



GHN PERSPECTIVES

Carolyn L. Cain, Principal Tourism Specialist, International Finance Corporation (IFC) - A member of the World Bank Group



Assessing the economic impact of hotel investments

How can a luxury hotel make a difference in the lives of average people living in the community around it? IFC's experience shows that hotel investments hold vast potential for job creation and economic stimulus. Systematically measuring these benefits has become more important now in a time when Corporate Social Responsibility is an increasingly mainstream part of business in the tourism industry. Managers and owners in many sectors are now expected to answer for the impact to the larger society of their various business activities.

For hotels it seems easy enough to measure the direct economic impacts: number of jobs created at the hotel, local purchase of goods and services, various taxes paid. But to get a complete picture one must dig a bit deeper to assess the indirect impacts: visitor spending outside the hotel, multiplier impacts of hotel and employee spending, etc.

At IFC, part of the World Bank Group, where the objective is poverty reduction, the issue of 'impact' is front and center in any of our investments. We have been active in the hotel sector in developing countries for many years, with over 260 investments in 88 countries, including more than 100 investments in Africa alone. We have long recognized that hotel investments are appealing from a development impact perspective, creating jobs and generating foreign exchange and tax revenue. This is particularly important to some of the less developed countries heavily reliant on tourism. In a city environment, hotels comprise important business infrastructure to help a country develop or recover after armed conflict or some other calamity.



Recently, we at IFC decided to gain a better understanding of the full economic impact of hotels, selecting a few specific investments for in-depth study. The outcomes were larger and much broader than we had anticipated.

In 2011, we commissioned Overseas Development Institute (ODI) in the UK to conduct a value chain analysis to assess the economic impact of the 148-room Kigali Serena Hotel in Rwanda where IFC made an investment in 2008. The research found:

- The hotel generated \$85 million of economic activity in the first few years, \$64 million of which related to the local Rwanda economy, primarily by way of payments to government, staff payments, purchase of local goods and services and discretionary tourism spending (restaurants, tours, shopping, transportation services).
- Directly, the hotel employs 350 permanent staff. Including jobs created indirectly through suppliers, the number increases to over 1,100.
- While there is a common misconception that tourism is lightly taxed, between concession fees, VAT, employee income tax, social security, corporate tax and district tax, close to \$16 million was paid to government over a five-year period.
- Thanks to a strong commitment by the hotel owner and operator, Serena, to develop local staff, there is only a handful of expatriate staff at the hotel, mostly from Kenya, and 89 percent of the wages and salaries are paid to local Rwandese.
- Seventy percent of staff take-home pay is spent on food, housing and education, almost all supporting the local economy.
- Staff members receive an average of 5 days of training per year to improve skills.
- Management at the Kigali Serena makes an effort to cultivate local supplier networks with indigenous small and medium enterprises (SMEs), thereby helping to promote private sector development in Rwanda. Local sourcing of fresh fruit and vegetables alone created some 177 jobs, according to the study.

These results were consistent with those of IFC's own earlier research on two other hotel investments. The 234-room Hyatt Regency Kiev in Ukraine was the first five-star branded hotel in the city. We estimate that in the first ten years:



- The hotel will generate \$100 million for the local economy through purchases and salaries.
- It will generate 500 permanent direct jobs, including 365 hotel employees (of which 62 percent are women) and the rest from outsourced services.
- It will pay the government around \$40 million in taxes and various fees.
- It will create foreign exchange earnings of \$250-300 million.
- Sixty-three local suppliers have contracts with the hotel, generating \$11 million of annual revenue.
- The hotel helped enhance nearby St. Sofia Square and also provides charitable contributions in the range of \$100,000 annually.

IFC also invested in several Orient Express Hotels in Peru, among them the well known 123-room Monasterio Hotel in Cusco. Our study found:

- The hotel employs 308 permanent staff, who receive above average compensation and also benefit from a 10 percent service charge which is distributed monthly.
- Thirty-two local suppliers have contracts with the hotel, excluding local farmers supplying fresh fruits and vegetables.
- The hotel generated \$6.8 million of government revenue in one year.
- For hotel guests, average daily expenditure outside the hotel was over \$300, benefitting local tour operators, transport companies, restaurants and shops.
- The hotel works closely with the local community, providing internship opportunities for local university students and providing significant charitable contributions to orphanages, elderly homes, etc.
- With an excellent product, high service standards and professional marketing, the hotel helped reposition Peru as an upscale destination for international travelers, attracting higher spending tourists. It also encouraged additional hotel investment in the country.



GlobalHotelNetwork.com

Market intelligence for the World of Global Hospitality®

Of course, the economic impact of a hotel differs from one country or city to the next depending on several factors including: availability of suitable construction materials/equipment and operating supplies vs. the need to import, availability of skilled staff vs. need for expatriates and imported labor, and the various taxes levied on the hotel or the guest. Impacts also differ by type of hotel product. For example, a full service luxury hotel with a host of services will certainly create more jobs, tax revenue and foreign exchange than a limited service budget type product, though there is a real need for both in today's travel environment. And clearly, much depends on the mindset of the hotel managers and their efforts to be good corporate citizens, developing and promoting local staff and working creatively to strengthen linkages with potential suppliers of goods and services.

The significant benefits of hotel investments are often an untold story for the tourism industry. Articulating and communicating these benefits represents an opportunity for companies to improve brand appreciation and strengthen their relationships in the communities where they do business.

The growing significance of tourism and the hotel industry in developing countries highlights the opportunity for further job creation and economic growth, especially when a high percentage of purchases are local and communities are constructively engaged.

Carolyn Cain is a Member of GlobalHotelNetwork.com's [Finance Committee](#).