



## IFC Investments in Hotels

**IFC invests in hotels and tourism because of the industry's strong development impact, particularly for low-income countries and fragile and conflict-affected states.**

### *IFC Strategy*

IFC seeks to develop critical infrastructure in places where there is often a lack of international standard hotels. These investments send a positive signal to other investors and are often among the first private sector investments in a transitional economy. They are an effective way to help establish a conducive environment for investment, and to create mixed-use developments and real estate venues for international conferences. IFC's long-term perspective and flexibility is particularly relevant for hotel investments which, by their nature, require long-term financing, long grace periods and flexible financial instruments. IFC also works with hotel companies to reduce their environmental footprint through investment in energy and water saving technologies.

### *An In-depth Look at Three IFC Hotel Investments*

The Mövenpick Ambassador Hotel in Ghana is a five star hotel with office and retail space located in Accra's central business district. The Shangri-La group's Villingili hotel in Maldives is a five-star island resort and spa and the Azalai Grand Hotel in Mali is a four-star business hotel catering primarily to business travelers to the capital of Bamako. Two hotels received IFC loans for rehabilitation. Shangri-La in Maldives received loans for green-field construction. IFC engaged Oxford Economics, in partnership with Dalberg Global Development Advisors to gather data and assess the developmental impact of three of its hotel investments.

Promoting jobs, business infrastructure, tax revenues, and development of local supply chains through investments in high quality hotels.

## Overall Results

### JOBS

**Hotels create and sustain a large number of jobs, particularly indirect and induced jobs** through procurement of goods and services, and jobs supported by consumer spending of hotel and supply chain employees.

**Hotels create productive jobs.** Across all cases, labor productivity of hotel employees was above the economy-wide average. Above average productivity supported above-average wages. Salaries exceed the minimum wage, with bonuses and compensation for overtime and other non-wage benefits. Training is provided and opportunities for career progression are more readily available.

**Higher class hotels create more jobs.** Shangri-La created three to five times more jobs per room than the other two, reflecting the luxury class and all-inclusive nature of the resort.

**Hotels have a diverse workforce.** Hotels tend to employ more women and youth, relative to other industries, contributing to a more diverse workforce.

**Hotels develop local supply chains.** Local purchasing of goods and services by hotels develop supplier businesses. Many of the supplier firms interviewed in the case studies have grown since starting to work with the hotel, with a number of interviewees stating that the hotel had played an important role in supporting such growth.

### LOCAL ECONOMIC FOOTPRINT

**Hotels make strong contributions to GDP.** Both the Grand Hotel and the Mövenpick's contributions to GDP in 2014—gross profits, compensation to staff, procurement of goods and services from domestic firms, and consumer spending by employees—were broadly equivalent to their turnover. Shangri-La's total contribution to GDP was about one-third lower than its turnover, reflecting weaker linkages to the domestic supply chain, due to the fact that the Maldives is a small island economy with a very limited industrial base.

**Hotels promote local economic activity through guest spending.** Hotels enable further expenditure in the local economy as guests consume goods and services outside of the hotel, which in turn supports an additional chain of economic activity. Industries that tend to benefit most include restaurants, retail, recreational and leisure services and transport services.

**Hotels contribute significant tax revenues for the government, which can help support vital social programs and infrastructure investment that have important development impact.** The scope of this particular impact heavily depends on a country's specific tax structure. Shangri-La's contribution to tax revenue as a share of its overall economic impact was significantly higher than the others. This partly reflects that the Maldives is a more highly taxed economy, with a well-defined tax and land-lease framework for resort tourism, compared to either Ghana or Mali. In general, hotels that operate in tourism-centric economies are likely to have a higher direct tax footprint, other things equal.

### BUILDING WORKFORCE SKILLS

**An international quality hotel often serves as a training center for their employees.** Hotels invest in training their employees at all levels, on a regular basis. They are often a point of entry for unskilled workers, who are then trained. Investing in training supports the local economy as employees take on new positions or establish their own businesses. This supports obvious benefits to hotel employees in terms of their skills development, but also to other firms or hotels within the local economy to the extent that employees took on positions elsewhere.

**High end hotels have strict standards.** Improved product standards demanded by high-end hotels from their suppliers spill over throughout the supply chain. In some cases, hotels were found to have actively intervened to support this process by providing direct training to its suppliers.



## Lessons Learned

1. Developing supply chain linkages can amplify the development impact of hotel investments. An economy with a limited productive base—such as the Maldives—will limit a hotel's impact, other things equal.
2. Hotels can provide a stable source of demand for their suppliers. This is especially beneficial for firms that operate in an economy with highly informal credit markets with few sources of finance.
3. The importance placed on training and skills development in all three case studies implies that this is a typical feature of hotels. Economies suffering from gaps in skills can gain outside benefits from high-end hotel investment.
4. Pioneering investments which seek to establish the viability of new markets, if successful, have a stronger likelihood of attracting new entrants and triggering follow-up investment.