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**TOURISM IN THE CARIBBEAN  
COMPETITIVENESS, UPGRADING, LINKAGES AND THE ROLE OF  
PUBLIC PRIVATE PARTNERSHIPS (PPP) AND PUBLIC POLICY**

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## **Introduction**

The main purpose of this paper is to explore and analyze the contributions that public-private partnerships and public policy have made in the development of tourism in the Caribbean as tools for enhancing competitiveness in the Caribbean tourism industry. The paper explores these contributions mainly in the context of the upgrading strategies that Caribbean countries have pursued over the past 15 years or so and using the lens of the tourism value chain and tourism cluster approach. The paper also analyzes the potential roles that public-private partnerships and public policy will continue to play in the future especially in the process of building linkages between the tourism sector and other sectors in order to increase net benefits from tourism to the Region.

This paper is divided into five sections. In Section I, we define public-private partnerships (PPP) and describe the areas in tourism where PPP are most widely used, the tools used to implement PPP in tourism and the various forms of PPP. Economic arguments are then laid to motivate PPP as a determinant of tourism competitiveness using the tourism value-chain and tourism cluster approach. Specific case examples illustrating the contributions of PPP and public policy towards increasing tourism competitiveness are provided at a regional level and for specific areas in Sections II and III respectively. Section IV summarizes findings from the previous two sections and discusses ways to enhance the effectiveness of PPP and public policy in Caribbean tourism for increased competitiveness. Section V analyzes a few of the challenges that the Caribbean tourism sector is facing. The final section proposes new areas of intervention for PPP and public policy as tools for enhancing competitiveness in the Caribbean tourism sector in order to assist the region in addressing these challenges.

## I. PPP AND TOURISM COMPETITIVENESS IN THE CARIBBEAN

### A. PPP and tourism competitiveness

#### 1. *Areas of Intervention for PPP in Tourism*

In 2000, the World Tourism Organization Business Council (WTOBC) released a study based on global research to ascertain among others the extent to which PPP were perceived as relevant in stimulating tourism competitiveness by the global tourism community. Given that the literature on PPP and its role in tourism competitiveness is rather limited, the WTOBC study goes towards palliating for a lack of analysis on the subject. The study, unique in its kind, surveyed the tourism industry<sup>1</sup> in more than 90 countries in order to assess PPP as an effective force in stimulating tourism competitiveness around the world at a national, provincial/state and local levels. Out of 234 respondents, 81% rated PPP as “very effective” and 98% as either “very effective” or “effective”. The effectiveness of PPP was gauged in a set of areas as given in Table 1.

**Table 1**  
**PPP as an effective determinant of**  
**tourism competitiveness – selected areas**

Area of Public-Private Sector Partnerships	per cent of Responses as “very effective” or “effective”
<b>Product Development/Enhancement</b>	
Developing or improving attractions	66
Developing or improving accommodation	50
Protecting the environment	79
Preserving cultural and heritage resources	85
Setting quality standards	67
<b>Infrastructure/Human Resources</b>	
Improving transport infrastructure and basic services	77
Improving public health and sanitation	73
Enhancing technological innovation and advancement	63
Improving safety and security	77
Reducing physical nuisance	62
Improving education and training	78
<b>Marketing and Promotions</b>	
Improving destination image	87
Dealing with competition	59
Improving market coverage and reach	65
Electronic marketing and distribution, including internet	61
Consumer protection	70
<b>Socio-economic &amp; Geo-political Factors</b>	
Improving yield	54
Leveraging public investment	72
Facilitating investment and financing	77
Dealing with risk and uncertainty	62
Overcoming trade and investment barriers	77
Easing restrictions to travel	73

Source: WTOBC, 2000.

<sup>1</sup> National tourism organizations, ministry of tourism, consultants, educators, industry associations, international organizations, transport companies, hotel and tour operators.

On the basis of these responses, the eight areas in which PPP have been the most effective as a determinant of tourism competitiveness were:

- Improving destination image
- Preserving cultural and heritage resources
- Protecting the environment
- Improving education and training
- Improving transport infrastructure and basic services
- Improving safety and security
- Facilitating investment and financing
- Overcoming trade and investment barriers

The five areas where PPP had been the least effective were:

- Developing or improving accommodation
- Improving yield
- Dealing with competition
- Electronic marketing and distribution, including the internet
- Dealing with risk and uncertainty
- Reducing physical nuisance

The WTOBC study provides survey-based empirical evidence that the tourism industry views PPP as an essential determinant of tourism competitiveness. More recent studies are needed to establish whether this evidence has grown stronger over the past decade in the tourism sector and to ascertain geographical variations in the perceptions of PPP as an effective determinant of tourism competitiveness.

## **2. *Forms of Public-Private Partnerships***

Before proceeding further, there is a need to define what we mean by a PPP. A public-private partnership can be thought of as a “cooperative venture or collaborative effort between the public and private sectors, which is built on the expertise of each partner and in which each contributes to the planning, resources and activities needed to accomplish a mutual objective”<sup>2</sup>. PPP are public-private sector arrangements that are characterized by a sharing of risks, investment, resources, responsibility and reward<sup>3</sup>. We consider in this paper the “public” sector to represent governments and their entities and the “private” sector to represent all non-governmental entities. Based on existing literature from various sources (World Bank; UNDP; National Council for PPP) and on practical observations<sup>4</sup>, we take PPP to exist in various forms in Caribbean tourism.

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<sup>2</sup> Several definitions of PPP exist depending on the context of its use. The definition in this paper is based on an adaptation of the definition used from the Canadian Council for Public-Private Partnerships (CCPPP).

<sup>3</sup> Adapted from the CCPPP.

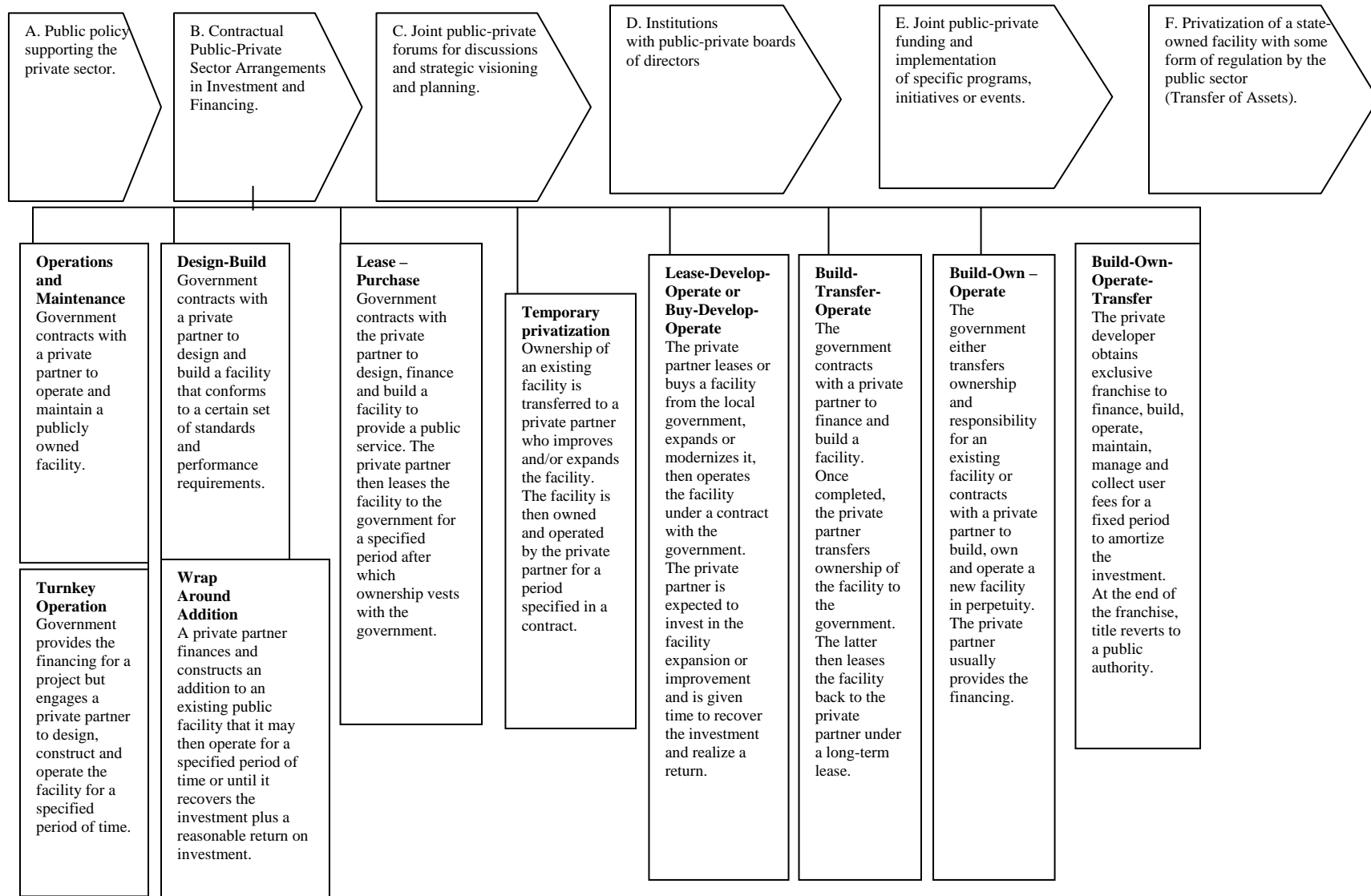
<sup>4</sup> Based on phone conversations with tourism officials in the Caribbean Region.

These forms range from:

- (a) Formal contractual arrangements (mostly in the area of investment) where the financing, design, building, operation, management and maintenance of a particular facility is subject to specific contractual sharing arrangements between the private and public sectors (e.g. build-transfer-operate, lease-purchase, privatization with regulation);
- (b) Formal joint funding and/or ownership of a particular institution or facility or joint participation and/or funding in an initiative;
- (c) Joint regular consultations in a formal setting to review, plan, discuss and agree on certain policy issues (e.g. advisory bodies, commissions);
- (d) Informal or “loose” arrangements whereby each sector supports each other (for example, public policy fine-tuned to address private sector needs) and contributes to improve each other’s performance (for example, consultations with the private sector to improve on public policy).

PPP can be thought of as existing *along a spectrum defined by varying degrees of public (or private) involvement*, with at one end public policy to support the private sector as a loose form of public-private sector collaboration and at the other end privatization of a public facility with regulation by the government. In between there exist various types of public-private collaboration such as government owning a hotel and contracting out management to the private sector or the private sector undertaking an investment in return for government signing a contract for agreed service purchases (see Figure 1). In all its forms however, a PPP must involve an ongoing relationship between both sectors.

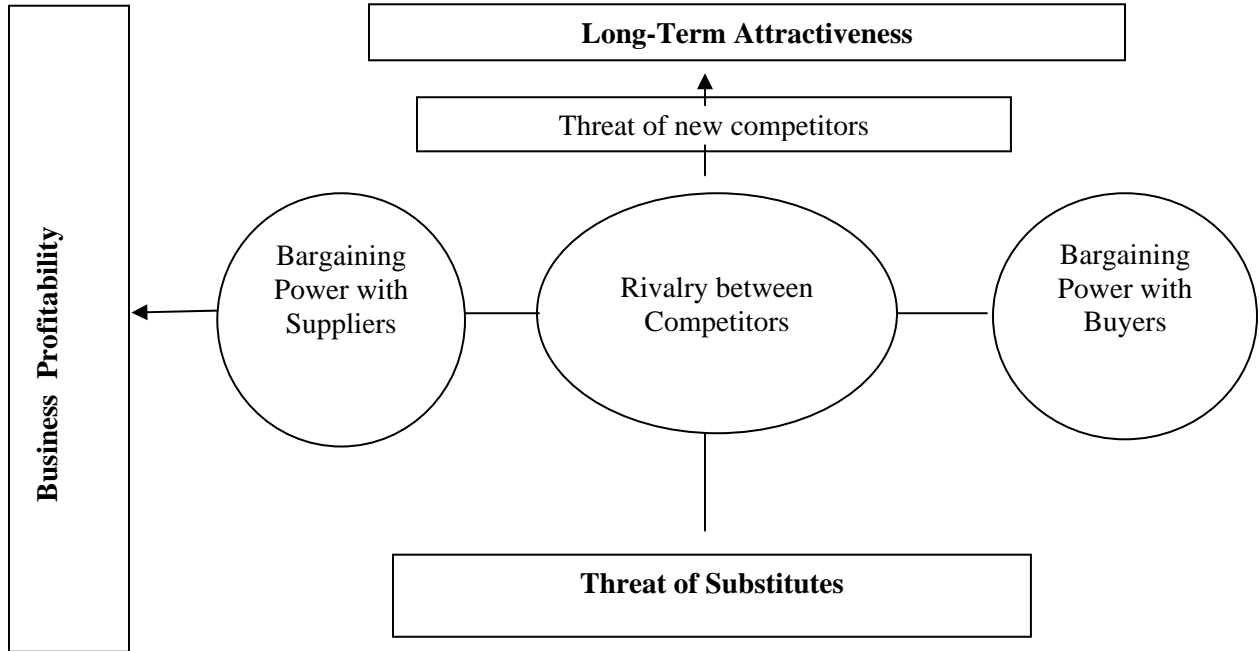
**Figure 1**  
**Public private partnership on a spectrum**



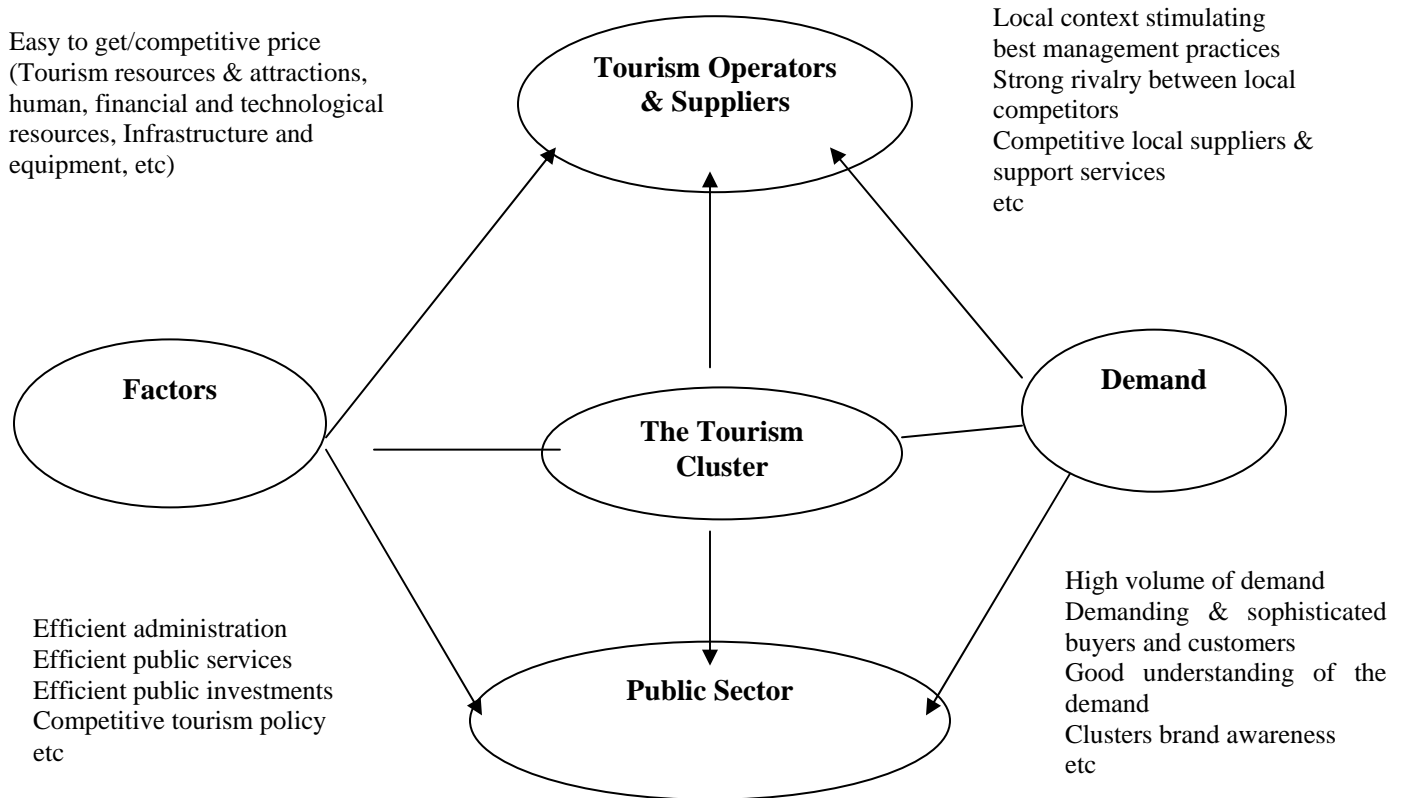
Note: The above representation is not meant to be exhaustive. (Source : ECLAC, World Bank, National Council for PPP)

**A model of tourism competitiveness  
(WTOBC 2000, adapted from Michael Porter)**

**The Five Competitors Forces that Drive Competition**



**The Most Competitive Diamond of a Tourist Cluster Implies Best Conditions for:**





**Table 2**  
**Means/tools viewed as most effective to**  
**facilitate PPP in the future**

Area of Public-Private Sector Partnership	% of Responses as “very effective” or “effective”
<b>Product Development/Enhancement</b>	
Provision of initial start-up financial support	75
Facilitation of local approval process	73
Facilitation of land swaps or transfer of development rights to preserve environmental values	73
Provision of tax credits for historic preservation	72
Provision of tax breaks on import duties	61
Provision of technical support for innovative product development programs	67
Provision of manpower or other non-financial resources	66
Management contracts for government-owned facilities	60
<b>Infrastructure/Human Resources</b>	
Privatization of transport facilities	61
Privatization of telecommunications	66
Development of tourism education and training programs	87
<b>Marketing and Promotions</b>	
Creation of increased visibility/awareness for tourism initiatives	80
Support for industry participation at trade shows	80
Participation in co-op marketing programs	77

Source: WTOBC, 2000

Table 2 above depicts some of the tools that respondents in the WTOBC survey identified as effective. Effective forms of PPP range from public policy support to the private sector (fiscal and regulatory); technical support by the public and private sectors in key areas; management contracts given to the private sector by the public sector for running facilities; full-scale privatization of a state-owned asset to joint public-private participation in certain programs. With respect to the tourism industry, it is expected that the forms of PPP used may differ from one area to another. In the areas of infrastructure development and upgrading of facilities for product enhancement, the various forms of PPP described under part B in Figure 1 may apply. In the areas of marketing and promotion and human resource development, PPP may take the form of joint funding, joint consultations or take place within public-private institutions. In the area of product enhancement, public policy incentives to support upgrading by the private sector may be observed.

### **3. *How do Public-Private Partnerships Promote Tourism Competitiveness?***

The economic rationale for PPP lies in the promotion of tourism competitiveness. But how does PPP promote tourism competitiveness? The models of tourism competitiveness that are traditionally proposed in the tourism literature such as that of Dwyer and Kim (2003)<sup>5</sup> do not allow us to answer this question. These models identify the determinants of tourism competitiveness but do not identify either the major actors of the tourism industry, or flesh out

<sup>5</sup> See LC/CAR/L.166 as an accompaniment to this paper.

the nature of their relationships and inter-dependencies. To motivate the linkages between PPP and tourism competitiveness, one must understand two dimensions: first the components of the tourism product and the sequencing involved in its generation; and second the nature of the interactions of the various actors of the tourism industry within both the organizational context of the industry (local and foreign), and within the spatial/geographical context located at the destination.

To this end, we need to turn to the model of competitiveness of Michael Porter (as adapted in the WTOBC study above) and utilize the approaches of tourism value-chain and tourism cluster, as described in the WTOBC study<sup>6</sup>.

In a *first instance*, the special nature of the tourism product - a “good tourism experience”- needs to be recognized. In order to be competitive, the tourism destination needs to offer to the client a “tourism experience” which when viewed in its entirety is deemed by the tourist to offer “*greater value* for the same amount of *effort* as compared to other rival destinations” (WTOBC, 2000). This tourism experience can be divided into a sequence of stages or “events”. At each stage or event, value is created for the tourist and the tourism industry, and taken together these multiple events form a tourism value-chain (see Figure 2). Whether the tourist gets a positive tourism experience will depend on the value delivered on activities produced at each specific stage of the tourism experience. These activities may occur *before arriving at the destination* (e.g. viewing of advertisements on the destination, booking with the tour operators, buying travel insurance, going through visa processes, and actual traveling to the destination); *at the destination itself* (e.g. welcome activities at the airport, travel from the airport, buying local currency at currency exchange offices, accommodation, entertainment etc) and *the journey back home*. Clearly the “tourism experience” enjoyed by the tourist depends on the overall attractiveness of the destination which in turn depends on the ability of the different parts of the tourism value-chain to provide an output that satisfies the tourist. This in turn requires for the various actors along the value-chain to act in a cohesive and coordinated manner to offer a recognized, valued product that subscribes to a uniform set of standards. There is a clear need for cooperation and coordination on strategic management issues that necessitate consultations and joint actions among all actors, both public and private, within the tourism value-chain. In this context, PPP can perform an important coordinating role in promoting competitiveness by bringing together the various components of the tourism value-chain to facilitate joint strategic planning and management at all levels of the value-chain.

The tourism value-chain, like any other value-chain, creates rents that are dynamic i.e. subject to being destroyed by competitive forces, as implied by the Tourism Area Life Cycle<sup>7</sup> and Porter’s model. To preserve these rents or create new ones, the different private and public actors across the tourism value-chain (buyers and suppliers, whether domestic or foreign) need to coordinate their actions around a common competitive positioning strategy to allow the tourism destination to remain competitive. An important source of competitive advantage for the tourism destination, within the value-chain approach, lies in its ability to provide to the tourist a seamless experience of great value as the tourist progresses along the value-chain. This requires

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<sup>6</sup> This section draws in part from the analysis of the WTOBC study, 2000.

<sup>7</sup> See LC/CAR/L.166 for an exposition of the Tourism Area Life Cycle.

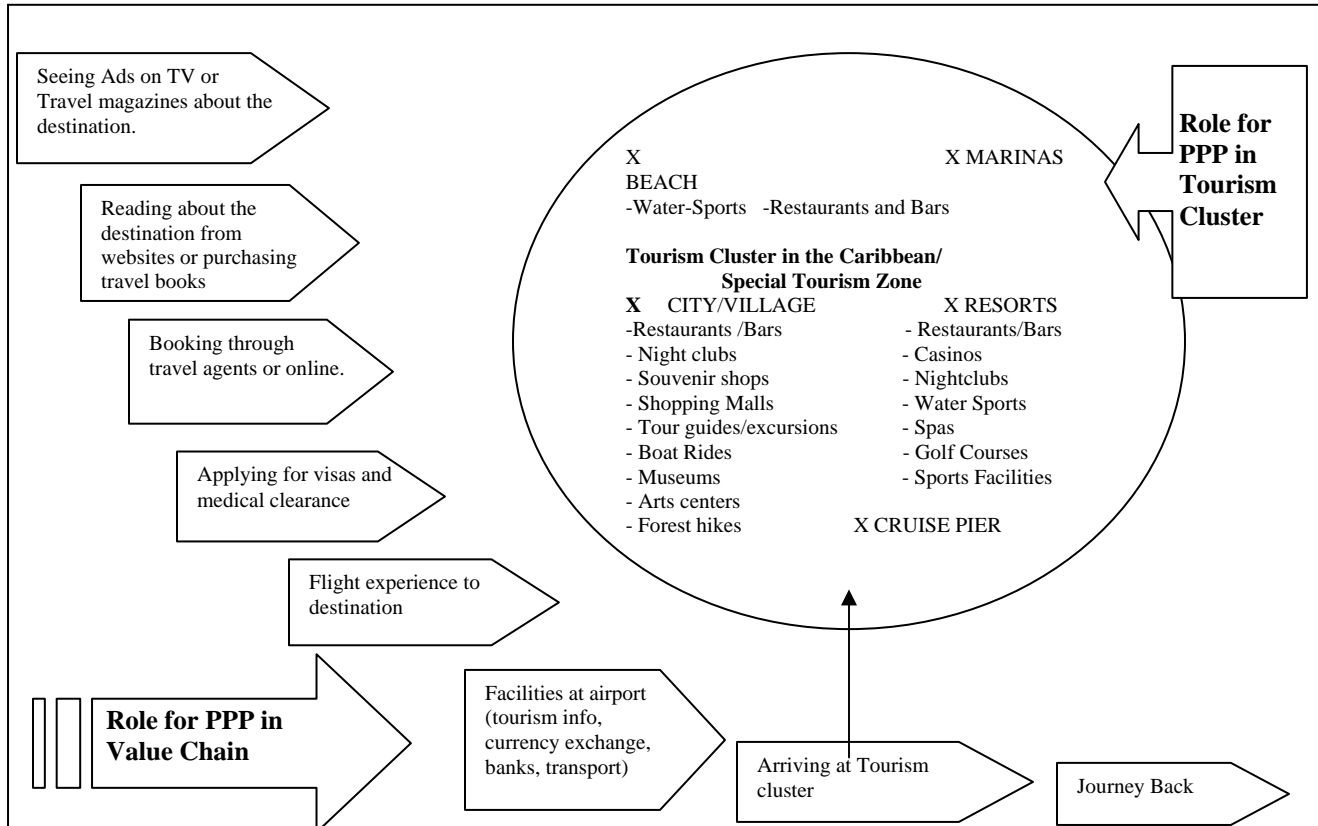
cooperation and coordination among the various actors of the tourism value-chain which can be facilitated by PPP.

In a *second instance*, there is also a need to recognize that these “tourism experiences” at the destination can take place in limited geographical spaces known as clusters. According to the WTOBC (2000), clusters are “*a group of tourism resources and attractions, infrastructure, equipment, service providers, other supporting sectors, and administrative bodies whose integrated and coordinated activities contribute to providing customers with the experiences they expect from the destination they choose to visit*”. These clusters are the basic competitive units, competing directly with other tourism clusters in the same country or other destinations. To remain competitive, the cluster must build or maintain competitive advantages that will enable it to withstand the five competitive forces, as identified by Porter that normally erode competitiveness. These are the threat of new competitors; changes in negotiating power with suppliers and buyers that affect price, costs and quality; the threat from substitutes and competition from existing competitors. The cluster will need to engage in competitive activities (such as product development and enhancement, marketing, branding, promotion and the building of linkages across cluster entities) that will allow it to do the same things as its rivals do but only better, or else do things that are different from its competitors, in essence, competitive activities that allow the cluster to offer to the tourist “greater value for the same effort” (WTOBC, 2000). As a matter of fact the tourism cluster needs a “competitive diamond” i.e. according to the WTOBC (2000) “*a business environment that stimulates the permanent process of innovation and improvement in quality, high operational efficiency in carrying out the competitive activities, and a high level of productivity in using resources*”. The vibrancy of this business environment depends on the business strategies of all actors within the cluster (public sector and private sector) as well as their ability to compete with each other to bring efficiency gains. At the same time they also need to know how and when to cooperate and to synchronize their business approaches in order to exploit synergies and play complementary roles to achieve collective goals that in the end increase economic benefits for the tourism cluster and for each producer within the cluster. In order for the tourism cluster to stay competitive and prosper, partnerships such as PPP are needed across all actors within the cluster. The partnerships allow for a concerted, coordinated and coherent development of a common competitive positioning strategy for the cluster (e.g. common branding, joint marketing). Partnerships within the cluster may also be needed to limit excessive competition among actors in the same segment of the value chain that reduces benefits for the cluster as a whole (e.g. avoiding races to the bottom among hotels). This requires for all entities to be willing to evolve in a new paradigm of “co-competition” as the WTOBC puts it that involves both competition and cooperation rather than in an environment of competition alone dominated by counter-productive fragmentation of the industry. Furthermore, the major source of competitive advantage, within the cluster approach, lies in the ability of the cluster to take advantage of the economies offered by spatial concentration (forming networks to reap economies of scale, access to a common pool of resources, gains from specialization, collective lobbying). PPP can facilitate the reaping of such economies.

It is beyond the scope of this paper to fully explore the differences between the tourism value-chain approach and the tourism cluster approach and its implications for PPP. However we do need to point out that the tourism value chain approach is broader than the tourism cluster

approach and recognizes a role even for public and private players situated outside the destination clusters (see Figure 2).

**Figure 2**  
**Tourism value -chain and tourism cluster**



Source (ECLAC)

We describe below the channels through which a PPP may impact on tourism competitiveness within either a tourism value-chain or tourism cluster:

(a) *Sharing of Costs, Risks and Investments through Pooling of Resources (Financial, Human and Managerial).* By forming strategic alliances, the various entities in a cluster (or the value chain) can pool resources to undertake investments such as large-scale infrastructural upgrading, technological innovation or marketing research that otherwise will be too costly for any one entity to undertake on its own. It also allows a pooling of risks associated with these kinds of investments in case the expected returns do not materialize. Furthermore, it allows government access to private funds and private expertise (World Economic Forum, 2003).

(b) *Addressing Market Failures (Externalities and Public Goods).* Partnerships within the cluster may be needed to sensitize the government on areas where collective action is needed in order to deal with negative externalities that are detrimental to the competitiveness of the cluster as a whole as a result of market failures. A case in point is environmental degradation. On the other hand, in the case of positive externalities such as supply of public

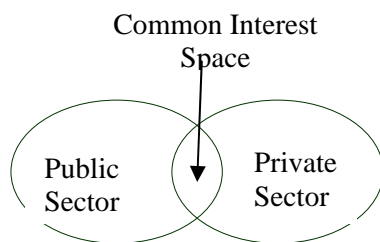
goods, a public-private partnership ensures that the public sector is sensitized by its private partners about the need to supply or upgrade these public goods. Examples of such public goods are street lighting and provision of safety and security.

(c) *Reducing transaction costs.* PPP can be thought of as an organized institutional response for reducing high transaction costs across entities within the cluster and across the tourism value-chain in a context of repeated interactions. The formation of partnerships facilitates trust-building among the various entities of the cluster and value-chain (including between the public sector and private). Such trust-building can facilitate the sharing of information for the design of “optimal” policies and strategies, as well as serves to enforce self-sustaining agreements without recourse to expensive legal contracts<sup>8</sup>. On the other hand, the amount of trust within the PPP will also determine its effectiveness.

(d) *Addressing coordination failures:* Partnerships by reducing transaction costs help to create markets that in the absence of these partnerships may never emerge (cases of “missing entrepreneurship”, UN Commission on Private Sector and Development, 2004). Public-private partnerships are based on the recognition that areas of common interest exist between the public and private sectors (Figure 3) that if exploited can increase the scope of economic opportunities and gains for all (Hartwich et al, 2003). For instance, the government may have an interest in bringing development to an under-developed part of an island by creating a tourism development zone there (a new cluster). However no private sector entity may be willing to be the first to build any tourism amenities there unless there is a coordinated effort led by the government to develop the zone. There are strategic complementarities that render the economic viability of one part of the tourism cluster dependent on the existence of other parts. This is akin to the argument used in theories of under-development based on the notion that under-development traps can exist due to coordination failures. Countries or areas can get stuck in traps

### Figure 3

#### The common interest space



Source: Hartwich, Janssen and Tola (2003)

of low development (“low trust” equilibrium, “low investment” equilibrium) due to coordination failures. Institutional responses such as PPP may be needed to coordinate the actions of all economic agents so that the country or area can be pushed out of the “low equilibrium” and into the “high equilibrium”. For instance the government may have to create a holding company with the private sector to pool funds in order to invest in the development of the tourism zone on all fronts at once- building of roads, hotels, facilities etc. By forming

partnerships, economic opportunities that may not have been exploited due to coordination failures can instead be made possible (the common space in Figure 3).

<sup>8</sup> The 7<sup>th</sup> Global Forum on Reinventing Government in June 2007 had a session on the role that PPP can play in building trust in the public sector.

(e) *Facilitate joint visioning, leadership and long-term planning.* PPP are based on an increased recognition that neither the public sector nor the private sector can drive the development of any industry on its own nor respond to crisis situations effectively on their own. Instead these two partners need to join forces and engage in planning, visioning and strategizing together. This is likely to be especially relevant in case of adverse circumstances or a crisis that requires immediate effective responses with a large amount of resources (e.g. impact of 9/11 attacks on tourism) and where strong leadership is needed to guide a strategic reorientation of the industry.

(f) *Building of inter-sectoral linkages to increase tourism multiplier.* The larger the domestic tourism multiplier, the larger are the domestic benefits from tourism. Destinations can maximize the domestic tourism multiplier and thus the domestic benefits from the industry by strengthening or building domestic linkages across the tourism value-chain or by enlarging the domestic tourism cluster. Such a process can be facilitated through public-private partnerships. PPP can be a tool used to bring activities that are conducted or imported from abroad to the country instead (for example, domestic carriers replacing foreign-owned, domestic tour operators replacing foreign-operators, domestic agriculture replacing food imports). Public support is likely to be needed by the private sector in the form of grants or fiscal incentives, and in this context a certain amount of coordination involving both the public and private sectors may be necessary.

(g) *To promote good governance within the value-chain or cluster.* Within the tourism value-chain/tourism cluster, a good governance system is essential to ensure that the tourism value-chain/cluster is competitive when it comes to price, quality and delivery reliability. The literature on value-chain (Kaplinksy et al, 2005) recognizes three important components of value-chain governance: legislative governance; judicial governance and executive governance. In a tourism context, good governance is needed to ensure a good tourism experience by ensuring that the tourist receives the same standards of service throughout the various stages of his/her tourism experience or wherever he goes within the cluster. PPP can facilitate the engineering of good governance as it brings together public and private sector stakeholders for diagnosing common challenges, setting common standards, implementing coordinated actions and ensuring compliance with standards through the building of public-private networks.

#### **4. *PPP as a policy instrument for facilitating upgrading within the tourism value chain and tourism cluster***

The above has demonstrated how PPP can enhance tourism competitiveness, namely by facilitating the sharing of costs, risks and investments; addressing coordination and market failures; reducing transactions costs; facilitating joint strategic visioning, planning and leadership; facilitating the building of inter-sectoral linkages and facilitating good governance. These types of actions facilitated by PPP may be needed during the implementation of upgrading strategies within the tourism value-chain and tourism cluster with an aim to increase tourism competitiveness. In other words PPP and public policy within a PPP can promote tourism competitiveness by being policy instruments for the implementation of upgrading strategies within the tourism value chain and tourism cluster.

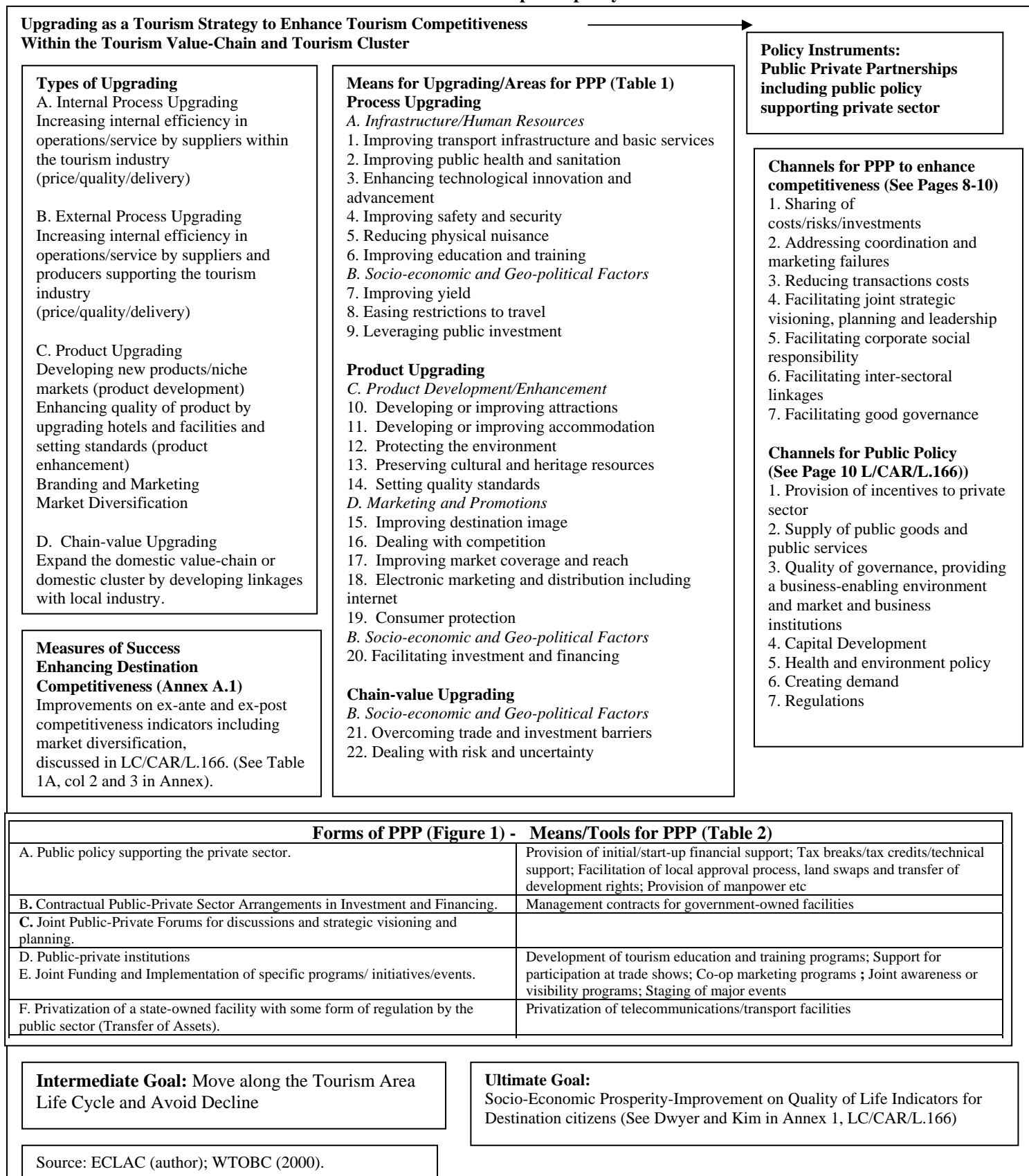
Figure 4<sup>9</sup> depicts a framework that links tourism competitiveness, upgrading, linkages and the role of PPP and public policy. Upgrading has been the major tourism strategy used in Caribbean tourism for the past 15 years to enhance tourism competitiveness (See LC/CAR/L.166). The intermediate goal of upgrading within a tourism value-chain or tourism cluster is to allow the destination to enhance its competitiveness and develop or progress along its tourism life cycle, especially moving from Stage two to Stage three or rejuvenate from Stage three and avoid decline (see LC/CAR/L.166). The ultimate goal however, as with any economic activity, is to increase the quality and standard of life of the citizens of the destination. Success at upgrading can be gauged according to progress made on ex-ante and ex-post (performance) tourism indicators<sup>10</sup>. Public-private partnerships and public policy within the PPP can be effective policy instruments for implementing upgrading strategies to achieve these goals. Borrowing from the value-chain literature (Kaplinksy et al, 2005) and applying to a tourism context, we distinguish among three types of upgrading: a) *process upgrading* that focuses on improving operational efficiency of suppliers within the tourism industry and those supporting the tourism industry (for example hotels, caterers, airlines, tour operators, domestic transport providers to IT service suppliers); b) *product upgrading* that consists of product development and product enhancement (developing new niches or market segments; enhancing the quality of existing products), branding and marketing to create customer loyalty and even market diversification to some extent (in the sense that the higher quality product gets upgraded by shifting to high-end markets) and c) *chain-value upgrading* where the domestic tourism value-chain or tourism cluster gets enlarged through the development of linkages between the tourism industry and local industry (either for import substitution for existing demand and/or creation of new demand). The type of upgrading will delineate the major areas of intervention for PPP and the determinants of competitiveness to be targeted by PPP interventions. Process upgrading will require among others human resource development, knowledge-based management, IT upgrading and improvements to infrastructure, regulatory frameworks and the general macro-environment. Product upgrading will necessitate upgrading hotels, facilities and attractions; protecting the environment; preserving cultural and heritage resources, setting and enforcing standards, and promotion and marketing for branding and image. Chain-value upgrading will necessitate facilitating trade and investment, the building of local supply networks and some elements of risk sharing and uncertainty reduction through for example, development of co-operatives and the like. The tools used to facilitate PPP intervention will guide the forms of PPP that are observed in practice. This will mostly be public policy measures to support private sector activity; contractual arrangements between public and private sectors in areas of operations, financing and management for infrastructure; creation of joint funds; creation of joint platforms for dialogue, visioning, planning and decision-making; creation of public-private institutions and joint ownership of certain assets.

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<sup>9</sup> This paper is complementary to LC/CAR/L.166. The reader can refer to LC/CAR/L.166 for a description of upgrading strategies in the Caribbean in the context of the Tourism Area Life Cycle.

<sup>10</sup> See LC/CAR/L.166 for a discussion of these indicators.

**Figure 4**  
**Competitiveness, upgrading, linkages and**  
**The role of PPP and public policy**



**Forms of PPP (Figure 1) - Means/Tools for PPP (Table 2)**

A. Public policy supporting the private sector.	Provision of initial/start-up financial support; Tax breaks/tax credits/technical support; Facilitation of local approval process, land swaps and transfer of development rights; Provision of manpower etc
B. Contractual Public-Private Sector Arrangements in Investment and Financing.	Management contracts for government-owned facilities
C. Joint Public-Private Forums for discussions and strategic visioning and planning.	
D. Public-private institutions	Development of tourism education and training programs; Support for participation at trade shows; Co-op marketing programs ; Joint awareness or visibility programs; Staging of major events
E. Joint Funding and Implementation of specific programs/ initiatives/events.	
F. Privatization of a state-owned facility with some form of regulation by the public sector (Transfer of Assets).	Privatization of telecommunications/transport facilities

**Intermediate Goal:** Move along the Tourism Area Life Cycle and Avoid Decline

**Ultimate Goal:**  
 Socio-Economic Prosperity-Improvement on Quality of Life Indicators for Destination citizens (See Dwyer and Kim in Annex 1, LC/CAR/L.166)

Source: ECLAC (author); WTOBC (2000).



## **B. Public-Private Partnerships in Caribbean Tourism**

In the area of tourism in the Caribbean, PPP are predominantly observed in the form of:

(a) Public institutions governed by public-private boards of directors with funding by governments and at times by donor agencies, and where the board of directors report to the Minister for Tourism. These will be mostly national tourism boards and national tourism authorities. These institutions collaborate with private sector organizations such as hotel and tourism associations to stage major events in the region, to finance and organize marketing and promotion programs and implement the tourism policy of the government. It can also include Tourism Development Companies (e.g. Trinidad and Tobago) or Tourism Investment Agencies (e.g. Barbados) or Tourism Product Development Company (e.g. Jamaica), whose responsibilities include forging partnerships with the private sector to attract investment or lead product development. The Minister for Tourism can also appoint private sector members to the Board of Port Authorities, whose roles are to manage the seaports system and provide services to shipping companies including cruise companies as well as to maintain or augment port facilities and infrastructure.

(b) Formation of public-private sector alliances to respond to crisis situations (e.g. Gulf crisis, September 9/11 attacks, economic recessions in North America) or to a pressing need for increased competitiveness.

(c) Public policy geared to support the private sector in the form of (1) fiscal and regulatory incentives (tax breaks, tax credits, subsidies, streamlining of procedures) in specific areas including support to airlines and in upkeep of infrastructure; (2) earmarking of specific physical areas for tourism development (creation of clusters) that also involves sales or leases of land by the Government to the private sector for development.

(d) Joint ownership of assets including State and private equity stakes in hotels or airlines, with management left either to the State or to the private sector.

(e) Regular holding of public-private meetings (e.g. regional and national conferences) for discussions, strategic visioning, policy-making and decision-making (e.g. drafting of strategic tourism documents).

(f) Pooling of financial resources into a public-private fund for specific programs or initiatives.

It is widely regarded that these PPP in the Caribbean<sup>11</sup> have been predominant mostly in the area of “marketing and promotions” as part of a product upgrading based on branding and to a lesser extent in the area of “product development and enhancement” (refer to Figure 4). In the next Section, we attempt to demonstrate with examples the potential contributions that PPP and public policy within PPP have made in the implementation of upgrading strategies at a regional level and at a national level in the Caribbean. However before proceeding further, we need to understand the conditions under which PPP are usually effective (See Figure 5) and demonstrate

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<sup>11</sup> Based on phone interviews carried out with tourism officials in the Region.

that in general such conditions are met in Caribbean tourism<sup>12</sup>. To do so, we need to understand the nature of institutional arrangements in Caribbean tourism, the particularities of the tourism industry and the national capacity constraints in the Caribbean.

**Figure 5**  
**Conditions for successful PPP**

**The common interest-space condition:** Viable partnerships develop only in a space of interests common to the two sectors as determined by technological, market, and public demands in the tourism value chain.

**The cost-benefit condition:** Partners enter partnerships when the expected benefits outweigh expected costs.

**The synergy-through-collaboration condition:** Partners enter partnerships when the expected benefits are higher than those from equivalent investments in other arrangements.

**The no-conflict condition:** Partners enter in partnerships when the partnership does not substantially conflict with other interests of the parties, or where the partnership does not generate substantially negative externalities for society.

**The proportional-benefits condition:** Partners enter in partnerships when their own contributions and expected benefits are not disproportionately lower than those expected for the other partners.

Source: Hartwich et al (2005) adapted by ECLAC (author).

Institutional arrangements in Caribbean tourism in most States can be characterized as in Figure 6. The three major institutional players are: on the public sector side the Ministry of Tourism, in charge of providing the vision for tourism, setting the tourism policy agenda and determining the set of public policy incentives needed by the private sector. On the private side, there are hotels, restaurants and tourism associations that represent the interests of the private sector in tourism and provide supporting services to its members in the form, among others, of lobbying the government for certain preferential advantages. These associations are important partners for the government in guiding and informing the development and implementation of the national tourism policy. In destinations where the cruise segment is significant, cruise industry associations will also be present. Certain gaps in national information systems and capacity constraints in the Caribbean may render it necessary for both the public and private sectors to work closely in order to fulfill the public sector's role in planning for and developing the tourism sector. Tourism boards and tourism authorities have the mandate to lead the development and implementation of the national branding strategy and to promote and market the destination abroad, in accordance with the national tourism policy and the branding strategy. The Port Authority is responsible for the maintenance and upgrading of port infrastructure and cruise terminal facilities and manages port services including cruise ship services.

<sup>12</sup> Analysis and inferences in this section were drawn based on information gathered in phone interviews with tourism officials in the Region.

All these institutions work closely together at a national level as part of the domestic tourism value-chain and are engaged in symbiotic relationships. Their common goals are to maximize benefits from the tourism sector and maintain international competitiveness in accordance with the national tourism and cruise ship policies of the destination and within a common branding strategy. There is a clear delineation of mandates, roles and responsibilities among them that serve to some extent to mitigate conflicts and facilitate inter-institutional collaboration, communication and information sharing (no conflict condition, Figure 5). It is highly common for members of these various institutions to sit at each other's boards of directors. Also given the small size of the economies in most destinations, the "tourism network" and the "public-private" network are likely to be "thick", fostered by close and sometimes long inter-personal relationships among tourism professionals. These networks favor the building of trust and collaboration across the tourism private and public sectors.

In addition at a regional level, all the member governments and by extension all the national tourism boards and national tourism authorities form part of the Caribbean Tourism Organization (CTO), a public-private regional institution, while the various National Hotel and Tourism Associations are part of the private-led Caribbean Hotel Association (CHA). These two regional organizations are closely inter-linked and have a long history of close collaboration, as we shall see later. The dense tourism network at a national level extends to a regional level, with all tourism professionals meeting at annual regional conferences and the like hosted by the CTO and CHA. Members of the CTO and CHA contribute to participate in the CTO and CHA joint networking events as the expected benefits from participating are deemed to be high for all (proportional-benefits condition, Figure 5). The region, while diverse, also displays strong commonalities among countries in terms of culture, people, history, institutional development, colonial past and common challenges. Regional cooperation has been historically fairly strong in several areas, and this facilitates regional public-private collaboration including in tourism.

Both the public and private sectors in the Caribbean tourism industry at a national level, especially in destinations that are highly tourism dependent, recognize that their "fortunes are tied" and that their interests are inter-linked. The private sector is in need of profits and needs a well-functioning tourism sector and for this it relies on governments for the supply of supporting services. Governments on the other hand rely on tourism for the creation of national wealth. There is a strong mutual interest between the public and private sectors for protecting and developing the tourism industry. Moreover, each sector in the Caribbean, owing to its respective capacity constraints, needs the leadership, visioning, and managerial competencies of the other to fulfill certain of its functions effectively, mainly when it comes to long-term planning and effective implementation. The public and private sectors are both actors in the tourism value-chain and tourism cluster and as such need to synchronize their actions to create gains for the cluster and throughout the chain. In other words, there is a large "common interest space" (Figure 3) between the public and private sector in Caribbean tourism, favoring the establishment of public-private collaboration and partnerships (common interest-space condition, Figure 5). In addition each party recognizes that the benefits from collaboration far exceed the costs (cost-benefit condition, Figure 5), especially in times of crisis for the industry. The small size of the economies calls for pooling of resources. In times of crisis such as the 11 September attacks in the United States, large-scale responses may be needed to stem the loss of competitive

advantages, that neither the private nor the public sector may be able to implement on its own. The costs of inaction in the face of challenges are high in Caribbean tourism and this requires the public and private sector to maintain regular channels of communication and coordination to be able to organize joint quick responses to threats to the sector. Benefits from collaboration also arise from the fact that both sectors need to work together to upgrade the tourism value-chain and the cluster in order to augment its own respective share of economic benefits.

**Figure 6**  
**Institutional arrangements in Caribbean tourism**

Public	Public with Public-Private Boards	Private
<p><b>Ministry of Tourism/ Department of Tourism</b> In charge of formulating policy and project development; Elaborating tourism plans, infrastructure plans and physical development plans in consultation with stakeholders; Providing leadership and direction in tourism.</p>	<p><b>Port Authority</b> Manages the port and port services and provides services to cruise line companies. In charge of formulating and implementing sea-port development and collection of fees and taxes. An important player in the implementation of the government's cruise ship policy.</p>	<p><b>Hotels and Tourism Association/Hotels, Restaurants and Tourism Association/ (Private)</b> An association of all major private entities involved in tourism. Represents the interests of the private sector in tourism and lobbies with government to defend the interests of the private sector in tourism; provides a range of support services to its members including human resource development and public education.</p> <p><b>Cruise Line Association/ Cruise Ship Industry Association (Florida Caribbean Cruise Association FCCA; National Cruise Ship Industry Association)</b> Representing interests of private cruise industry.</p> <p><b>Universities/Hospitality and Training Institutes</b> Leads tourism research/Provides training in hospitality management</p>
	<p><b>Tourism Investment Company/Tourism Development Co/ Tourism Product Development Co (Public-Private)</b> Investment or product development agency of the government. Where no such agency exists, investment and product development may be the responsibility of the Tourism Authority. Implements the national tourism policy.</p> <p><b>Tourist Board/ Board of Tourism/ Tourism Authority (Public-Private)</b> Provides information to travelers; leads marketing and promotion; usually maintains offices abroad. Implements the national tourism policy.</p>	

Source: ECLAC.

The tourism industry possesses certain inherent structural characteristics that make collaboration and cooperation “necessary” between the private and public sector. There are large synergies to be harnessed through collaboration between them (synergy-through-collaboration condition, Figure 5). First strategic complementarities are present: a “good tourism experience” depends both on what the private sector provides (nice hotels, excellent resort facilities, great customer service) and what the public sector provides (well-functioning airports and domestic transport system, safety and security, basic utilities). The tourist is a consumer of both private

and public or quasi-public goods. The demand for tourism depends on the quality and costs of both these type of goods; hence the private and public sector need to coordinate and communicate with each other to offer a “joint product of high quality”. Second, an excellent image and reputation are important sources of competitive advantages in the Caribbean tourism sector as in any service industry. All the institutions involved in tourism have common interests in building and protecting the image and reputation of the region. In addition Caribbean tourism as a whole is highly vulnerable to any national idiosyncratic shocks or regional aggregate shocks, (e.g. health scares, crime and violence) that can damage the image and reputation of the Caribbean as a whole as a competitive destination. A random event in one part of the Caribbean can carry negative consequences for all the rest, owing to their physical proximity and perceptions of the Caribbean as a homogeneous bloc by outsiders. Destinations impose positive and negative externalities on each other. This particularity of the tourism sector, namely presence of regional and national externalities, favors the development of close relationships among the various national and regional institutions (public and private) around a common set of objectives in recognition of the inter-dependencies of their interests and actions. Third, tourism demand is “fickle” and “elastic” in a highly dynamic global travel and tourism industry. New destinations come to the market regularly. Maintaining competitiveness requires continuous upgrading which in turn requires the public and private sector to entertain continuous relationships rather than engage in ad-hoc cooperation. In sum, the nature of the tourism industry in general along with the institutional, historical, and geographical specificities of the Caribbean as a regional community together may create the “right” conditions for PPP to arise and be effective in Caribbean tourism.

## II. THE ROLE OF PPP IN PROMOTING UPGRADING IN TOURISM IN THE CARIBBEAN

We now explore the contributions that PPP have made towards enhancing or maintaining tourism competitiveness in the region mainly through upgrading (process and product) over the past 30 years or so. In this part, we present examples of PPP in specific areas of process and product upgrading mainly in the form of a close collaboration between the CTO and CHA.

### A. Examples of PPP in the Caribbean at a regional level

*[Tourism development cannot be anything other than a public-private partnership.....Secretary General, CTO, 2005]*

The CTO is a major public-private institution in Caribbean tourism. It has worked in close collaboration, both with governments and the private sector (represented by the CHA), to enhance tourism competitiveness in the Caribbean and to facilitate upgrading in Caribbean tourism especially at times where the tourism industry faced major challenges<sup>13</sup>. Below are a few examples<sup>14</sup> of how the CTO and the CHA have collaborated over time, in addition to other PPP, to enhance tourism competitiveness and facilitate process and product upgrading to the region. The collaboration between CTO and CHA has focused mostly on marketing, human resource development and the environment.

#### *Product upgrading*

##### Area 1: Marketing and promotions (Improving destination image and use of electronic marketing and distribution including internet)

1. *Caribbean Village at International Trade Fair ITB in Berlin:* The CTO and CHA have been playing lead roles at organizing and supporting the participation of member countries and the private sector to trade and consumer shows such as the International Trade Fair in Berlin for more than 30 years. The Caribbean Trade Association (CTA), the precursor to the CTO, was instrumental in coming up with the concept of a Caribbean Village at the ITB about 30 years ago (Wilkinson, 1987). At the time it was an innovative idea that met with great success and was later emulated by other destinations.
2. *CTO Chapters and Travel Trade Shows:* The CTO chapters' mission is to play a leading role in the tourism industry by providing a forum in which individuals, particularly travel agents, meet for the primary purpose of raising awareness on destination products and expand travel and profit opportunities (source: CTO). The first Chapter was established in 1975 and 30 years later, this has expanded to nine chapters in the Eastern United States, 11 chapters in Central United States including Chicago, seven chapters in Western

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<sup>13</sup> See "Tourism Policy and Planning" (1997) by Paul F. Wilkinson, "The Year was 1951: The CTO story" by Richard S.Kahn and Johnson John Rose and various articles from "International Organization", Vol 1-5 for a historical overview of Caribbean tourism development and a history of the CTO and CHA.

<sup>14</sup>All the examples below were compiled through web-bases searches.

United States including Los Angeles, six chapters in Canada, five in the Caribbean and chapters in the United Kingdom, France and Germany. In 1985, the Greater New York Chapter launched the first ever Caribbean Sales Seminar in Aruba with more than 150 travel agents from more than a dozen Chapters around the United States attending. This gave an opportunity to agents to meet with tourism officials and hoteliers from across the region in one place in the Caribbean. The second annual Caribbean Sales Seminar (CSS) program took place in Jamaica with double the number of agents from even more Chapters. Subsequent CSS programs were held in Puerto Rico and Aruba and then in the Bahamas in 1989 at which point the travel agent program was combined with the Annual Caribbean Tourism Conference under the banner of CTO. These chapters play an important role in facilitating the promotion and marketing of the Caribbean brand and in raising awareness and visibility on the Caribbean upgraded products. The CTO has also historically organized Trade Travel Agent Shows in several major cities in the United States (averaging more than 10 cities per tours) twice a year in the fall and spring and the European Road shows in several major European cities.

3. *Caribbean Week in New York for more than 15 years:* The CTO and CHA have been holding the Caribbean Week specials on an annual basis in New York in summer for the past 34 years and for the first time in Toronto in Canada in 2007. New York, where the region has a significant diaspora, has traditionally been the most important United States source market for the region. More than 10,000 participants come to the event annually and they range from tourism officials, the media, artists, and performers to sponsors and strategic partners throughout the tourism value-chain. The Caribbean Week is a venture between CTO, CHA and other private companies whose aim is to highlight the Caribbean to North America. More specifically its objectives are to: (a) Provide a platform for the sale of Caribbean vacations; (b) Create events that attract significant amounts of positive media attention to the Caribbean; and (c) Provide opportunities for all members (public and private) to promote their individual products and services (source: CTO). Caribbean Week features events highlighting the Caribbean vacation experience, food, and entertainment and includes business meetings. The Caribbean Marketing Workshop and Annual Awards Luncheon, hosted by the CTO allied members and association of travel marketing executives since 1993, with private and public sector sponsorships, is also held during the week. The event culminates in the holding of the Caribbean State Ball, which is a black-tie fund raising event, with attendance from senior government officials, to support the CTO in its programs. The extensive media coverage of the event brings enormous attention to the Caribbean as a tourism destination to local and national audiences in the millions in North America. Given the dependency of the region on the United States market, this public-private event plays a major role in the marketing and promotion, branding and product upgrading strategy of the entire region. The event itself has been modified over the past 34 years in response to the emergence of new market segments and new challenges.
4. *Support in times of crisis: maintaining tourism competitiveness during North American recessions, and exogenous shocks such as 9/11 attacks and hurricanes:* In the wake of the Gulf Crisis and economic recession in the United States, the CTO, CHA and CARICOM facilitated the first regional summit on tourism in Jamaica in 1992 at which

the Caribbean governments agreed to launch the first cooperative regional marketing and advertising program, that was funded by both the public and private sector and led jointly by CTO and CHA in a bid to maintain the competitiveness of the industry. This advertising program proved highly successful at avoiding a downfall in North American visitors. United States visitors actually rose nine per cent in 1993 and the share of United States visitors jumped from 38 to 41 per cent. Unfortunately the effects proved to be temporary as the program could not be continued due to a lack of funds. In 2001, in the wake of the 9/11 attacks, a second regional Tourism Summit was convened and led to calls for a long-term master plan for the region (a regional strategic plan was eventually drafted) and for plans to revive a regional advertising and promotion campaign, which eventually led to the “Life Needs the Caribbean” campaign detailed below.

5. *The CHACT and the “Life Needs the Caribbean” Advertising Campaign and Others:* The Caribbean Hotel Association Charitable Trust (CHACT) is a public/private sector alliance, uniting major hotel chains, airlines and credit card companies with the Caribbean Tourism Organization, CARICOM (Caribbean Community) and non-CARICOM nations. In fall 2002, CHACT launched the US\$16 million dollar “Life Needs the Caribbean” campaign to market and promote the region as a single destination as the industry was going through a slump after the 11 September attacks. The website [www.GoCaribbean.com](http://www.GoCaribbean.com) was created to allow the region to play a full role in the entire distribution channel of Caribbean vacations. The CHACT went on to partner with Expedia, Inc. to offer expanded hotel choices to the Caribbean. As part of the partnership, the nearly 1,200 properties in the Caribbean Hotel Association, (which joined the CHACT marketing initiative) had the opportunity to participate in the Expedia Special Rate (ESR) program, in which Expedia works with individual hotels to provide consumers with attractive rates and bring additional business to hoteliers. Research conducted by Hall and partners showed that the Life Needs the Caribbean marketing campaign helped to keep the region as a top of mind destination and played a strong role in assisting tourism in the region to recover in 2003. The research revealed that it had a 92 per cent effect in making vacationers think about going to the Caribbean and it increased the region’s awareness by 20 per cent; whereas among those who did not see the ads, awareness decreased by 12 per cent. In 2004, in the wake of hurricanes that had affected the region, the CTO engaged in an aggressive promotion and marketing campaign to complement the strategies of the individual member countries and promote and market the region on multiple fronts,. Activities included, among others, promotions in the media; holding Caribbean Week Events in major cities; and leading consumer promotions in conjunction with travel and lifestyle publications, department stores, and television and radio stations throughout the United States.
  
6. *“One Caribbean” brand:* In 2005 at the CTO 28<sup>th</sup> Annual Conference, the CTO and CHA agreed through a Memorandum of Understanding to combine their forces to promote the region as a tourism destination under one strong Caribbean brand, in a single voice and a single message (source: CTO). The public and private sector partnership resulted in a new logo, the establishment of a business development unit-the Caribbean Tourism Development Company (CTDC), and the establishment of a single consumer web site with multiple languages ([www.doitcaribbean.org](http://www.doitcaribbean.org)) that targets non-United States



markets. CTO and CHA also agreed to work together to establish a single membership site ([www.onecaribbean.org](http://www.onecaribbean.org)) and an official Caribbean Life print magazine. The portal also features special travel packages and offers free travel information. Other planned initiatives that had materialized include a Miss Caribbean Pageant, a Caribbean Fashion Week and Caribbean Awards for Innovation in Tourism.

Area 2: Product Development/Enhancement and Other (Facilitating Investment and Financing, Developing or improving accommodation; Setting quality standards; Protecting the environment)

1. *Caribbean Hotel and Tourism Investment Conference*: The Caribbean Hotel and Tourism Investment Conference (CHTIC) was created in 1997 by CTO and CHA in order to improve the business and investment climate of the tourism sector in the Region and facilitate increased loan and equity capital in the sector<sup>15</sup>. According to the CHA, the CHTIC has grown to become the most important annual event for those interested in investing in Caribbean tourism. Private sponsorships are sought for funding the Conference. The Conference usually targets a range of leading investors, hotel owners, financial advisors, mortgage brokers, real estate agents, lawyers, designers, timeshare developers, and government officials among others (source: CHA). Its creation was guided by the joint concern of both CHA and CTO about the fact that the Caribbean, despite being the most tourism-dependent Region in the World, was not attracting its fair share of investment in tourism. Moreover, the Caribbean tourism industry at that time was in dire need of both refurbishment of old properties and the creation of new and high quality accommodation. The hope was to engender an increase in the flow of capital investment into Caribbean tourism infrastructure, tourism-related amenities and facilities. The idea was to create a forum where all the relevant players, governmental, institutional, commercial and entrepreneurial could meet in order to delineate the necessary and sufficient conditions for attracting, increasing and maintaining investment in the tourism sector in order to facilitate upgrading and an increase in hotel and tourism facilities and services (source: CHA). According to the same source, the conference value-added to the tourism stakeholders has lied in five areas: facilitating networking, creating new investment opportunities, enhancing transaction know-how, providing marketing opportunities and identifying funding opportunities. Recently the European Union has been holding its PROFIT meetings alongside the CHTIC.
  
2. *PROFIT (Partnerships, Roles and Opportunities for Investment in Tourism) in the Caribbean*<sup>16</sup>: In 2004, Pro-Invest, an EU-Africa Caribbean Pacific (ACP) partnership program of the European Commission, partnered with CHA in an international public-private partnership, to bring PROFIT to the Caribbean. The main objective of PROFIT in the Caribbean is to promote partnership and investment opportunities in the tourism industry sector by bringing together enterprises from the Caribbean and Europe. PROFIT in the Caribbean identifies a range of new business projects of particular interest to investors. At the PROFIT meeting in 2004 in Jamaica, more than 200 European companies attended and more than 279 Caribbean projects were proposed, ranging from construction of eco-tourism resorts, the implementation of online reservation systems, the

<sup>15</sup> Source: <http://www.hospitalitynet.org>.

<sup>16</sup> Sources: Caribbean Update, [www.caribbeaninvestment.org](http://www.caribbeaninvestment.org) and CHA.

design of a water treatment plant to the establishment of beach-side luxury residences. As from 2005, PROFIT meetings have been integrated to the CHTIC, thereby providing a business component to the CHTIC. This component will match pre-qualified tourism projects in the Caribbean with pre-screened European investors and will attend to the interests of small-scale and medium-scale enterprises as well. The CHA is in the process of establishing a Tourism Investment Fund (TIIF) in order to bridge a financing gap, especially for resorts of up to 150 rooms that are looking into renovating, expanding or taking over underperforming assets.

3. *Caribbean Tourism Development Company (CTDC)*: The CTDC was created in 2007 as a result of the Memorandum of Understanding signed by the CTO and CHA at the Annual Tourism Conference in 2005. The CTDC will be operated as a private, for profit entity, with 50 per cent of shares held each by CTO and CHA which will jointly own and operate the company. The objectives of the CTDC will be, among others, to promote and protect the Caribbean Brand and create new economic opportunities for both partners. The CTDC will be responsible for several projects which are marketing focused and as well as events- oriented. A series of media bulk purchasing agreements will be created to allow members of both organizations reach greater economies of scale and enable both the private and public sector entities to launch expanded advertising and marketing campaigns (source: CHA). The CTDC will also oversee the cooperative efforts at consumer travel shows and the Caribbean Week in New York. The CTDC will implement a series of plans and initiatives that were agreed upon by the CTO and the CHA at the Annual Tourism Conference in 2005.
  
4. *Quality Tourism for the Caribbean (QTC)*: Following a spate of reports of ill-health among visitors to the Caribbean in the 1990s that undermined the quality of the Caribbean tourism product and imposed costs on the industry, a Caribbean Healthy Hotels Project (CHHP) was established in 1998 with funding and collaboration from the Inter-American Development Bank (IDB/MIF), the Inter-American Health Organization/Caribbean Epidemiology Centre (PAHO/CAREC), the CHA and the Caribbean Alliance for Sustainable Tourism (CAST) (sources: CAREC and CAST). The aim of the project was to address the lack of Caribbean-wide standards in health and hygiene in the tourism industry. The project later evolved into a Caribbean Tourism, Health, Safety and Resource Conservation project (CTHSRC), and the focus shifted from solely reducing illnesses in hotels, due to inadequate food safety practices and water management systems, to also incorporate environmental and energy conservation standards and systems for hotels and food service establishments (sources: CAREC and CAST). More than US\$2 million was provided to implement the project in four pilot countries: The Bahamas, Barbados, Jamaica and Trinidad and Tobago. Later funding by the Caribbean Development Bank extended participation to the Organization of Eastern Caribbean States (OECS) countries. The aim of the project was to improve the quality and competitiveness of the tourism industry in the Caribbean through the establishment and dissemination of quality standards and systems designed to ensure healthy, safe and environmentally conscious products and services. In addition, the CTHSRC Project collaborated with key stakeholders in the tourism industry and health sector to develop policies, procedures and practices for protecting the health of visitors and the host

population, with a particular reference to HIV/AIDS. With funding from the German Technical Cooperation (GTZ) and the Caribbean Development Bank, the project developed HIV/AIDS policy guidelines and educational materials specific to the industry. Major successful outcomes of the CTSHRC have been the conduct of a comprehensive needs assessment survey in 191 hotels in 33 countries and 200 food establishments in the four pilot countries; the training of more than 1500 public and private sector personnel in food safety and environmental management and the establishment of a Quality Tourism for the Caribbean (QTC) Brand. The QTC is a three year program, as part of the CTSHRC that consolidated further the public-private partnership between CAREC, a specialized agency of PAHO and CAST, the environmental subsidiary of the CHA and of which CTO is a member. Funding for the QTC came from both CTO and CHA as part of the European Development Fund. The QTC consists of food safety and environmental standards, matched by an audit and certification program that tourism enterprises, including small and medium scale enterprises (SMEs), have to meet in order to be certified. The QTC program vision is to make the Caribbean the “safest, healthiest and happiest of comparable destinations in the world” (sources: CAREC and CAST). More than 100 tourism enterprises have been certified so far with another 300 enrolled in the certification program. The success of the QTC could be measured by the facts that after two years into the project, there was a reduction in the number of reported traveler-related illnesses and injuries; an improvement in the operating results of the SMEs participating in the project and increased visitor satisfaction. The QTC standards have been endorsed as regional standards by the Council of Trade and Economic Development (COTED) of CARICOM (sources: CAREC and CAST).

5. *Caribbean Regional Sustainable Development Program (CRSDP)*: The Caribbean regional Sustainable Tourism Development Programme has as overall objective to contribute to economic growth and poverty alleviation of CARIFORUM countries through increased competitiveness and sustainability of the Caribbean tourism sector. The major aim of the program is to build a real tourism economy based on high value added, niche oriented products rather than on an increased number of tourist arrivals. The programme is funded under the eighth European Development Fund (EDF) in the amount of €8 million. The beneficiaries of the programme are the fifteen CARIFORUM member States. The CHA, CTO and the Pontificia Universidad Catolica Madre y Maestra (PUCMM) are the implementing agencies. Both CTO and CHA have signed a Memorandum of Understanding to strengthen their cooperation through the CRSDP. The programme target beneficiaries are local players, such as small-medium sized hotels and tourism operators, as well as the local population. The major activities have involved: (a) The elaboration of a regional policy for sustainable development, which is in the process of being approved; (b) The establishment and enforcement of regional environmental, health and safety standards in conformity with international practices, including setting standards for eco-tourist products and raising awareness on green certification; (c) Human resource development, including training of hotel managers and staff throughout the region on sustainable management and operations practices; establishing training manuals and training of trainers and providing internships for hotel supervisors and mid-managers at the PUCMM in the Dominican Republic; (d) Supporting micro, small and

medium enterprises (SMMEs) through pilot programs to increase their involvement in the tourism sector and build inter-sectoral linkages; strengthening CHA's Tourism Business Unit that will be in charge of managing these programs; and assisting national hotel associations to access finance from the European Union and other donors; (e) Strengthening the research capability of the CHA and CTO in several areas such as measuring and monitoring competitiveness, protecting the environment, strengthening the role of SMMEs to build inter-sectoral linkages and assessing the environmental impacts of tourism, and (f) Strengthening IT capabilities at the CTO and CHA. (source: CRSDP).

6. *Caribbean Blue Flag*: Introduced in 1999, the Caribbean Blue Flag is a regional beach certification program, as part of the International Blue Flag program. The latter is an international environmental initiative for the voluntary eco-certification of beaches and marinas that was initially run on a pilot basis in seven countries, namely Antigua and Barbuda, the Bahamas, the Dominican Republic, Jamaica, Martinique, Puerto Rico and Venezuela (source: CAST). The CTO, CAST and the Caribbean Conservation Association (CCA) originally made up the Caribbean consortium in charge of overseeing the development of the program. In 2006 that role was passed on to NGOs in the countries where the program is running. Countries in the Caribbean that participate in the Blue Flag programs can not only enjoy competitive advantages accruing from positive environmental impacts but can also gain a competitive advantage in European markets among environmentally-sensitive tourists. So far only two beaches in Jamaica, one beach in Puerto Rico and two marinas in the Bahamas have been awarded the Blue Flag label. The Bahamas, Jamaica and Puerto Rico are among the 36 countries worldwide participating in the program and Aruba and Dominican Republic are among the six countries in the world still running the program on a pilot phase. The Blue Flag is one of the three certification programs run in the region besides the Green Globe and the QTC. (source: CAST).

### ***Process upgrading***

#### Area 3: Infrastructure/ human resources (improve education and training)

1. *Caribbean Tourism Human Resource Council*: The CTO established the Caribbean Tourism Human Resource Council (CTHRC) in 1998 with the full endorsement of the CARICOM member governments. The CTHRC is a regional public-private body made up of senior representatives from business, labour, government, industry associations and education and tourism related organizations/groups that meets twice annually to collaboratively address the Caribbean's tourism education, training and career development needs and give direction to the Council's programmes and activities (sources: CTO and CHA)<sup>17</sup>. The Council's mission is to develop and promote a systematic and coordinated approach to human resources planning, research, education and training in Caribbean tourism to meet the demands of a globally competitive tourism environment. The major areas of focus for the Council in the short to medium term are:
  - (a) The development and implementation of a Caribbean Tourism Learning System

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<sup>17</sup> Sources: [www.onecaribbean.org](http://www.onecaribbean.org).

(discussed below); (b) Supporting increased workplace training and skills development; (c) Providing Tourism Human Resource Information Services; and (d) Communicating effectively with industry and other stakeholders (sources: CTO and CHA).

2. The *Caribbean Tourism Learning System (CTLS)* started as a joint project between the Caribbean Tourism Human Resource Council (CTHRC) and the Organisation of Eastern Caribbean States Education Reform Unit (OERU), funded by the Canadian International Development Agency (CIDA), and lasted from 2001 to 2003. The project's purpose was to increase the competitiveness of the tourism product in the Caribbean through improvement of the quality of human resources, mainly through enhanced leadership by tertiary level institutions in the Caribbean (source: CTO). Thirteen colleges and universities from across the region participated in the Project. This project led to a harmonized tourism curriculum for the Associate Degree programme in Hospitality/Tourism Studies across the English-speaking Caribbean and the set up of a Quality Assurance System that will ensure that the Associate Degree Program will be measured against agreed quality assurance standards and criteria by an external quality assurance body (source: CTO).
3. The CTO has also been conducting an *Annual Caribbean Tourism Educators Forum* since 2000, which is a three day intensive workshop designed for tourism/hospitality educators at the post-secondary level of the education system and also for tourism/hospitality trainers from both the public and private sector in the region. The main objectives of the Educators' Forum are: (a) to update the knowledge base of tourism/hospitality educators on current trends and issues in tourism both regionally and globally and prepare them to fully understand and articulate the future changes and challenges of the industry and (b) to provide tourism/hospitality educators with a forum to discuss the special challenges/issues facing the delivery of tourism education and training in the region and recommend some concrete strategies for addressing these (source: CTO).
4. The *Tourism Internship Exchange System (TIES)* is an initiative originally developed in 1999 by the CTO under the European Union/CARIFORUM Lomé IV Convention. The aim of the programme is to enhance the overall competitiveness of the Caribbean region by providing a learning experience to students in the tourism and hospitality sector as well as tourism workers by assisting them to find internships or suitable jobs in the tourism industry. The regional coordinator is based in the Dominican Republic and there are national coordinators in thirteen CARIFORUM countries (source: CTO).
5. *Caribbean Tourism Credentialing Program (CTCP)*: As an example of international public-private partnership, we can mention the CTCP, a multi-year, multi-million dollar regional program, funded by the Inter-American Development Bank and the CHA, with the aim of increasing the international competitiveness of the hospitality and tourism workforce in the Caribbean. Originally conceived in 1997, the CTCP in 2003 was able to launch a regional credentialing and certification program for employees of the tourism industry based on a system developed and implemented by a Canadian private firm. The certification program is meant to raise the professional standard of the regional tourism and hospitality industry. The system evaluates tourism workers by verifying their

previous work and volunteer experience, education, professional development activities and skills. The countries involved in the program are Barbados, Bahamas, Jamaica, Trinidad and Tobago and the Organization of Eastern Caribbean States. In a field-test conducted between May and August 2002, more than 300 industry professionals from seven Caribbean countries registered to obtain certification in 43 different occupations. At present more than 700 tourism professionals have registered for certification in more than 45 different occupations (sources: IFINet and CHA).

***Process and product upgrading: Other examples.***

**1. Raising awareness, identifying challenges and opportunities and facilitating pro-active planning: The role of the annual CTO conference.**

Every year the CTO holds a conference on tourism in the Caribbean, with the participation of all major public and private actors in the sector around a given theme that reflects the challenges and priorities of the day for the industry. The first conference was held in 1975, as a joint public-private sector initiative, in the wake of the energy crisis, in order to discuss the future of Caribbean tourism. By end 2007, there will have been 30 conferences. The conference hosts over 600 tourism industry officials representing Caribbean governments, hotels, airlines, cruise lines, travel agents, tour operators, strategic partners and media representatives from around the world. The Conference serves as a major forum for all the tourism stakeholders to engage in collaborative reflections, discussions, consultations, negotiations and strategic planning over the future of the Caribbean tourism industry and focuses on identifying the challenges ahead, the opportunities for actions and analyzing potential lessons learnt from the past. The CTO Annual conference usually leads to concrete actions regarding addressing the challenges of the day. As a case in point in 2005, the industry was being threatened by mounting safety and security concerns amidst rising crime waves in several States. The 2005 Conference titled “*Tourism: The Business of the Caribbean*” was meant to challenge Caribbean nationals, leaders and their industry partners to see tourism as the top priority for the economies of each CTO-member country and to focus on regional crime and its impact on regional tourism. This eventually led to the development and implementation of a regional visitor and safety program. In 2006, the theme centered on “*Cooperation, Innovation, Rejuvenation. Creating a Brand New Caribbean*” and was designed to reflect the new level of cooperation between the region’s tourism public and private sectors and to focus on launching a renewed brand for Caribbean tourism. A year earlier the CTO and CHA had agreed to implement a “One Caribbean Brand” campaign. The conference aimed at inviting conference delegates to explore further avenues of cooperation between the public and private sector in order to stimulate innovative and creative thinking in the industry. The 1990 Conference titled “*Competing in the 90s*” set the agenda on growth for the decade amidst fears of a United States recession and complaints of over-taxation in the industry, and facilitated the devising of marketing strategies for “winning the battle of vacation dollars in an environment that will become increasingly challenging” (Markly Wilson, CTO Director of Marketing, North America). The 1990s indeed saw remarkable growth, with stay over arrivals and cruise-ship arrivals rising in double-digits between 1990 and 1999. By and large the themes of the Caribbean annual tourism conferences have across time reflected the challenges faced by the industry at the time and/or the strategic direction of the industry. It has served to focus attention of the tourism community on these challenges in order to bring

consensus on needed actions. It has also served as a platform for the public and private sector to renew their commitment for increased collaboration and to identify opportunities for joint actions.

Since 1998, the CTO has also been organizing the Annual Caribbean Conference on Sustainable Tourism Development, co-sponsored by the European Union as part of the CRSTDP. It looks at how member States of CTO and the Association of Caribbean States (ACS) can design and implement sustainable tourism policies and programs, while offering a regional forum for information exchange on the successes and pitfalls of national, regional and international initiatives. Like the larger CTO regional conference, the STC is organized around a theme and contains plenary sessions, workshops and study tours. The conference has played an important role at fostering attention of the tourism community on the challenges and opportunities presented by niche product development and product diversification. For example in 2003, the theme “*Keeping the Right Balance – Embracing our heritage in the greater Caribbean*”- highlighted the need to diversify away from the traditional fare of beaches and move towards promoting Caribbean heritage as a tourism product in itself. It also highlighted the challenges involved in terms of better coordination among all the players and greater public support to NGO’s efforts to protect heritage sites in the Caribbean. In 2007, the theme “*Health and Wellness: Communities, Environments & Economies*” focused on the impact of health and wellness on Caribbean communities, environments and economies and looked at opportunities and challenges in developing health and wellness tourism.

## 2. Public Support for Regional Airlines

The area of regional air transport and the guarantee of airlift within the region and between the region and the outside world has historically been an important area of public-private partnership in the Caribbean tourism industry. The availability of reliable and extensive air transport services, capable of connecting the Caribbean to North America and Europe at regular intervals, is crucial for enhancing the competitiveness of tourism in the Caribbean. Cognizant of this fact, Caribbean governments have been supporting for almost 50 years an ailing debt-ridden air transportation industry through subsidies and bail-outs in order to ensure such availability. As it has been said, Caribbean carriers have survived “on the backs of Caribbean taxpayers” (Holder). While it is widely recognized that regional aviation policy has been more or less a noticeable failure in the Caribbean, and that for the past 40 years all efforts at establishing a regional airline or regional air-transport services of low cost with high quality have proved unsuccessful, it is important nevertheless to highlight the important contribution that public-private collaboration has made in the area of regional air transport in order to keep the tourism industry growing. Extensive inter-island air services that private carriers might not have found profitable to provide, have prevailed owing to such PPP and a willingness on the part of Caribbean governments to keep unprofitable private companies afloat in order to support the continued development of tourism in the Caribbean. However the poor customer service and high airfares of the regional carriers are damaging for the competitiveness of inter-island tourism and multi-destination tourism in the Caribbean. There are without any doubt important challenges to be addressed in the area of regional air transport.

Three major airline companies whose history and presence in the region are strongly inter-twined with tourism development in the Caribbean are: BWIA, LIAT Ltd and Air Jamaica. BWIA (now defunct) and Air Jamaica are both public-private companies with very limited profitability and LIAT Ltd is another public-private company with an equally weak record of profitability, owned by seven Caribbean governments.

BWIA<sup>18</sup>, originally founded in 1940 as British West Indian Airways, was initially a private company. It was nationalized in 1967 by the Government of Trinidad and Tobago, as part of a restructuring process to curb losses. However it kept on piling losses. In its first 50 years of existence, it never made a profit and was subsidized by the Government of Trinidad and Tobago for all these years. It was incorporated as BWIA International Airways Limited in 1980, after a merger with the government-owned Trinidad and Tobago Air Services to become the national airline of Trinidad and Tobago. In the face of continuing poor performance, it was privatized partially by the Government in 1994 and in 1995, the State handed over its majority control in common stock and management to private United States and Caribbean investors. In December 2000, BWIA went public and issued an initial public offering in order to raise funds for its operations in the face of continuous financial struggles. By 2005 the company was 75 per cent owned by the Government of Trinidad and Tobago and 25 per cent by private shareholders. Finally in 2006 it closed down. Air Jamaica started operations in 1969 and was originally owned by the Government of Jamaica with a minority interest by Air Canada. The Government of Jamaica acquired the airline in 1979. In 1994, the airline was partly privatized with Air Jamaica Acquisition Group (AJAG) assuming a 75 per cent shareholding, and the Government holding only 25 per cent, of which five per cent was given to the airline employees. In 2000, the Government raised its stake from 25 per cent to 45 per cent. In 2004 due to massive losses, the government had to take full ownership of the company and is at present considering privatizing it again. LIAT (Leeward Islands Air Transport Services) was originally founded by a private individual in 1956. The company provides inter-island air services up till this day, along with Caribbean Star and American Eagle on selected routes. In 1974, as its parent company Courtline was facing collapse, 11 CARICOM governments acquired the assets of LIAT and formed LIAT (1974) Ltd. The company was partially privatized in 1995 to save it from bankruptcy.

These examples suggest that the structure of a public-private partnership may not be a differentiating factor for profitability in the Caribbean airline industry and that factors external to the management and ownership of the company may be exerting a greater role in determining profitability. Whether the companies are fully state-owned, or fully private or a mixture of both, their profitability seem to be hampered by high operational costs driven by fuel costs, excessive competition by international carriers and an oversupply of capacity (Simei et al, 2005). As early as 1994, the CTO had proposed a regional partnership among the major regional carriers based on functional cooperation so as to enable the reaping of economies of scale and the slashing of costs and pooling of marketing strengths to face large international carriers. This much broader public-private partnership at a regional level though was resisted by individual countries for fear of loss of sovereignty.

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<sup>18</sup> Source: "Enhancing the viability of Caribbean airlines: Case studies on Air Jamaica, BWIA and LIAT" by Simei et al in "Caribbean tourism: visions, missions and challenges" edited by C. Jayawardena.



### **III. THE ROLE OF PPP AND PUBLIC POLICY IN PROMOTING COMPETITIVENESS AND UPGRADING IN TOURISM IN THE CARIBBEAN: NATIONAL PERSPECTIVES**

#### **A. Case examples of PPP and public policy in selected areas of upgrading<sup>19</sup>.**

In this section we demonstrate the role of PPP and public policy within PPP in promoting two types of product upgrading mentioned in Section III:

- Special interest tourism (or niche market segments); and
- The upgrading of hotels and facilities in the mass-tourism segment.

The development of special interest tourism (eco-tourism, heritage and culture, community-based tourism, events and sports, health and wellness, adventure tourism, agro-tourism and others) has been a part of the upgrading strategies of countries in the Caribbean region for the last 15 years or so<sup>20</sup>. It is a part of a product development and product diversification strategy meant to enhance tourism competitiveness in order to generate an increased annual average spending per tourist, either by attracting high spending tourists or even by lowering the seasonality factor. This development has been made possible with the growing environmental sensibilities and increased sophistication of the average tourist from North America and Europe. The WTTC has forecasted that the areas of nature, culture and soft adventure will grow by 20 per cent a year over several years<sup>21</sup>. We posit that mass-tourism including cruise tourism and stay-over tourism in “all-inclusives” will continue to be the major market segment for most countries in the Caribbean in order to allow them to sustain their dependency on tourism and maximize the net economic contribution from tourism. However the development of these specialized segments on the other hand serves to augment economic gains from tourism in a manner that (a) goes to benefit directly the local population and the local economy; (b) in a manner that builds linkages with the local productive sector and reduces import leakages for the tourism industry; and (c) in a manner that enhances overall tourism competitiveness by building social acceptance for tourism, mitigate host-guest frictions and tourism harassment, and mitigate environmental destruction, in short in a manner that promotes the sustainable development of tourism. The co-existence of mass-tourism with increased niche marketing is the most viable strategy to promote the sustainable development of tourism in the region. In what follows, we demonstrate with five case examples the contribution of PPP and public policy within PPP in product upgrading in the Caribbean, both in terms of developing special interest tourism and in terms of facilitating the upgrading of facilities and infrastructure.

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<sup>19</sup> See LC/CAR/L.166 for a characterization of upgrading.

<sup>20</sup> See LC/CAR/L.166.

<sup>21</sup> Studies of tour operators in the U.S have shown that at least 4 to 6 million Americans travel overseas each year for nature-related trips and as far back as 1989, about 7 million were willing to spend between \$2, 000 to \$3, 000 on such trips. A 1991 study of older adults conducted by the United States National Tour Association found that 94 percent of the population of North America over 50 years of age is concerned about the environment. Sixty percent would be more likely to take an escorted tour if it was environmentally safe, and one in three would pay an additional charge for such a tour.

Case Example 1: Heritage and Culture Tourism: Strategic Alliances between the State and the Private Sector in Barbados, Dominica, Jamaica, Saint Lucia, St Kitts and Nevis, Trinidad and Tobago

Culture tourism, defined by the WTO as “movements of peoples motivated by cultural intents such as study tours, performing arts, festivals, cultural event, visits to sites and monuments as well as travel for pilgrimages” has been recognized to be an important source of competitive advantage in the tourism industry. In 1993, the WTO reckoned that 37 per cent of all trips had a cultural element. It is recognized that local culture can generate demand for tourism while tourism in return can generate a demand for markets and income for the local cultural industries. One sub-segment of cultural tourism relates to the arts. It has been estimated that arts can represent about 40 per cent of the tourist spending overseas, that arts-related tourists spend more and stay longer, have a tendency to repeat their visits and consume more local products<sup>22</sup>. Within the arts sub-segments, the development of festival tourism can present a major source of competitive advantage in terms of promoting the image of the destination and lowering the seasonality factor.

*Festivals and Carnivals:* Throughout the Caribbean, festivals including carnivals have become a part of the tourism landscape, lately as part of the promotion of culture and heritage to enhance tourism competitiveness by creating new niche markets and initially as part of a mass-tourism strategy designed to lower the seasonality factor in tourism and raise occupancy rates. Nurse (2003), based on a study of six festivals (the Reggae Sun Splash and Reggae Sum Fest in Jamaica, the Trinidad and Tobago Carnival, the Merengue Festival in Santo Domingo, the Barbados Cropover Festival and the St Kitts Music Festival), conclude that these festivals have a significant economic impact in terms of raising the destination profile and attracting visitors, substantially raising the occupancy rates in low-season, generating increased tax revenues for governments, expanding the local entertainment industries by promoting and creating a market for local cultural products overseas, stimulating investment in infrastructure and the arts and heritage conservation, and building linkages with the local economy.

All these festivals and carnivals require a strong collaboration between the public and private sector in terms of promotion, organization and sponsorships/funding in order to make them an international success. In some countries (Jamaica) festivals have been private sector initiatives that rely in part on promotion and marketing done by the Tourist Board/Tourism Authority and support from the Government. Sponsorships from private sector companies, especially airline companies are common as the festivals also offer visibility to these companies. In most countries however, the festivals are organized and managed by the Government through the establishment of festivals commissions and carnival committees and largely funded by Government with some private sector sponsorships. These festivals bring substantial benefits to the private sector in terms of creation of economic opportunities (supply of materials and vendor sales) and to the privately-owned travel, hotel and restaurant industry.

In Jamaica, two important festivals are the Reggae Sun Splash and the Reggae Sum Fest, both organized and produced by private sector companies, with sponsorships from the Jamaica

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<sup>22</sup> Based on studies carried out for visitors in the United Kingdom and New York. Sources: Myerscough, 1988; Mc Kinsey Company, 1997; Alliance for the Arts, 1997. Also based on Nurse (2003).

Tourist Board which also supports the event in promotion and marketing, and sponsorships from the private sector. The Reggae Sun Splash emerged in 1978, as the product of three private Jamaicans involved in the music business who founded the Synergy Productions Company. The festival was suspended in 1997 by the Jamaica Tourist Board (JTB), one of the sponsors, due to misuse of funds and came back in 2006 under new management at Synergy Productions. The Reggae Sun Fest, a rival festival, has been running since 1993, produced by Summer Fest Productions Ltd and sponsored by the JTB, Air Jamaica and private resort companies. In the 1970s the Jamaica Tourist Board started to refer to reggae in its advertisements, in coincidence with the arrival of the Reggae Sun Splash. The marketing of reggae in advertisements by the JTB continued in the 1980s and 1990s. The JTB has been conducting a “One Love Campaign” since the 1990s and promoting reggae as cultural heritage (Cooper, 2007<sup>23</sup>).

The Saint Lucia Jazz Festival on the other hand is produced, organized and managed by the Saint Lucia Tourist Board, a quasi-public body with statutory powers. The festival is held in May in the winter season to lower seasonality in the tourist sector<sup>24</sup>, and is ranked as among the top festivals in the World. Government is the major funder of the event and private companies provide some of the remaining funds through sponsorships. The State also provides concession on import duties and taxes for purchases related to the event. The Government is able to reduce some of its promotional costs by engaging in barter arrangements with television, radio and print media. The event necessitates a strong public-private partnership, with government engaging in long-term two -to -three year contracts with a range of private sector suppliers and collaborating with a range of industries for the design, operations and management of the event. Through the creation of public-private working committees, the Government consults with the private sector stakeholders and takes into consideration the latter’s inputs in the design and content of the event in order to foster a sense of ownership by the private sector. On the side during the event, there are off-stage “fringe activities” namely a free-event dubbed “Jazz on the Square” open to the general public where private vendors can operate. The partnership of the Festival with United States private company, Bet Jazz (a spin-off cable television of the Black Entertainment Television) has been critical in ensuring wide media coverage of the Festival to its target clientele. The Saint Lucia tourist board perceives that the media value of the event in itself exceeds the total budget of the event as it facilitates access to international media and broadcast networks (Nurse, 2003). An important perceived benefit of local partnership with foreign private artists and events producers is the transfer of skills and expertise to locals and this local capacity building can in the long-run contribute to reducing “import leakages” from the event. For example, it has been reported that a local Saint Lucian<sup>25</sup> has now, thanks to the Jazz Festival, acquired skills in stage set-ups and is now exporting his services to the Rest of the region in Anguilla, Barbados and others, which represents a first for the small island. Nurse has reported a cost- benefit ratio of 9:1 for the Saint Lucia Jazz Festival that is every \$1 spent on the Festival yields a return of \$9, which is comparable to internationally competitive festivals in the world.

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<sup>23</sup> Carolyn Cooper in “Caribbean tourism: more than sun, sand and sea” edited by C. Jayawardena.

<sup>24</sup> The Festival has converted May from a month with the worst occupancy rate to one of higher than average occupancy rates. End-of May festivals take place for instance in Curacao, British Virgin Islands and Bonaire and are meant to attract visitors off-season.

<sup>25</sup> Source: Saint Lucia Tourist Board.

The production of Carnivals in the Caribbean is mostly conducted by the government in close and extensive collaboration with the private sector. In Dominica for instance, the Dominica Festival Commission (DFC) provides the necessary management and marketing for major festivals and special events in Dominica. This office falls within the ambit of the National Development Corporation, the investment arm of the State. The Dominica Festival Commission stages the World Creole Music Festival in off-season in October and the Dominica Carnival in February. These events are mostly funded by government followed by private sector contributions (cash and in-kind). The DFC holds joint meetings with its private-sector collaborators to design the content of the festivals every year. The World Creole Music Festival has recently added a few “fringe activities” to the major staged event in order to promote participation by the local private sector.

Trinidad and Tobago hosts the number one carnival in the Caribbean in February. During Carnival season, hotel occupancy rates in Trinidad spike up to 80-100 per cent despite a significant hike in room rates and airlines run at more than 90 per cent capacity despite tariff prices and in both cases advanced bookings can start from a year beforehand (Nurse, 2007<sup>26</sup>). Tourism in Tobago usually spikes after the carnival as tourists go to rest in Tobago after the carnival in Trinidad (Nurse, 2003). The Carnival is estimated to generate about 67 per cent of the annual overseas earnings made by the entertainment industry in Trinidad and Tobago; it promotes local artists overseas and creates jobs at home in a range of supporting industries (clothing, food and beverages, arts and crafts, transportation, security, advertising etc) through backward and forward linkages (Nurse, 2003). This largest Carnival in the Caribbean, with obvious competitiveness-related benefits to private sector tourism, is produced, organized, managed and largely funded by the Government of Trinidad and Tobago through the National Carnival Commission (NCC) that is placed under the Ministry of Culture. It also involves extensive private sector participation, including with major United States cable-channel television networks. The NCC was created by an Act of Parliament and given the mandate to plan, organize, manage and market the event. The NCC Board of Commissioners comprises of both public sector and private sector officials from a range of areas so that the NCC can benefit from the expertise of the private sector in a range of functions. This Carnival is more heavily funded by government compared to other places. Private sector sponsorships tend to be low and non-growing, reflecting perhaps the weaker state of relations between the private sector and public authorities in tourism in an oil-dependent economy where tourism is a small sector. The Government does provide grants to carnival participants for the preparation of their costumes as well as provide payments for music players. According to cost-benefit ratios calculated by Nurse, in 1998, a TT \$1 of spending by the Government resulted in the creation of about TT\$7 of visitor expenditures, which is the second highest return on a festival in the Caribbean behind that of the Saint Lucia Jazz Festival and places the Carnival in a league of internationally competitive festivals. Nurse also estimated that the tax revenues generated from the Carnival alone were enough to offset government expenditures on the Carnival. It needs to be mentioned that the attractiveness of these festivals in the Caribbean as well as the marketing and branding of Caribbean culture, including Caribbean Carnival products, are greatly facilitated overseas by Caribbean carnivals that are actually held overseas by the large Caribbean diaspora. Partnerships

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<sup>26</sup> Nurse in “Caribbean tourism: more than sun, sand and sea” edited by C. Jayawardena 2007.

between local Carnival organizers and this larger diaspora need to be explored for larger competitive gains on the world market<sup>27</sup>.

Heritage tourism can necessitate major investment needs as opposed to traditional hotel developments in terms of restoring or maintaining historical sites and national monuments (such as military forts, historical houses or old-sugar mills and old-sugar plantations), as well as setting up visitor facilities. Usually these national treasures are owned by the government and the latter may entrust the management of the national heritage sites to an NGO, not-for-profit National Trust or private entrepreneur. While governments may have access to grants and soft-loan funds from the international community, and thus the large-scale capital to restore these sites, they may lack the necessary managerial and technical skills to manage the sites. On the other hand, NGOs or the private sector which do have expertise at doing such work may lack either access to capital or else access to ownership and lease rights to the sites. There are hence a large area of common interests and complementarities to be exploited in heritage tourism between the government and the private sector, including NGOs. The Caribbean has a rich history of plantation sugar production and plantation slavery, stemming from their exploitation as “sugar-based colonies” by Europeans from the 17<sup>th</sup> century onwards. This almost 400 years old sugar-based heritage has been cleverly marketed as cultural assets for the development of culture and heritage tourism by a few Caribbean countries, namely Barbados and St Kitts and Nevis. Sugar mills ruins have been converted to: high-luxury plantation inns, cultural sites with educational tours and national museums among others.

St Kitts and Nevis has been over the past 15 years or so pursuing a deliberate heritage tourism development strategy that has involved translating a heritage of sugar production, slavery and a plantation economy into heritage-based tourism attractions. As the sugar industry was going into decline, the Government of St Kitts and Nevis, with the financial support of the Organization of American States (OAS), commissioned a study (St Kitts and Nevis Tourism Master Plan) in 1993 to explore strategies to transform the nation’s sugar heritage for tourism development. In 1998, again with funds from the OAS, the government commissioned another study to catalogue all potential heritage sites and rank them by historical significance and heritage integrity. This resulted in an inventory of 250 sites of which 110 are former sugar plantations. A number of these privately-owned cultural and heritage sites were later developed into cultural attractions or luxury-end “plantation inns” by their private owners and were highlighted in government marketing efforts. As part of the implementation of this Master plan, the OAS collaborated with NGOs such as the St Christopher Heritage Society, the Nevis Historical Conservation Society and the Island Resources Foundation and the public company, the St Kitts Manufacturing Corporation as well as the Department of Community Affairs to map all heritage and nature attractions on the island. The St Kitts Scenic Railway is an attraction that offers a rail tour of the island via old sugar plantations and “plantation inns”, running on old sugar-cane train tracks and is a major on-shore attraction for cruise passenger to St Kitts. This public-private venture, hailed as a unique Caribbean attraction and one of the most beautiful train rides in the World, started in 2002 as a result of negotiations between the Government of St Kitts and an Alaskan company. The St Kitts Scenic Railway Ltd is a private company which is owned and managed by a private Alaskan with prior expertise in attracting cruise tourists in Alaska to

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<sup>27</sup> See “The Role of the Caribbean Diaspora in Promoting Growth and Development in Cultural Industries”. Reis, 2007.

the Skagway rail ride. The company works in commercial partnership with the St Kitts Sugar Manufacturing company, a public company, that is leasing the rail tracks and lands on which the rail tour operates from the Federal government of St Kitts and Nevis. This is a unique venture that links the tourism sector with agriculture in order to create a unique value-added Caribbean tourism product.

In Barbados, the government has delegated responsibility to the Barbados National Trust and Barbados National Museum and Historical Society (two non-profit organizations) for the restoration and preservation of historical sites. The Government facilitates funding for these organizations by submitting proposals for restoration projects, to be implemented by such organizations, to multi-lateral agencies like the Inter-American Development Bank or Caribbean Development Bank while contributions from the private sector are also solicited for the implementation of the projects.

An OAS study in the 1990s on nature and heritage tourism in the Caribbean diagnosed however that though most nature and heritage tourism ventures are driven by the private sector, they do not benefit from the same kind of incentives that hotel developments do. In addition while government incentives in the form of waivers of duties on imports may be available, in the net these do not amount to substantial supports given the bias of the heritage and nature tourism sector towards small-scale operations and use of indigenous, locally available products.

Case Example 2: Business and Meetings, Incentives, Conference and Exhibitions (MICE) tourism: Upgrading for Trinidad and Tobago through PPP

As stated in its draft National Tourism Policy, the Government of Trinidad and Tobago intends to make the tourism sector a developmental priority driven by PPP and based on a niche strategy that will promote Trinidad as a culture and business tourism destination and Tobago as a culture and leisure destination. In order to engineer a shift from Stage one to Stage two in the tourism life-cycle of Trinidad and Tobago, the Government intends to develop several market segments further, including the MICE and business tourism segments. Government aims at positioning Trinidad as the future “#6 destination for International Conferences and Meetings by 2012” by making the capital city, Port of Spain, the Meeting and Conventions Capital of the Southern Caribbean. The Government intends to achieve this aim by among others using the incentives provided to private investors in the Tourism Development Act 2000 to attract an expansion of private sector hotel and international meeting facilities. There are currently plans to amend this Act in order to increase accessibility of use by investors. In 2005, the Tourism Development Company (TDC) Ltd was formed by Government with a public-private Board, in replacement of a body that covered both tourism and industry, in order to focus solely on tourism development. The functions of the TDC consist in attracting private investment in a range of tourism projects, marketing the country as a tourism investment and consumption destination and implementing the national tourism policy. In particular the Government is collaborating with the private sector to attract a few luxury 5-star hotels to Trinidad in order to build a brand identity in business tourism. One such private collaboration has resulted in the opening of the Cara Suites Hotel and Conference Center at the Piarco Airport International in Trinidad. Several large-scale urban rehabilitation works, entirely financed by the State are on course to upgrade facilities in the Capital and tourist attractions elsewhere, including the rehabilitation of the Port of Spain

Waterfront. Public-private partnerships here have been forged with the Government contracting out the construction of these upgraded facilities and attractions to private sector firms and contracting services of private capital firms for arranging long-term financial arrangements on private capital markets. The success of transforming Trinidad into a leading MICE destination clearly relies on the private sector investing in hotel and conference facilities on one side and government on the other hand providing investment incentives to the private sector, providing supporting infrastructure including expansion of airlift by international private airlines and leading marketing efforts. So far the Government has been able to attract the hosting of high-profile inter-governmental conferences such as the Summit of Americas, the Commonwealth Heads of Government meeting and the Caribbean Hotel and Investment Conference among others to Trinidad for 2008. This is a sub-segment of MICE where the clout and political influence of the Government in international diplomatic and political circles is clearly needed by the private sector in order to attract business for itself to fill its meeting facilities. The vision of the Government is to attract business meetings and conferences to Trinidad and meetings and incentives to Tobago. As part of these efforts an Airlift committee was instituted in 2002, consisting of representatives from both the private sector (Tobago Chamber of Commerce and the Trinidad and Tobago Hotel and Tourism Association) and the public sector (the Tobago House of Assembly, Ministry of Tourism, TDC and others) to negotiate mutually acceptable terms with airlines on behalf of the Government, in order to increase tourist arrivals to Tobago.

Case Example 3: Hotel expansion and infrastructure upgrading: implementation of sustainable development models in St Kitts and Nevis through PPP and Public Policy

Efforts for moving up the tourism life-cycle in St Kitts and Nevis are being based on a niche marketing strategy, as part of a revised National Tourism Policy and Strategic plan that revolves around the promotion of nature, culture and heritage to attract upscale travelers. Market segments being targeted are: meetings and conferences, romance tourism namely weddings and honeymoons, sports tourism with a focus on golf, and other segments like spas and wellness, that will be accompanied as well by increased marketing and promotion, an upgraded tourism infrastructure (including an increased airlift to the island) and higher room capacity. The strategy is guided by the principles of empowering small and medium-sized local enterprises in order to build linkages and create economic opportunities for communities from tourism; and by the principle of sustainable tourism. This new strategic plan also highlights the forging of strategic alliances among all tourism stakeholders at a local, regional and international level as one of the four essential drivers for the success of the industry (source: Budget Speech, 2007).

The government has embarked on a significant program of facilitating the upgrading and expansion of hotels, including building of golf courses, and property development by the private sector. This facilitation is done through three channels: (a) the range of investment incentives provided by the Hotel Aids Ordinance Act and Income Tax Ordinance Act<sup>28</sup>, which is common

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<sup>28</sup> The Hotel Aids Ordinance provides duty-free concessions (relief from customs duties and pier dues) on items for use in the construction, extension and equipping of a hotel of not less than 30 bedrooms. The Income Tax Ordinance provides special tax relief benefits for hotel proprietors granted licenses under the Hotel Aids Ordinance: the gains or profits of a hotel of more than 30 bedrooms are exempt from income tax for a period of 10 years, for hotels with less than 30 bedrooms, the gains and profits are exempt from income tax for a period of five years. Companies which qualify for tax holidays are allowed to import into St. Kitts and Nevis duty-free all equipment, machinery, spare parts and raw materials used in production.

to the standard package of incentives provided by all Caribbean Countries; (b) the Citizenship-by-investment<sup>29</sup> program, which was revamped in 2006 to focus more on investment and less on citizenship; and (c) aggressive promotion of investment opportunities in St Kitts and Nevis (e.g. running special advertisement sections in leading financial magazines). Under the Citizenship-by-investment program, investors are eligible to apply for citizenship in return for investing in real-estate or in the Sugar Industry Diversification Foundation, a charity. There is currently a real-estate boom on the island with several luxury-villa and beachfront condominium developments. These rooms can be used by owners as vacation rentals for tourists. The accelerated development of tourism and real estate should be placed within the context of finding an alternative to the sugar economy. The government has targeted the Southeast peninsula, until now fairly under-developed, for sustainable luxury-end resort community development. Development there at Sandy Bank Bay is being lead by two private United States companies, Auberge Resorts and Kiawah Development Partners, and a local private developer and will result in the building of a multi-million dollar luxury resort complex along seven miles of coastline. The Government facilitated this 2,500 acre development by organizing the private owners of the lands to sell their holdings simultaneously. The three private companies have created the St Kitts Foundation, through the Ocean Foundation, and this new independent foundation will work to preserve the natural coastal environment of St Kitts and Nevis, including creating marine parks, and support social and economic programs of benefit to the community. It will be funded in perpetuity through a percentage of real estate sales and hotel operations from the resort development.

The White-gate area in the North-Western part of St Kitts is a 7,000 acre undeveloped land space owned by Government, of which 4,000 acre has been earmarked for resort development. By an Act of Parliament, the Government set up in 1999 the White-gate Development Corporation (WGDC) to work on concessionary terms with foreign and local private investors to develop the White-gate area. Its responsibility is to promote the development and redevelopment of resort related activities while at the same time encourage social development. Development parcels are made available to investors through outright purchase or lease depending on the nature of the development. There is also scope for other economic participation formulas (source: WGDC). The WGDC for instance works with investors to design and implement various education and training programs geared at promoting social empowerment and transformation. Currently two projects are under way as joint ventures between the public companies WGDC and private investors. Similarly the Frigate Bay Development Corporation (FBDC) is a public company that supervises the planning and development of investment opportunities in the Frigate Bay area.

The first project includes the US\$300 million Kittitian Heights Resort. This is meant to serve as a model in the region for community-type Caribbean resort development that integrates local communities and culture, in contrast with the gated, secluded, all-inclusive hotel concept that has prevailed so far in the Caribbean and that deters interactions between tourists and communities. The resort will include an Artists village to serve as a meeting place for local, Caribbean and international artists, equipped with a state-of-the-art media arts center for filming;

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<sup>29</sup> The minimum investment required in real estate to make an investor eligible to apply for citizenship as been raised from US\$250,000 to US\$350,000. Through this program investors get access to duty-free imports and zero income tax.



an 18 hole golf course, natural spas, boutique hotels, luxury villas, penthouses and condominiums (source: St Kitts and Nevis Ministry of Tourism). The construction of this community-based integrated resort complex involves periodic consultations between government, the private developers and members of the communities in order to facilitate dialogue among all parties and raise awareness to the communities on the economic opportunities involved. A Kittitian Heights Foundation will be set up, funded by proceeds from real estate transactions and profits from hotel operations, to promote local and regional arts and culture and local enterprise. Artists Residency programs will be funded through this Foundation for local and international artists, where they will be able to expose their work and run capacity building work-shops for young Kittitians. The Village will also be a vending place for local artisans. An annual Arts Festival will be launched as a major event. Boutique hotels, integrated within the Artists Village will promote the use of local produce. The Foundation will also implement a sustainable development program that will include a Hospitality Institute to train local persons in hospitality trades and an Agriculture Support Program which will work with the local farming community to select suitable crops and farming techniques, including organic farming and assist in direct marketing of their produce to Kittitian Heights and other resorts. Off-site wind farms will be built to foster the use of alternative energy sources for the resort. This is an innovative tourism cluster development model that fosters the building of linkages with the local economy and the reduction of import leakages.

The WGDC and the FBDC in a joint venture have created a new company the La Valle Greens Ltd., that will be a private company within the government-owned WGDC, to develop the La Valle Golf course complex to be accompanied by the development of marinas, hotel resorts and commercial and residential complexes. Both the WGDC and FBDC have conducted negotiations with a consortium of European-Caribbean investors in order to source private investment in the project and identify the private partners of the company. The FBDC has also partnered with the Royal St Kitts Marriott Beach Resort to develop an 18 hole Golf course, to be jointly managed by the FBDC and the Marriott. However all these development projects cannot be successful unless it is accompanied by increased airlift to the island. This in turn necessitates upgraded airport services. The upgrading of the international airport is currently being done through a series of public and private ventures. The expansion of the airport was financed by a loan from the St Kitts and Nevis-Anguilla National Bank, a private commercial bank, and a foreign Government while actual expansion works were contractually awarded by the public body, the St Christopher Air and Seaports Authority to a Jamaican private engineering firm. A number of PPP were also undertaken to beautify and clean up the island. The Government has taken a series of steps to promote the tourism investment competitiveness of St Kitts and Nevis by for instance joining the Multi-lateral Investment Guarantee Agency (MIGA) to provide investment guarantees to investors; by planning for the set up of a new Investment Promotion Agency; by privatizing some telecoms and electricity assets for enhanced cost-efficiency; and setting up a fully digital telecoms fixed line network as the only second country in the world to do so, to enhance quality of telecommunications services. The government did establish a travel and tourism enhancement fund in 2005 in the national budget to finance its promotion and marketing activities as well as the development of training programs to enhance delivery of better service mainly among receptionists and taxi drivers. Such activities raise the competitiveness of the tourism industry as a whole.

Case example 4: Facilitating investment: legislation to facilitate access to private finance in Puerto Rico<sup>30</sup>

Puerto Rico has been experiencing an annual average growth rate of about five per cent in total room capacity since 1993, up from an annual average of 3.3 per cent from the previous 15 years or so. Puerto Rico has been among the top five destinations in terms of share of total rooms in the Caribbean. Puerto Rico has a tax-incentive regime for promoting the forging of private partnerships in hotel development while the public Tourism Company has been partnering with the private sector in facilitating investment financing. For these features, Puerto Rico was cited as a best practice in PPP at a 1993 CTO Conference on Public-Private partnerships. The Tourism Development Act 78 of 1993 offers income- tax exemptions of up to 90 per cent for 10 years on all new tourism businesses (100 per cent on the islands of Vieques and Culebra), up to 90 per cent exemption from all municipal property taxes, up to 100 per cent exemption from municipal license taxes, full 100 per cent exemption from excise taxes on imported articles not available in Puerto Rico and full 100 per cent exemption from municipal construction excise taxes, all for the first 10 years. The commencement date of the exemption period can be postponed for up to three years to allow businesses to plan and maximize their tax benefits. An innovative fiscal incentive, in comparison with the other Caribbean countries, relates to the Tourism Investment Tax Credit (ITC), which is calculated as equal to 50 per cent of the amount of cash-contributed equity or up to 10 per cent of the total cost of the project whichever is less. The Tourism Development Act grants partners of a special partnership the benefit of limited liability for all debts and obligations of the partnership arising from activities prior to dissolving the partnership. Investors in tourism projects or any person who acquires an equity interest in a Tourism Venture Capital Fund can claim a tax credit for any loss that may result from the sale or transfer of their equity in the tourism project or investment fund. All new businesses qualify for up 11 per cent discount on electrical utility expenses. Four more pieces of incentive legislations were introduced as from 2001 to facilitate the financing and development of new tourism projects. This includes a tax exemption of 100 per cent of the incomes received from fees charged by financial institutions for issuing guarantees or letters of credit to finance tourism development projects, in order to stimulate private participation in financing for tourism projects. Another piece of legislation provides for 100 per cent income tax exemption to financial institutions regarding interest charges and other income related to the financing of construction for hotels and condohotels. Another benefit to investors lies in the fast and efficient processing of permits within a one-stop shop system installed within the Puerto Rico Tourism Company. All permit approvals needed on tourism projects are handled by that institution alone.

Debt financing on tourism projects can be facilitated by the Government Development Bank for Puerto Rico (GDB) under what is known as the AFICA bond program or the Puerto Rico Tourism Development Fund loan-guarantee program. Under the first, for each approved project, AFICA issues bonds in the Puerto Rico market and lends the bond proceeds to the project, where interest to be paid on the bonds is tax-exempt. Bond issues for a particular project can vary in structure (different repayment features and varying maturities). Under the second program, the Tourism Development Fund, whose exclusive role is to assist in the development and financing of tourism projects, issues timely payment guarantees for loans on tourism projects subject to the project meeting certain standards. So far this program has successfully guaranteed

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<sup>30</sup> Information in this section is based on documentation from the Puerto Rico Tourism Company.

more than US\$865 million in loans to develop tourism projects in Puerto Rico. The Puerto Rico Tourism Company has partnered with the Economic Development Bank to facilitate financing for small and medium-sized businesses. Under the Tourism Guarantee Fund the Tourism company can guarantee loans up to US\$1 million. In 2006 a historical landmark was achieved by the Tourism Company when for the first time ever it issued a \$100 million bond to get financial resources for the set up of an Infrastructure Fund to allow the Company to acquire properties for tourism development.

Case example 5: Facilitating investment: building local capacity and enhancing standards through PPP in Cuba<sup>31</sup>

In Cuba, public-private ventures in hotel development and management has been the norm and a success for the past 20 years. As in the 1950s when Batista had needed to resort to foreign investors to develop tourism in Cuba due to a lack of Cuban capital resources, in the 1980s Communist Cuba under Castro had to resort to the same strategy. Cuba appealed to international joint ventures with foreign firms in order to secure the money needed for construction and to secure the expertise needed to build and run hotels. In 1987 Cubanacan SA was created to arrange joint ventures with private companies. The government amended legislation (Legislative Decree No. 50) in order to allow ventures in the construction and reconditioning of hotels and other land-based tourist attractions. The necessity to develop tourism, with the collapse of the Soviet Union, lead to a set of market-based reforms, which saw among other things the legalization of the circulation of United States dollars and authorization of self-employment for some occupations. 1992 saw an amendment to the Cuban Constitution which, among other things, recognized and protected foreign-held private property in order to attract more foreign capital. In 1994, the Ministry of Tourism (MINTUR) was created, and several State-run and quasi-independent tourist corporations were established for the promotion of hotel- and tourist-related foreign investment and activities. In 1995, the Cuban National Assembly clarified laws in order to guarantee the free repatriation of profits, stipulate how businesses were to be run and business disputes settled, allow the government to create duty-free zones, and to provide guarantees to foreign investors against expropriation and third-party claims. The law allowed foreign companies to hire Cuban nationals but only through contractual agreements with government-operated agencies. Profit repatriation was allowed and considerable tax concessions were made to attract foreign private capital. In spite of the U.S embargo and the Helms-Burton<sup>32</sup> law of 1996, these public policy measures brought the number of international economic associations and joint ventures to 403 by the end of 2003, of which 75 were in the tourist industry with more than 30 classified as hotels. In addition many of the joint ventures created in the non-tourism industries provide ancillary services to the tourism sector. Those are, for instance, energy (Cuban Canadian Energas), water (Cuban Spanish Aguas del Oeste), cement and construction (Cuban and Swiss-Spanish Iberzuizas), telecommunications (Cuban Italian Etecsa and Cuban Canadian Cubacel), and supplies for the tourist sector (Cervino and Cubillo, 2005). Cubanacan is allowed to handle its own publicity, marketing, supplies and sales and is expected to make profits. The military is also involved in tourism development in Cuba. Gaviota SA, which is under the responsibility of the Armed Forces Foreign Ministry

<sup>31</sup> Information in this section is heavily drawn from Cervino and Cubillo, 2005 and reports by Arthur Andersen.

<sup>32</sup> This law threatens lawsuits against foreign companies and exclusion of their executives from United States soil for the use of any property in Cuba ever confiscated from anyone who is now a United States citizen.

(MINFAR) since 1988, operates hotels, resorts, marinas, weight reduction camps and game preserves. Its profits go towards upgrading tourist facilities (Schwartz, 1999).

The Cuban Government developed joint ventures with private international firms as part of a strategy designed to ensure the application of international standards in the Cuban tourism industry and build national expertise. This was to be done by allowing the hotels to be managed by the foreign private sector, thus transferring hotel and tourism management skills to the Cuban nationals. To accomplish these aims, the hotel sector was restructured in Cuba and national semiautonomous tourist corporations and hotel chains were created as: Cubanacan Corporation, Hotel Group Gran Caribe, Horizontes Hotels (now defunct and assimilated into the other groups), Habaguanex, Gaviota Tourist Group, and Islazul. These six organizations group together different types of hotels, restaurants, travel agencies and other tourism-related industries such as airport transfers/transportation services, travel agencies and insurance.

The oldest and largest is the Cubanacan Group, which accounts for about 40 per cent of the Cuban tourist market and was formed to operate four- and five-star hotels, restaurants, cafeterias, retail stores, water and other recreation centers, health facilities, and reception centers. It has about nine offices in Europe and the Americas and 23 joint ventures for the development of hotels and other businesses. It is a holding company that consists of 18 companies which in turn operate the above-named facilities including 26 hotels<sup>33</sup>. Many of its four- and five-star hotels are administered as either international economic association contracts or joint ventures. Joint investment arrangements have been developed by Cubanacan with Grupo Sol Melia (Spain), LTI (Germany), Golden Tulip (Holland/Spain), Super Clubs (Jamaica) and Barcelo Hotels and Resorts (Spain). The Gran Caribe Hotel Group owns 48 four- and five-star hotels, with more than 11,000 rooms, and half of its hotels are operated by well-known international chains, such as Accor, Iberostar, Riu, and Sol Melia. The Gaviota Tourist Group is a company controlled by the Revolutionary Armed Forces as mentioned previously. Its businesses include the operation of four- and five-star hotels (about 8,500 rooms) and the development of marinas, recreational water facilities, and health facilities for tourists, and most of its 12 hotels are operated by international firms, such as Accor, Club Mediterranee, Maritim Hotel Group, and Sol Melia. These five, formerly six, Cuban hotel operators have established links with many non-United States international hotel operators in the past 10 years.

In general, the joint venture partnerships have been between these Cuban agencies and foreign investors that are primarily from Europe, and to a lesser degree, Canada and Latin America. These joint ventures facilitated the rapid growth in room availability in the 1990s. The first joint tourism venture was formed in 1988 with Cubanacan and the Spanish hotel group Sol Melia to build and run a hotel in the tourist resort of Varadero. This hotel--Sol Palmeras--opened in May 1990. Another hotel--Tuxpan Hotel--opened in 1990 in a joint venture with the German company, LTI International Hotels. In 2000, there were 24 joint venture companies with 11,900 rooms under development, and 3,700 in operation (Arthur Andersen). Hotel rooms have grown at an annual average rate of 10 per cent, from about 10,000 rooms in 1988 to 47,500 in 2003. In 2003, out of these 47,500 rooms, nearly 70 percent had a four- or five-star rating. By the end of 2003, more than half of the country's hotel capacity was managed by 17 international hotel

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<sup>33</sup> The Group owns 26 hotels, 52 restaurants and coffee shops, a shop chain, 3 marinas, 13 scuba diving centers and various nautical sites, 38 health centers and hotels specialized in health tourism, a tour agency, a travel agency and a conference center.

chains under hotel management contracts. Of all Cuban-owned or joint-venture hotels under foreign management contracts, Spanish hotel corporations were managing three quarters of them or 78 per cent of all foreign-managed rooms (source: Cervino and Cubillo, 2005).

While in 1990, almost all products used by hotels and restaurants had to be imported at high prices due to the lack of local production and financing and the United States embargo, by 2000, thanks to international joint ventures, the proportion of domestically produced goods provided to the tourist industry increased from 12 per cent (1990) to 67 per cent (Cervino and Cubillo, 2005). According to Cervino et al, joint ventures and cooperative production agreements with companies such as Swiss Nestle, Anglo-Dutch Unilever, French Pernod-Ricard, Canadian Labatt Brewing, and Spanish Freixenet, among others, have allowed the food and beverage industry to be able to keep up with developments in the tourist sector. Currently, such arrangements supply about 76 percent of tourism demand. The same authors claim that foreign investments have also ensured supply of goods and services for tourism in such areas as phone systems, paper products, textiles, and building materials. Other joint-venture arrangements have focused on upgrading and building infrastructure, such as the major international airports located in the main tourist zones. For instance, a Canadian company rebuilt the Varadero airport and built the new Terminal 3 at Havana's Jose Marti international airport. Another joint venture, formed by Cuban, Canadian, Spanish, and German corporations, financed, built, and operate the new airport at Cayo Largo, with management of the new airport entrusted to AENA, a spanish airport-management company.

The Cuban tourism development strategy has shifted from a predominance of joint ventures in the early 1990s, when domestic capital and management know-how were scarce, to one in the 2000s, where Cuban corporations assume a 100 per cent investment in new hotels with management delegated to private foreign hotels through hotel management contracts. With current availability of domestic capital, ever since Cuba recovered from its 1992/1993 economic crisis, the benefit sought from joint-ventures is more in terms of private managerial expertise and less in terms of capital supply. This differentiates Cuba from other Caribbean countries like the Dominican Republic, Mexico, or Jamaica. The transfer of know-how, managerial expertise and marketing skills, which originally guided the development of these joint ventures, seemed to have taken place as an increasing number of Cuban hotel corporations have started to manage their newly established properties. For instance resorts owned and managed by Gaviota including the Playa Pesquero Resort, the biggest in the country or the Gran Caribe Hotel Varadero International are able to compete in quality and service with other internationally well-known hotels. The Habaguanex Group for its part offers customized and high-quality services in its 16 historical quasi-boutique hotels. This acquisition of know-how and expertise from foreign investors has also enabled Cuban operators to establish ventures with foreign partners in other markets. In Mexico, Cubanacan holds an "unspecified" stake in the Paradisus Riviera Hotel in Cancun in partnership with Sol Melia Group. On Cozumel Island, Cubanacan manages three "independently owned" hotels, including the Hotel Cozumel & Resort. In China, Cubanacan and China's Suntime International are partners in a jointly owned five-star, 700-room hotel in Shanghai, also managed by Sol Melia. Another example of Cuba's growing financial and managerial autonomy lies in the fact that the Cuban Government has invested about US\$400 million to develop the new areas of Cayo Guillermo and Cayo Coco (tourism training centers, international airport, golf course, marina etc) without resorting to international joint ventures.

#### IV. SUMMARY

The last two sections have illustrated numerous case examples of the role that Public Private Partnerships and public policy have played in enhancing tourism competitiveness, whether at a regional or national level in the Caribbean region. On the basis of these examples and additional information gathered in phone interviews with tourism officials, we next turn towards a few key observations and inferences. We need however to state here an important limitation of this study. Ideally a comprehensive mapping of PPP in tourism throughout the Caribbean should have been undertaken in order to obtain a valid picture of the range of the types and areas of PPP that have been used to enhance tourism competitiveness and in so doing update the findings of the WTOBC study in 2000. Such a mapping through the use of questionnaire surveys or interviews should also have included an analysis of the objectives of each PPP in respect of enhancing tourism competitiveness, its success at reaching intended outcomes and a mapping of the factors that were critical in generating successes or failures in delivering the objectives. However for a range of logistical reasons, this survey was not undertaken during the course of this study. We can therefore only make a few indicative observations rather than offer a firm set of definitive conclusions.

##### A. General observations

1. The case examples have demonstrated that the Caribbean as a region has had a long history of using PPP and public policy as instruments for promoting competitiveness in the tourism sector. There has been varied and significant use of PPP and public policy incentives in Caribbean tourism.
2. Public policy support to the private sector is an important aspect of PPP. The private sector is dependent on Governments for the latter's support and approval in terms of providing an enabling environment for private tourism development, whether it relates to mass-tourism or niche market development.
3. It is clear that a large part of the type of public support given to the private sector in tourism has been in the form of tax or duty or customs exemptions through the enactment of Hotel Aids Acts, especially in initial stages of the tourism life cycle, and through Tourism Development Acts at later stages of the tourism life cycle. With the move away from mass-tourism based on sun, sand and sea within beach hotels towards the development of broader tourism products based on a range of outdoor attractions that take the tourist out of his resort, the focus of public policy incentives has been shifting away from giving fiscal concessions only to hotels towards granting fiscal concessions to tourism-related facilities in general. However the effectiveness of using tax/duty/customs exemptions to enhance tourism competitiveness relative to the use of other fiscal measures such as non-distortionary grants targeted at specific groups or for specific purposes has not yet been fully examined in the Caribbean tourism sector. There is an important need to undertake a cost-benefit analysis of fiscal concessions in the tourism industry. Another important form of public policy support has been the provision of supporting legislation to enable the development of certain niche markets (e.g. governments changing administrative requirements to allow a speedy issue of

wedding licenses to enable the development of the Wedding and Honeymoon segment) or the provision of land and state-owned assets through leases or sales for the development of eco-tourism and attractions. The State can also be an important facilitator of funding and mobilizer of resources from the international community for the private sector as we have seen in the case of NGOs in heritage tourism. It can also use its influence and political clout to bring business deals for the private sector in tourism as we saw in the case of business tourism in Trinidad for the hosting of major inter-governmental conferences. The State is however a major supporter of the tourism industry in the Caribbean in the area of air transportation and securing increased airlift to the destinations.

4. Whether at a regional or national level, a significant part of the PPP revolves around the collaboration between the regional/National Tourism Authority governed by a public-private Board of Directors and the Hotel and Tourism Association representing the collective interests of the private sector. A large part of this public-private collaboration has been in the form of joint promotional and marketing efforts and co-participation in trade and travel shows.
5. Public-private collaboration in marketing and promotion has played an important role at a regional level and national level in maintaining the region's competitiveness at times of crisis (Gulf War, 11 September attacks, post-hurricane). When it comes to upgrading, public-private collaboration in marketing and promotion has served to highlight the new niches of Caribbean tourism in major travel and road shows and at branding the destination. Promotions through PPP have also contributed towards attracting investors in designated market segments or for the refurbishment of existing hotels and construction of new ones to facilitate upgrading strategies.
6. Public-private collaboration at a regional level between the CTO and CHA has led to the hosting of a number of conferences. These conferences in turn have been important facilitators of network-building between investors and suppliers of the tourism industry. Investment is a critical determinant of competitiveness in the tourism industry, especially when destinations are in the later stages of their life-cycle and needs massive capital investment for upgrading facilities and attractions.
7. It is important to note that PPP enhance the effectiveness of public policy making for the sake of promoting tourism competitiveness. When PPP take the form of joint fora for discussions and decision-making, it facilitates the implementation of public policy measures that go towards supporting the private sector in the tourism sector as these measures are likely to have been agreed upon by both the public and private sector in a consensus-building approach. On the other hand as the case of Puerto Rico demonstrates, public policy through fiscal incentives can be used to promote the use of PPP in tourism, again for the sake of influencing determinants of tourism competitiveness such as increasing access to finance for tourism investment. The creation of Tourism Venture Funds through fiscal incentives is an example.

8. As a destination moves along its tourism life cycle, increased competitiveness requires increasingly a mix of both product upgrading based on the development of specialized market segments and enhanced quality and process upgrading based on reductions in operational costs through among others human resource development. While in the 1970s and 1980s public-private collaboration in the Caribbean has been predominantly in promotion and marketing to increase sales and feature major events and/or facilitate investment, from the late 1990s onwards, this collaboration had extended to the protection of environmental resources, setting of quality standards, human resource development and targeted promotion and marketing for specialized market segments.
9. At the initial stages of the tourism life cycle, as destinations seek to upgrade their facilities and infrastructure in order to progress further up the life cycle, PPP may be needed to provide access to capital for such upgrading, especially if the government has limited funds. In the case where national capacities are weak and expertise is needed, partnerships with international private companies may be sought by the Government in order to initially address the national capacity constraints and second to facilitate the transfer of skills and expertise from internationals to locals. This was illustrated by the case example from Cuba.
10. The development of specialized market segments also requires a certain amount of investment. In small cash-strapped economies like Dominica or St Kitts and Nevis, PPP involving international investors are needed to facilitate access to international capital and expertise.

If we are to summarize, we will point out that the basis for a PPP always resides in a recognition by each party (public and private) that there is as yet an unexploited economic opportunity to be realized that will involve mutual gains for each party that are in excess of the costs for each party to participate in the private-public arrangement. The major benefits of PPP in tourism development for the public sector are an access to private capital and an access to private sector's expertise and creativity in some specialized areas where such capital and expertise are needed to bring to realization a development opportunity for the country, especially in an under-developed area. The public-private partnership also gives the Government the possibility to engage the private sector in corporate social responsibility and get the private sector to invest a share of its profits in local and community development that will yield visible benefits to the populace. On the other hand a partnership with the government may facilitate for the private sector access to large-scale government capital, and/or access to a state-owned asset that the private sector may need as productive capital for its private tourism venture or access to political influence in the area of legislation.

#### **B. Ways to enhance the effectiveness of PPP and Public Policy**

In the WTOBC survey on public private partnerships in tourism, the respondents were asked to list the critical success factors in PPP. Some of the responses were as follows:

- The need for a balanced structure within the partnership with clear roles and responsibilities for all partners.



- Shared leadership between the public and private sector with well-defined, shared goals, realistic expectations and the 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.
- Understanding between all partners that tourism development must be sustainable economically, socially and environmentally.
- A long-term commitment combining a strategic vision and plan with shorter-term goals and measurable initiatives.
- Periodic evaluation of the efficacy of each partner's role.
- Good communication between partners and from partners to all other stakeholders.

Source: WTOBC 2000

In the case of Caribbean tourism at a regional level, one is tempted to conclude that though PPP have been in use as tools to promote tourism competitiveness for almost four decades, this public-private sector collaboration however took place on an ad-hoc basis rather than within a long-term strategic planning framework given that the region as a whole has never implemented a strategic regional plan. Even at a national level, PPP have not been implemented within a strategic planning framework that would involve the setting of clear objectives, clearly articulated intermediate outcomes with regular monitoring and evaluation of the success in achieving the goals. While plans have abounded in the Caribbean their non-implementation is notoriously well-known.

It is only within the last five years or so that a few countries like Barbados, Dominica and Trinidad and Tobago have mentioned a role for public and private collaboration in national tourism policies but even then the partnership is mentioned without any explicit details as to how it will be implemented and in what specific areas. Public-private partnerships could be more effective at promoting tourism competitiveness if used as a policy instrument within a well-defined overall strategic framework for national (regional) tourism development where goals in specific areas are clearly set, along with intermediate outcomes, and includes setting of a specific time frame for completion of the goals and indicators for measuring success. These national strategic tourism development plans should be accompanied by a work-program that spells out the precise areas in which PPP will be used (which specifies the goals, the intended outcomes, the expected results, the timeframe, the amounts of resources to be mobilized, the type of partnerships sought, and indicators for measuring success etc) and accompanied by a mid-term monitoring and evaluation plan that will allow for an evaluation of the effectiveness of the partnerships (diagnosis of the strengths and weaknesses of the partnerships; diagnosis of obstacles/constraints impeding the effectiveness of the partnerships; setup of Committees to review results and formulate adjustments that may be needed). In other words, there is a need to strategically plan the utilization of PPP for enhancing tourism competitiveness and to anchor their utilization as part of the implementation of national tourism development plans. In addition, following on the success of the formalized Social Partnership Model of Barbados (with its protocols), the region should aim to formalize these PPP in tourism within a formal setting that meets at regular intervals and define areas of intervention for PPP for say the next four or five years backed by formal agreements. For instance, the Ministry of Tourism and the National

Tourism Authority, as part of the implementation of National Tourism strategies and plans, could convene quarterly meetings with other public and private partners to spell out the goals of national tourism development, spell out the areas in which there is a need for PPP and invite stakeholders to submit proposals for public-private ventures. At a regional level, the CTO and CHA could establish a joint work-program to implement the Caribbean regional Tourism Strategic Plan and one that clearly identifies a role for PPP and its areas of intervention. By establishing a formal long-term work-program between them, the CTO and CHA will be better able to coordinate their activities so as to avoid duplication of activities and waste. This regional Tourism Plan is currently awaiting funding to be implemented. There is a need to encourage the creation of pooled funds by both public and private sectors in Caribbean tourism (at both a regional and national level) in order to facilitate the implementation of regional and national tourism strategic plans and in the process anchor PPP in Caribbean tourism firmly within the national development process.

There is also a dire need in Caribbean tourism to expand the use of public policy incentives beyond the mere tax/duty/customs exemptions that have been practiced by the tourism industry for the past 50 years or so. All Caribbean countries tend to propose the same type of fiscal concessions (there is more or less now a standard menu of fiscal exemptions in the Caribbean that has leveled the playing field, meaning at the end of the day no country has a relative competitive advantage compared to others as far as public policy incentives are concerned). There is a need for more creative thinking as to the use of public policy. One suggestion is to use public policy to encourage the development of PPP (reward those financial institutions that are facilitating access to finance for PPP, reward private companies that are forging partnerships with the public sector to enhance competitiveness). Another suggestion is the creation of Tourism Venture Funds (at regional and national levels) for which government provides an initial capital and then engages in matching grants with the private sector (e.g. for every \$1 that the private sector provides to the fund, the government matches with say \$1, \$0.50 or \$0.25). The venture fund can then be managed by a public-private sector committee and can then be used to finance any tourism development proposals submitted by a public-private venture, provided these proposals fall within the implementation of national tourism strategies and plans and within the work-program that was developed to implement these tourism strategies and plans.

As an additional point, in order for public private partnerships to be effective, it is important for the public sector to consult with and involve the private sector at each stage of the tourism development process and to do so right from the start (e.g. involve the private sector in the elaboration of national tourism development plans and policies, involve the private sector during national budget preparations etc and not confine their participation only during funding stage of plans and policies). It is essential for all partners to feel valued and for their inputs to be integrated at each stage of the tourism development process. The role of the public sector and private sector in the partnership should be made clear as well as the expectations.

Finally, in light of the United Nations Global Compact initiative for corporate social responsibility, PPP should be promoted as a means to not only increase competitiveness but also to increase the benefits of tourism and decentralize them to the local populations by having the private sector engaging in socially responsible practices. The case examples we saw for St Kitts

and Nevis illustrates how private resorts can engage in community-based tourism and re-invest a part of the profits in local capacity building programs for local communities and in social and economic programs. This is a win-win situation that allows for profits from tourism to benefit local communities and increase acceptance for tourism on the part of local communities. It is a win for governments in terms of participatory governance and facilitating the development of community-based tourism. It promotes tourism competitiveness by reducing potential conflicts between local communities, tourism private interests and tourists. It also allows for the building of linkages between the tourism industry and the local productive sectors. For the private tourist industry, the practice of corporate social responsibility allows them to build an image of responsible and ethical social behavior that can result in positive market returns.

## **V. CHALLENGES AND OPPORTUNITIES AND THE ROLE FOR PUBLIC-PRIVATE PARTNERSHIPS: COMPETITIVENESS, UPGRADING, AND LINKAGES**

*.....[The need for partnership, co-operation, collaboration between the main stakeholders in the industry such as local communities, universities and the academic community, the private sector CHA, the CTO and CARICOM has never been greater....Jayawardena, 2000]*

*.....[In spite of the fact that for the greater majority of Caribbean economies, tourism is the engine that drives them and is the major provider of jobs, the economic importance of tourism has been underestimated in terms of the important linkages that can be exploited with other economic sectors that are facing challenges within the region. One of the ways to begin addressing this fault is by establishing throughout the Caribbean the WTTC developed system of Tourism Satellite Accounting. .... President, CHA, 2003 ]*

The challenges of the Caribbean tourism industry have been articulated and analyzed in numerous strategic documents such as the Caribbean regional Tourism Strategic Plan (2001); the Integrated regional Sustainable Tourism Policy (2007); the OECS sustainable tourism strategy (1998), various national tourism strategies among others. They relate to areas such as airlift and air transport services, research development, marketing, human development, safety and security, standards, use of technology and ICT, environment, cruise tourism among others. In ending this paper, in this section we focus on three challenges that we deem are critical for the Caribbean tourism industry to address. We then propose a development strategy for Caribbean tourism to address some of these challenges, offer a new business model for the region as well as formulate a role for PPP and public policy in the implementation of this strategy.

As part of the need to continuously raise average expenditure from tourists to increase net domestic benefits from the tourism industry, there are two critical challenges in Caribbean tourism that need to be addressed in the medium term for the industry and these are:

- Reducing import leakages. Import leakages tend to be high in the tourism industry (some estimates place the import leakage ratio as high as 70 per cent in the Caribbean) (ECLAC, 2006). When import leakages run that high, the benefits of tourism to the Caribbean region and its people get significantly reduced. If out of every dollar spent by tourists in the Caribbean, only say 30 cents accrues to the Caribbean, a cost-benefit analysis of the domestic tourism industry may actually reveal that the region is bearing costs associated to the industry (e.g. environmental degradation, erosion of domestic social capital ) that are in excess of the benefits. The tourism industry as a whole gets weakened as a result as Caribbean citizens and governments view the industry as an activity that is mainly benefiting foreigners in net terms and not the locals. In this case it becomes harder for the private tourism industry to lobby for preferential treatment or to get legislation in their favor to be passed and implemented. Import leakages can be reduced by

increasing local private participation in the tourism sector. We call this chain-value upgrading, referring to enlarging the tourism domestic value-chain, that is transferring certain activities within the tourism value chain that take place abroad or through foreign capital to the local economy. Chain-value upgrading can also happen when the tourism cluster gets enlarged through the integration of more economic activities within the tourism cluster and the provision of ancillary services to the cluster.

- Reducing the costs of production and cost of doing business in the Caribbean to the tourism industry. The Caribbean region is well-known to have among the highest costs of production in tourism in the world. As an ex-President of the CHA once put it, “we are pricing ourselves out of the market”. It is time for the tourism industry to have a plan of action in order to mitigate cost and price increases in tourism in order to maintain competitiveness.

We argue that these two challenges will require a building of inter-sectoral linkages locally, that is linkages between the domestic tourism industry and a range of other local economic sectors will need to be developed and in some cases enhanced. The purpose of building these linkages is to increase local private participation in the tourism industry so as to increase the local contents of goods and services in the “production” of the tourism products and maximize net domestic benefits from tourism. The purposes are to (a) substitute higher priced imported goods and services by quality but cheaper local produce as inputs to the domestic tourism industry; (b) to increase the range of attractions offered by the destination at home to offer a more sophisticated local tourism experience, and also (c) to increase average expenditure per tourist by enlarging the domestic value chain or domestic tourism cluster.

**A. A new strategy for tourism development in the Caribbean: An optimal mix between mass tourism and specialized market segmentation along with chain value upgrading**

Given the high dependence of countries in the region on tourism, there is a need in many of these countries, especially the small island States, to pursue economic diversification and reduce their dependence to some extent on tourism so as to insulate their economies from exogenous shocks (e.g. terrorist attacks, global outbreaks of diseases etc) that can seriously affect their tourism industries and in the process increase their economic vulnerabilities. At the same time, the Caribbean countries need to increase the competitiveness of their tourism sector for the purpose of increasing net benefits from tourism to their citizens. This will require both increasing the number of tourists and the average amount that they spend per stay. This in turn will necessitate strategies for increasing the number of new tourists and tap into new markets, increasing the number of repeat visitors, extending length of stay of tourists, increasing the local content of tourism consumption, increasing demand for and supply of local attractions for the tourists and lowering the seasonality factor in tourism. Clearly a multi-pronged strategy will be needed.

Mass-tourism, pending further economic diversification in the medium-term, will continue to be a needed component of this strategy in order to allow the region to maintain its

dependency on tourism in the medium-term and generate the foreign exchange it needs. However this mass-tourism will have to target high spending tourists in the up-scale segment of the market, namely tourists that have an interest in experiencing local culture and local products. There is also a need to steer-away from the “all-inclusives” style of tourism that “locks” the tourists inside a foreign-owned hotel, consuming mainly imported products within a tourism enclave. Instead the type of business model (community-based type resorts) that is currently being developed in St Kitts and Nevis needs to be encouraged. That is building resorts within non-gated communities that facilitates interactions between communities and tourists. This will be a type of resort that will encourage tourists to dine outside and to visit local attractions among others. Also there will be a need to attract foreign investors that are interested in the concept of corporate social responsibility and will be willing to invest a share of the profits in developing economic and social programs for the communities and protecting the environmental and natural assets of the countries by working with civil society. For this aspect of the tourism strategy aimed at increasing net spending from mass-tourists, upgrading of hotels and facilities along with the development of new attractions will be needed through the building of tripartite partnerships between public tourism authorities, the private sector (including civil society) and local populations. However to increase net benefits from tourism in general, by increasing net average spending per tourist, the region will need to pursue further the development of specialized market segments in order to tap into the high-spending tourists. Countries will need to aim at converting a portion of mass-tourists into special-interest tourists (in terms of Jayawardena POTS<sup>34</sup> model that amounts to mass-tourists graduating upward in the pyramid) and also attract other special-interest tourists. Eco-tourism, nature-based tourism, heritage and culture tourism, sports tourism, weddings and honeymoons and business tourism, these are all markets segments that each destination should consider. The development of as many special interest tourism segments should be considered as well as the undertaking of solid market research to identify new market segments or new sub-segments within existing segments. For instance, in the case of sports tourism, besides golf tourism and water-sports, new types of sports activities could be considered for development (e.g. horse racing, cycling, auto and motor racing etc). Culinary tourism is another segment that can be developed through the staging of international food festivals among others. Health and wellness tourism is another option.

Another part of the strategy will consist in what we call in this paper “chain-value” upgrading which consists at reducing imports throughout the tourism industry in two ways by: (a) Extending the domestic tourism value chain that is shifting more activities from foreign entities to within domestic control; and (b) Enlarging the domestic tourism cluster that is creating new domestic tourism products and services that allow the tourists to spend more within the domestic cluster. The goal is to boost the domestic tourism multiplier by reducing the import leakage rate.

Community-based tourism that increase interactions between tourists and communities and allows the forging of close personal relationships between tourists and locals is another component of this multi-pronged strategy. Community-based tourism can increase the number of repeat visitors and increase spending by tourists on local products as tourists develop close relationships with locals and learn more about the country and local culture and attractions through the latter. The staging of major events such as festivals and carnivals will need to be

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<sup>34</sup> See LCAR/L.166.

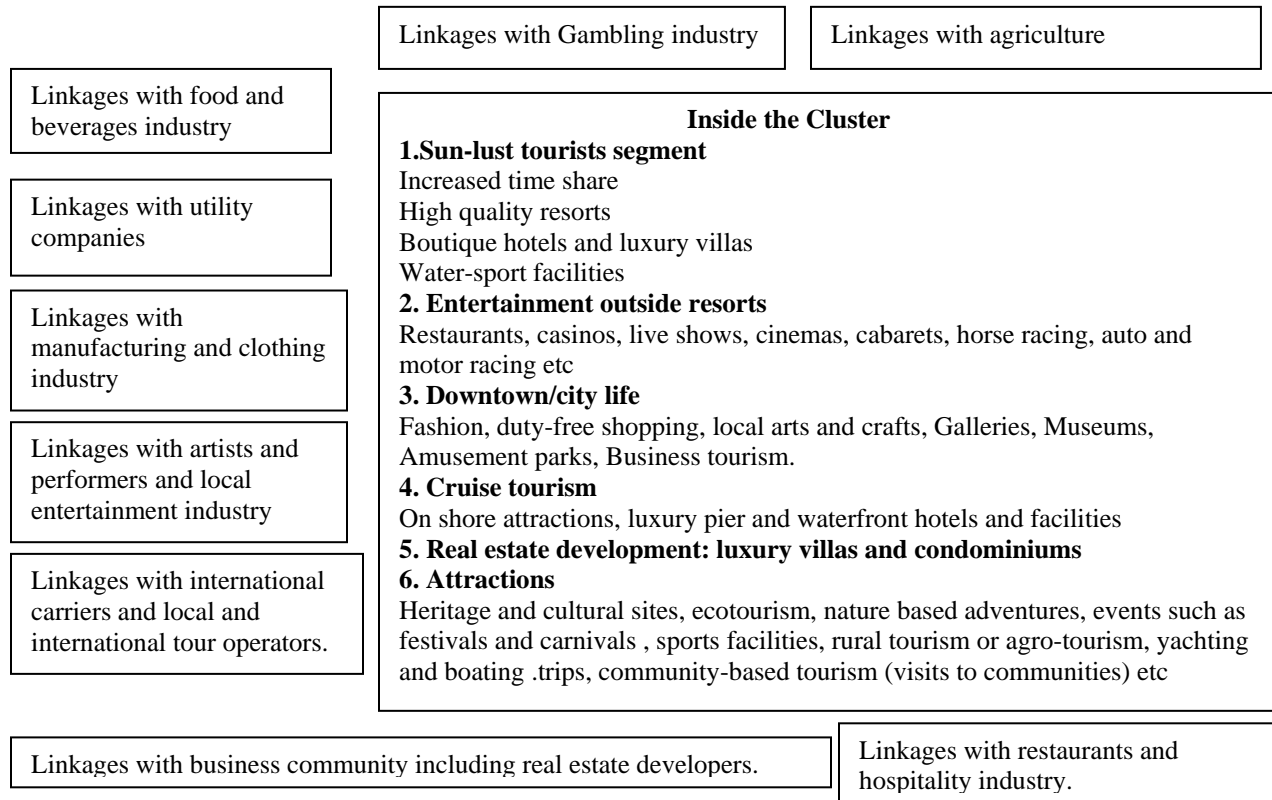
continuously supported as part of another aspect of the strategy aimed at lowering seasonality to boost net earnings from tourism. Increased tourism from within the Caribbean region by Caribbean nationals should also be encouraged as Caribbean tourists (who travel mainly to visit friends and relatives) are unlikely to be seasonal in nature. Cruise-tourism will have to be re-examined and strategic options developed in order to raise spending by cruise passengers on-shore and raise consumption of locally-made products and services by the cruise companies. This will necessitate the upgrading of waterfront and on-shore pier facilities; the development of on-shore attractions that cater to the needs and interests of cruise passengers, the development of more destinations as homeports where cruise passengers can overnight; the set up of special packages that allow cruise passengers to convert a part of their trips into longer land-based tourism and increasing use of local supplies and Caribbean manpower aboard cruise companies. The development of real estate properties should also be considered whereby luxury villas and condominiums are built and offered for sale to foreigners or as time-share properties as a means to increase the number of repeat visitors and increased spending on local goods and services by visitors.

As part of the implementation of this multi-pronged strategy, extensive market research on the profiles of tourists, private resort developers and private local and international industries will have to be undertaken by the public tourism officials. Better information systems including the adoption of Tourism Satellite Accounts will have to be considered for development. Data on variables such as net foreign investment in the tourism industry are for example not available and need to be made available. Careful analysis of the industry for policy-making starts with the availability of good quality disaggregated data. There are important gaps in statistics and research on Caribbean tourism that will need to be addressed.

Figure 7 depicts a new “model” for tourism development for the region within the tourism cluster approach and tourism value-chain approach. An important goal in Caribbean tourism is to increase net benefits from the industry and associated with this are two important challenges, namely lowering import leakages in the tourism sector as part of increasing spending by tourists per stay and reducing the costs of doing business in the tourism sector. To begin to address these challenges, it is important for the tourism industry to build linkages with local private industry in other sectors in order to seek cheaper yet good quality alternative inputs from local sources and in order to expand the range of attractions, activities and goods and services proposed to the tourist (that is expanding the depth and sophistication of the “tourism experience” being offered). For instance within the tourism cluster itself, the tourist should be offered a high quality broad-based, rich experience that offers a range of different attractions, activities and special interests ranging from sports, to cultural entertainment, to fashion, special mega events, yachting trips, agro-tourism and educational tours among others. An expanded choice in attractions and activities will stimulate a demand on the part of the tourists to stay longer and spend more locally. It will also expand the range of onshore activities and attractions for cruise passengers and stimulate local spending. Outside the cluster, there is a need to build linkages with local suppliers of goods and services within the tourism value chain in order to reduce costs of provision for the industry through import substitution. For instance, resorts could use locally produced food and beverages and accessories instead of imported items. If the quality of such local produce is good, local products are available at cheaper prices and there is a

demand by tourists to experience local culture, then private resort developers will consider it cost-effective to substitute imported agricultural and industrial products for local ones.

**Figure 7**  
**Chain- value upgrading: the building of linkages between tourism and other economic sectors**



Source: ECLAC (author)

## **B. The Role for Public-Private Partnerships and Public Policy in this new strategy**

The strategy proposed above, based on the goal of maximizing net domestic benefits from tourism for the Caribbean populations, by increasing spending by tourists on locally produced goods and services, and enhancing the cost and price-competitiveness of the Caribbean tourism product will demand significant upgrading on the part of the tourism sector in all its forms: process, product and chain-value upgrading. Upgrading requires significant investment in resources, a pool of expertise in new areas, provision of economic incentives to tourism stakeholders and a pooling of risks that in turn will necessitate a forging of strong partnerships among all tourism stakeholders (public tourism authorities, private for profit tourism entities, civil society, universities and local populations). This new strategy opens up new areas of intervention both for PPP and for public policy. Public policy and PPP will be increasingly needed as policy instruments in the implementation of a new tourism strategy based on



upgrading and the building of linkages in order to enhance tourism competitiveness in the Caribbean and increase the benefits of tourism for the Caribbean region.

We end by giving three concrete examples of the role that PPP and public policy can potentially play in upgrading and in particular the building of inter-sectoral linkages.

- In order to increase the local contents of the tourism product, there will be a need to shift fiscal incentives away from giving tax exemptions on imported products and towards rewarding use of local products instead (e.g. encouraging use of local materials in the building of hotels and tourism facilities to allow the facilities to “blend” in the local architectural landscape of the country and give to the high-spending tourists who are in search of local authentic experiences a taste of the local).
- In order to increase use of local agricultural and industrial produce by the tourism sector, there will be a need to stimulate local production of goods and services needed by the tourism sector. However these local alternatives will have to match the cost-quality dimensions offered by imported products. Governments will need to encourage and support such local production through fiscal incentives. There will also be a need for governments to forge international partnerships with leading international manufacturing and business companies and encourage these international multi-nationals to partner with local manufacturing and business companies to form joint ventures in production. Encouraging joint ventures between international and local private or public business companies will enable local companies to mobilize capital to expand cost-effective production, access technology and skills needed to increase the efficiency of their operations and access the superior know-how of international companies to raise the quality of their products and services. Cuba as we saw was successful at supplying domestically some of the ancillary goods needed by its tourism industry through the formation of joint ventures with international companies.
- Finally in order to make the Caribbean tourism industry more cost and price competitive as compared to other destinations, the local prices of local inputs used by the tourism industry such as energy, water, telecommunications, transport and equipment will have to be reduced. This will demand investment in new technology and access to superior know-how by the domestic companies that supply goods and services to the tourism industry. Again such cost-effectiveness can be fostered through the forging of partnerships between for example state-owned energy and water companies with international utility companies in joint ventures designed to reduce costs and build the expertise and know-how of Caribbean private enterprises.

## VI. CONCLUDING REMARKS

In conclusion, we summarize below some of the most important findings and policy recommendations of this paper.

1. PPP can take many forms and can promote tourism competitiveness as part of tourism upgrading strategies in many different areas and through several tools.
2. In Caribbean tourism, the main forms of PPP have been as follows: (a) Public institutions, governed by public-private boards of directors (mainly regional and national tourism boards and national tourism authorities) that collaborate closely with private sector organizations such as hotel and tourism associations; (b) Public-private sector alliances formed to respond to crisis situations; (c) Public policy geared to support the private sector in the form of fiscal and regulatory incentives and earmarking of specific incentives such as sales or leases of land by the Government to the private sector for development; (d) Joint public-private ownership of assets with management left either to the State or to the private sector; (e) Regular holding of public-private meetings (regional and national conferences) for discussions, strategic visioning, policy-making and decision-making; (f) Public-private funds for specific programs or initiatives.
3. Public policy support to the private sector is an important aspect of PPP in Caribbean tourism. A large part of the public support given to the private sector in tourism has been in the form of tax /duty or customs exemptions through the enactment of Hotel Aids Acts and through Tourism Development Acts.
4. At a regional level, the CTO and the CHA have been key at facilitating process and product upgrading in areas of marketing and promotions aimed at improving the image of Caribbean destinations; in the area of product development and enhancement aimed at facilitating investment and financing, developing or improving accommodation; setting quality standards; and protecting the environment; and in the area of human resource development.
5. At a national level, specific case examples of PPP can be found in areas of upgrading aimed at developing specific interest tourism and within the mass tourism segment in areas aimed at upgrading hotels and facilities through investment.
6. However the effectiveness of PPP and public policy can be enhanced in Caribbean tourism mainly by promoting the formalization of PPP structures and anchoring PPP as a policy instrument within well-defined overall strategic framework for national (regional) tourism development rather than be used on an ad-hoc basis. PPP can be recognized as a policy instrument to facilitate the implementation of national and regional tourism plans and policies with specific goals and intended outcomes, specific time frames and indicators for measuring success. Moreover there is a need to explore how public policy can be used to stimulate public-private partnerships and specifically the creation of pooled funds.

7. Two main challenges for the Caribbean tourism sector are to reduce import leakages and reduce the costs of doing business in the Caribbean tourism industry in order to increase net domestic benefits from tourism. PPP and public policy can be used as policy instruments to address these challenges and stimulate local private participation in the tourism industry.

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