Sector – Resort Hotels

1. **Sponsors:** Financial strength and commitment are crucial, as are vision, marketing and the provision of a quality product. Be active in implementation despite sponsor strength and experience. Multiple roles and in-house project management teams can lead to problems.

2. **A lenders' supervisor:** Can help monitor progress and ensure environmental compliance as well as alleviate the problems of inadequate performance incentives and uncontrolled costs and fees, particularly when an in-house project management team is used.

3. **Loan structure:** Consider including prepayment penalties. The repayment period should take account of the time needed to establish a new hotel in the market. Help encourage stronger debt recovery legislation. Ensure problem solving strategies are explained to loan participants.

4. **Management:** A strong manager is important, particularly for holiday villages. Typical contracts may not provide adequate incentives to control costs. Where a portion of the return derives from implementation, there may be less incentive to maximize cash flow.

5. **Equity investment:** Avoid straight equity stakes where conflicts of interest may arise or the sector has yielded poor returns. Quasi-equity investments allow for upside participation.

6. **Environmental and safety guidelines:** Develop mechanisms to ensure compliance, such as requiring an independent audit prior to opening, or using a lenders' supervisor.

7. **Marketing:** Through multiple tour operators can strengthen the bargaining position and reduce market risks. Chains may have a conflict of interest between making changes to project marketing strategy and preserving a standardized product.

8. **New resort hotels:** Low initial rates may be needed to attract business. Be aware that it will take some time to raise these to satisfactory levels.

The above lessons are based on 21 lessons from past IFC investments.
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Operations Evaluation Group
International Finance Corporation
2121 Pennsylvania Avenue NW
Washington DC USA 20433

Additional Information:
Help Desk: 202 458-2299
Fax: 202 974-4302
www.ifc.org/ifcext/oeg.nsf/