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PPP In Tourism: India's Experience

Private & Confidential

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PPPs in India...1

- India's PPP program has grown to be amongst the largest in the world
 - As of April 2020, over USD 320 billion worth of PPPs under implementation in India ([Source](#))
- Variety of models deployed in India PPP
 - Greenfield ◇ BOT (Annuity) ◇ BOT (Toll) ◇ Lease ◇ HAMs ◇ Joint Ventures
 - Brownfield ◇ OMT ◇ TOTs, ◇ InVITs ◇ Voucher Scheme
- Bid criteria varies across sectors (Authority Funds, Revenue Share, Concession Fees)
- Different regulatory models evolved:
 - ◇ Contract by regulation ◇ Hybrid Model of Regulation ◇ Economic regulation
- Evolving landscape
 - Better success in brownfield as compared to greenfield (successful only in select sectors)
 - Social Infra is yet to evolve and mature
 - Bright line tests and risk allocation gradually evolving to suit the Indian risk regime

PPPs in India...2

- While there has been significant success of PPPs in India, a number of challenges persist:
 - Delays in acquisition and handover of **land** by the authority to the concessionaire
 - Delays in obtainment of **approvals** for undertaking various construction and operation activities
 - **Increase in costs** during development (for reasons of changes in law, or delays in implementation)
 - Long pending **disputes** between parties (owing to prolonged litigation)
- Social sector PPPs:
 - Greenfield vs Brownfield? What should be the bid criteria?
 - How to reduce the risk perception as also the risks?
 - How to attract cheaper capital? How to attract greater participation?
 - Audit vs Return -HOW TO BALANCE
 - Employment -?

PPP in Tourism: Some Fundamentals

- PPP experience in India has focused on sectors in which the private sector cannot enter absent a government concession (e.g., roads, ports, airports)
- Tourism is overwhelmingly an industry of private sector service providers, with no public sector monopoly
- PPPs in the tourism sector need to be carefully strategized by balancing:
 - Attractiveness to private sector (concessional/ free land, ease of approvals, etc.)
 - ❖ Notably, in monopoly sectors, the concession granting authority attempts to safeguard traffic/ usage by agreeing not to develop competing facilities
 - ❖ Given the nature of the tourism sector, such comfort cannot be given to the concessionaires
 - Ensuring achievement of public goals of the authority granting the concession:
 - ❖ Development of remote areas (including employment generation);
 - ❖ Reasonable revenue/ fee from concessionaire
 - ❖ Ensuring sustainable growth, responsive to local needs

Some learning ... Viability and Connectivity

- PPPs are resorted to in instances where public capacity is insufficient to meet needs, and to harness private sector efficiencies
- However, since private sector interest rests on reasonableness of return, a project has to be 'viable'
- Viability, in terms of user volumes, is often an issue in areas where the government wishes to develop tourism infrastructure (e.g., rural or remote regions)
 - In particular, access to such areas may be insufficient requiring development of suitable 'last mile connectivity'
- This necessitates some form of timely pre-development by the concession granting authority of requisite connectivity infrastructure
 - Air connectivity of the resort to Port Blair was directed to be a pre-condition in the concession for 'Development of Eco-Tourism Resort in Lalaji Bay, Long Island, Andaman and Nicobar Islands through PPP mode'

(Source: <https://www.pppinindia.gov.in/documents/20181/22330/RoD+89th+PPPAC+meeting+dt+27.08.2019.pdf/dccd520c-1df8-4899-860b-96795eaa232d>)

Some learnings...Permits and Clearances

- An important lessons from India's PPP experience is the adverse impact of delays, *viz.*
 - Time and cost overrun affecting the underlying financial model
 - Resulting disputes over contract adjustment (and consequential further delay)
- A major source of delay has been in obtaining government permits to undertake operations
 - Such delays have affected the airports, roads, and transmission sectors
 - The clearances are often those relate to the environment and ecology
- One way to address this issue is to make the authority granting the concession responsible for obtaining key permits
 - A similar approach has been taken in respect of the 'Development of Eco-Tourism Resort in Lalaji Bay, Long Island, Andaman and Nicobar Islands through PPP mode'
 - Alternatively, approvals may be granted upfront prior to bidding (e.g. the 'Development of Eco-Tourism Resort in Minicoy Island, Lakshadweep Islands through PPP mode')

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Measuring Consumer Satisfaction

- Key performance indicators ('KPIs') are needed to assess if a concessionaire's performance:
 - KPIs may be the basis for releasing payments or imposing penalties;
 - Concessionaire's behaviour is driven by what will be measured and rewarded/ penalised
- Such performance indicators should be measurable, outcome-based, and achievable
- However, in times of social media, influencers, and online review aggregators (e.g., Yelp!, Trip Advisor, etc.) the hospitality industry is vulnerable to negative online reviews
 - Concessionaire's performance measured by conventional standards
 - ❖ This is especially so since many users choose destinations based on online reviews
 - To this end, there is an increasing need to measure performance by means of ratings on social media and review aggregators
 - However, this approach poses two challenges:
 - ❖ 'Review bombing' and negative social media campaigns having adversely impacted players; and
 - ❖ Linking performance to specific websites/ platforms that may subsequently cease operations

Model Concession Agreement Approach in India

- Model concession agreements have been adopted in India to standardise contractual terms
- In the Indian experience, such standardisation has ensured:
 - Predictability (there is visibility on the contractual frameworks);
 - Transparency (terms of concessions are clear upfront, with no backroom negotiations); and
 - Accountability (all changes to the model have to be justified)
- However, there is a tendency to over-rely on model documents - has had negative effects
 - Procuring entities take a 'one size fits all' approach without considering project requirements
 - Stunted the growth of PPPs
 - Overhang of an "idealistic approach" and flexibility in decision making
 - Attempts to socialize the cost of a failed project vs assuming risk of failure of a project- leading to macro economic problems in India

Thank you

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