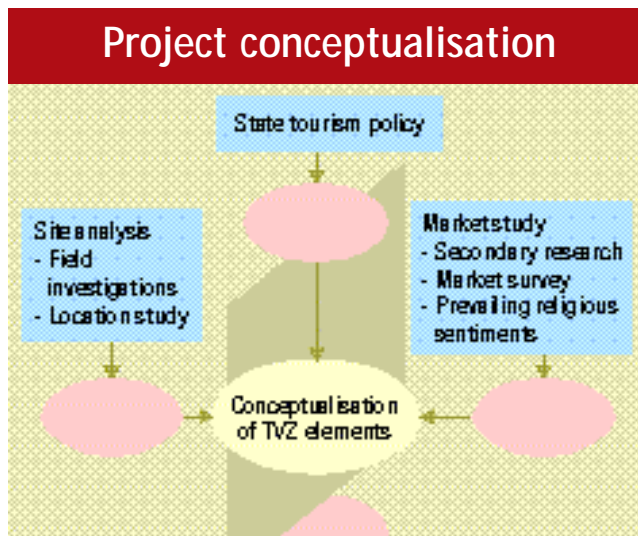
While not undermining the importance of such long-term programmes that would bring larger benefits and take the sector to a higher level of excellence in the long run, in the short term, the government needs to quickly address the deficiencies by bringing in substantial PSP. There is an urgent need to create a sizeable mass of high-standard tourist attractions around destinations to place them on the travel circuit. States need to actively undertake project development and provide enabling policies to offer financially bankable projects to the private sector.

CRISIL Infrastructure Advisory has been involved in one such endeavour at Tirupathi in Andhra Pradesh. The aim here was to create well-developed attractions by configuring world-standard products and attracting international expertise and investments.

### Tirupathi Visitors' Zone – A success story

The Andhra Pradesh Tourism Development Corporation Limited's (APTDCL) efforts to develop 140 acres of land in the foothills of Tirumala into a tourism zone are an example of a well-planned and successful development strategy. APTDCL appointed CRISIL Infrastructure Advisory as transaction advisor for the development of the Tirupathi Visitors' Zone (TVZ). By leveraging TVZ's strategic location through appropriate project configuration and process management, the project was successful in eliciting considerable private sector interest and investments.

TVZ's project conceptualisation posed a key challenge since the aim was to create a market by attracting pilgrims to the Lord



Venkateshwara shrine. Over 45,000 pilgrims visit the shrine every day, waiting in queue for hours to get the Lord's blessings. The only way to position the visitors' zone as a preferred destination during the waiting period was to provide all amenities within the TVZ itself. Hence, as a first step, it was proposed to issue tickets for the Lord's darshan at TVZ. Simultaneously, the project elements had to be configured to enable pilgrims to utilise the waiting period for recreation. All TVZ projects had to meet twin objectives: stand-alone commercial viability while providing entertainment and recreation through activities that are aligned to the pilgrims' religious sentiments. Thus, identifying appropriate projects posed a key challenge to CRISIL Infrastructure Advisory.

A comprehensive master planning and pre-feasibility study was undertaken to con-

### Project elements

- Aerial ropeway
- Water and amusement park
- Religious theme park
- Multiplex
- Crafts village
- Food crafts
- Hotels
- Highway plaza
- Public plaza
- Tourist facilities

figure the identified projects. The layout and location planning was such that the main traffic drivers ensured substantial pilgrim footfall across all project elements. The master plan also ensured that the projects were visually appealing and project specifications were prepared with a view to minimising any adverse ecological impact (TVZ is in a forest area). An aerial ropeway connecting TVZ (foothills) and Tirumala (hilltop) was incorporated as a transportation alternative that would reduce travel time by half while providing a good ride. This

was envisaged as the main tourist attraction and hence, the key driver. Accordingly, it was located in the heart of TVZ. Other project elements included innovative recreation facilities like a religious theme park besides essential amenities.

For tourism projects in undeveloped areas such as TVZ, site accessibility and provision of utilities becomes critical for viability. Hence, a comprehensive state support framework was formulated whereby the sponsor agency, APTDCL, assumed responsibility for constructing common infrastructure (such as roads, water, sewerage and power), maintaining it for the first three years and facilitating the developers in obtaining clearances from the Govt. APTDCL's support has been largely responsible for TVZ's rapid progress. Projects in TVZ were developed under the build-operate-transfer (BOT) structure wherein APTDCL would provide the land and give the successful bidder the licence to construct and operate the facility for a period of 33 years.

Although a common three-stage evaluation process was adopted, each project had its typical characteristics and thus the selection approach was customised to suit each facility's specific requirements. For example, trusts and societies that had managed religious institutions could bid for the religious theme park while for commercial ventures like hotels, the competition was restricted to proprietorships, partnerships and companies. Prequalification criteria were based on project complexities

and the need to attract developers with commensurate skills. For a technically complex project such as the aerial ropeway, which included one of the world's longest rope lengths of 6.1 km in one section and capacity to transport 2,000 passengers per hour in one direction, a strong consortium with sound technical, financial and operational skills was sought.

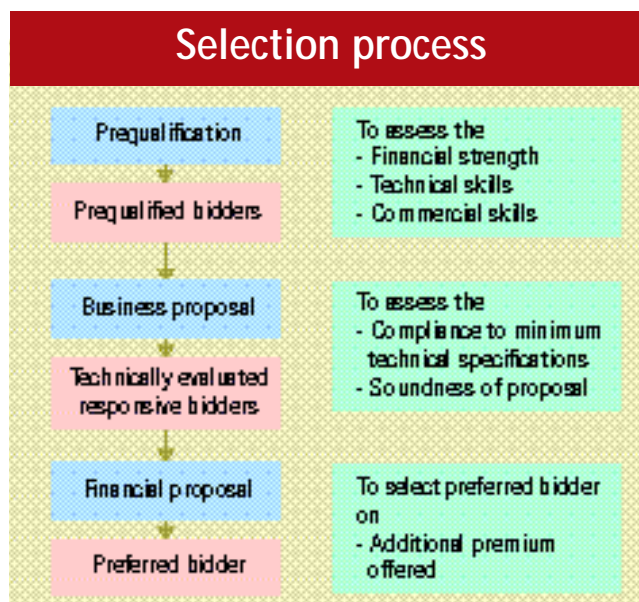
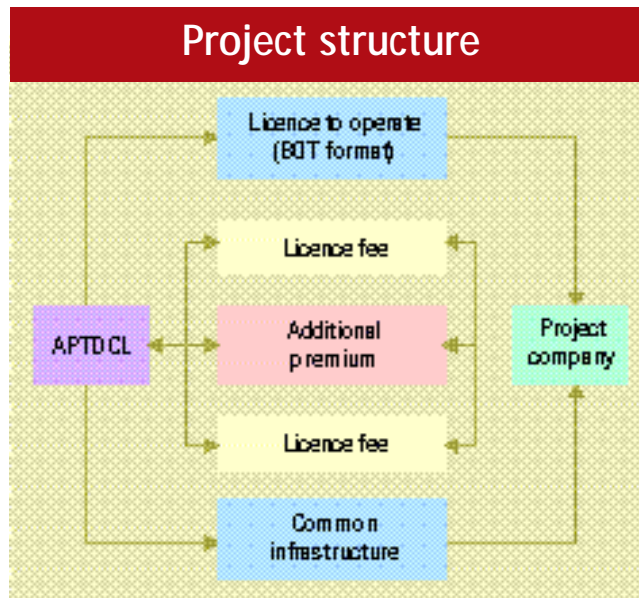
To assess the extent of the bidders' comprehension and preparation for projects, business proposals were assessed for compliance with minimum project specifications and overall soundness. As the rigorous evaluation criteria in the earlier stages ensured that only capable bidders were shortlisted, the final selection was based solely on an evaluation of the financial proposal.

The enthusiastic response received by the TVZ projects can be significantly attributed to the unambiguous contractual terms in the licence agreement. While providing complete commercial and operational autonomy to the developer, safeguards were provided to protect the interests of lenders and the government. Rights and obligations of all parties, state support framework and equitable risk sharing were the hallmarks of the contract.

The zone's success can be gauged from the fact that four of the world's leading ropeway firms were in the running for the aerial ropeway project. Sponsors gained from the competitive bidding process not only in terms of getting a technically sound consortium but also in terms of a higher financial premium, which is over 200 per cent of the initial expectations in present value terms.

On the whole, an investment of over Rs 1,600 million is expected to flow in over the next four years comprising phase one. Over the coming years, TVZ is expected to become a major tourist destination.

Several lessons can be learnt from the



TVZ experience:

- World-class tourism infrastructure can be developed in an environmentally friendly and financially sustainable manner.
- A site's inherent potential should be carefully leveraged by adopting innovative leisure and recreational themes to enhance the project's viability. This would increase the revenue potential for the sponsor.
- To ensure success, it is vital to attract bidders having the desired skills. Hence, the project's positioning is vital.
- Strict and objective qualification criteria and project terms need to be stipulated for com-

plex and technically challenging projects that invite interest from serious and capable developers.

- Equitable risk allocation and adequate state support are essential for ensuring the project's bankability.

#### Conclusion

With numerous destinations competing fiercely for tourism revenues, any tourism product must have an array of unique and quality attractions, which collectively have the power to draw people. Most international and domestic leisure travellers rely on the advice of travel agents and acquaintances on possible holiday destinations. Hence, a tourism product must have high quality standards that prompt positive word-of-mouth promotion. Most Indian destinations can boast of neither high recognition nor high-quality infrastructure. While there is no denying the need for a long-term systematic programme to address the constraints that have become endemic to the Indian tourism industry, there is an urgent need to create a sizeable mass of high-standard tourist attractions that can be placed on the travel circuit of tourists. Such an approach would provide the Indian tourism industry with incre-

mental benefits in the short term while gearing up for a quantum leap in the long run.

The TVZ project is a workable solution that demonstrates that incremental gains can accrue in a short time provided the government and its implementing agencies proactively undertake project development and provide enabling policy and state support to offer financially attractive and bankable projects to the private sector. In fact, tourism is one sector that can easily attract large private sector investments, provided the state administrations lend proactive support. ▀