



CASE STUDY

A Hotel Is Not Just A Place To Sleep

IFC INVESTMENTS IN HIGH-QUALITY HOTELS: Promoting jobs, business infrastructure, tax revenues, and local supply chains

March 2016

ABOUT IFC

International Finance Corporation, a member of the World Bank Group, is the largest global development institution focused exclusively on leveraging the power of the private sector to tackle the world's most pressing development challenges. Working with private enterprises in more than 100 countries, IFC uses its capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity.

ABOUT THE CASE STUDY

Tourism is a major contributor to employment, foreign exchange earnings, and tax revenues for developing countries. Hotels and tourism generate economic activity for small- and medium-sized businesses, which supply goods and services both during construction and operations. This study examines the developmental impact of three of IFC's hotel investments: the Mövenpick Ambassador Hotel in Ghana, the Azalaï Grand Hotel in Mali, and the Shangri-La group's Villingili hotel in Maldives.

WRITTEN BY

IFC engaged Oxford Economics and Dalberg Global Development Advisors to gather data and assess the developmental impact of IFC's hotel investments.

ACKNOWLEDGEMENTS

A special note of appreciation is extended to the World Bank Group team that collaborated with Oxford Economics and Dalberg Global Development Advisors on the study: James Emery, Bernard Micallef, John Perrottet, Deepa Chakrapani, Anoop Agarwal, Hulman Soaloon, Nisachol Mekharat, Alexis Diamond, and Dalia Bahous.

Special thanks to IFC communications team, Elizabeth Price and Irina Sarchenko, for the communication advice and creative design, as well as to Artem Agafonov of Navigo for two original videos showcasing findings of the study.

DISCLAIMER

The findings, interpretations, views and conclusions expressed herein are those of the author and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the World Bank or the governments they represent. While IFC believes that the information provided is accurate, the information is provided on a strictly "as-is" basis, without assurance or representation of any kind. IFC may not require all or any of the described practices in its own investments, and in its sole discretion may not agree to finance or assist companies or projects that adhere to those practices. Any such practices or proposed practices would be evaluated by IFC on a case-by-case basis with due regard for the particular circumstances of the project.

RIGHTS AND PERMISSIONS

© International Finance Corporation 2016. All rights reserved.

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law.



Photo © The World Bank Group

Table of Contents

IFC Investments in Hotels	1
Azalai Grand Hotel (GH), Mali	5
The Mövenpick Ambassador Hotel, Ghana	9
Shangri-La's Villingili Resort & Spa, Maldives	13



Photo © The World Bank Group

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

IFC engaged Oxford Economics and Dalberg Global Development Advisors to gather data and assess the developmental impact of three of its 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 Azalaï Grand Hotel in Mali is a four-star business hotel catering primarily to business travelers to the capital of Bamako. Mövenpick Ambassador Hotel and Azalaï Grand Hotel received IFC loans for rehabilitation. Shangri-La in Maldives received loans for green-field construction.

The study included a quantitative economic impact assessment of the operational activity of each hotel during 2014. This impact was modelled based on input data gathered via a survey questionnaire of each hotel and an Input-Output (IO) model of each economy estimated using relevant official data. Using this data, the team quantified the economic footprint of each hotel including direct spending, spending on procurement of goods and services and employee consumer spending. Effects were measured in terms of contribution to GDP, headcount employment and tax revenues.

The study also documents the findings of the evaluation team on the broader ways through which each hotel contributes to economic development. This analysis drew upon insights gathered during the fieldtrips, in particular through interviews conducted with stakeholders such as hotel staff, suppliers and other operators in the tourism industry.

OVERALL RESULTS

JOBS

- 1. 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.
- 2. 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.
- 3. 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.
- 4. Hotels have a diverse workforce.** Hotels tend to employ more women and youth, relative to other industries, contributing to a more diverse workforce.
- 5. 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

- 1. 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 Maldives is a small island economy with a very limited industrial base.
- 2. 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.
- 3. 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 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

- 1. 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.
- 2. 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.



Photo © The World Bank Group

LESSONS LEARNED

1. Developing supply chain linkages can amplify the development impact of hotel investments. An economy with a limited productive base—such as 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.



Photo © Azalai Grand Hotel

AZALAI GRAND HOTEL (GH), MALI

Long-term Partnership for Development

Mossadeck Bally is a Malian businessman who, backed with IFC financing, invested in The Grand Hotel, a colonial-era hotel in central Bamako, privatized by the Malian government in 1994. The hotel required extensive renovations. Total cost of the project was \$2.6 million, with just under \$1 million financed by IFC. IFC made a second loan of \$1.68 million in 2003 to continue improvements to the hotel. Today, the Grand Hotel is a destination for business travelers, and Mr. Bally has built up the Azalai Hotels Group, a chain of seven business hotels spread across four countries in West Africa.

The Azalai Grand Hotel's development impact in Mali—a conflict-affected country located in the Sahel where almost half the population lives in poverty—has been significant. Though business travelers account for the majority of visitors, today Mali has the second largest number of World Heritage sites in West Africa—cultural assets with potential for developing a leisure travel industry.

Development Impact: 2014 Snapshot

Contribution to GDP

- The hotel contributed \$3.23 million to gross domestic product

Total Tax Contribution

- The hotel paid \$494,000 in taxes to the Malian Government.

Supply Chain Benefits

- The Azalai Hotels Group proactively seeks to incorporate local Malian SMEs into its supply chain. The Group established a semi-independent organization called the Centrale d'Achat et de Distribution (CAD), which acts as a bridge between Azalai's four hotels in Bamako and the local market, allowing them to cope with accounting challenges which arise from operating in a highly informal economy.

- CAD supports improvement of product standards for the SMEs, and provides them with a secure and stable source of demand, underpinning their growth and success.
- Suppliers said their market reputation improved as a result of working with the Azalai Group, due to training and improvements in product quality.

Labor Market Impact

- The hotel directly employs 74 people, and salaries paid by the hotel are on average ten times local minimum wages.
- The hotel's overall operational activity sustained over 900 jobs, through suppliers and consumer spending by employees.
- The size of the group made it possible to retain employees

during the 2012 coup and conflict, when the hotel was forced to close for eight months.

- The hotel offers job-specific training and life-coaching through its Azalai Hospitality Training Academy. The group is overcoming skills gaps in the local labor market, allowing the Grand Hotel to become less dependent on expatriate labor over the course of its operational history. Across the Group's activities, 170 interns were trained in 2014, of which 55 percent were women, in the sectors of catering, room service, reception, and administration.
- The group is pioneering a job-training program for local students, demonstrating a solution for wide-spread youth unemployment.

Development Impact: 2014 Snapshot

Spending by Guests Outside the Hotel

- Estimates based on an analysis of guest questionnaires show guest spending outside the hotel ranges between \$1.7 million and \$2.8 million.

Demonstration Effects

- The Grand Hotel's success, as well as the growth of the Azalai Group in the region demonstrated the viability of Mali's hotel market and has sparked investment interest in Bamako's hotel sector, particularly from international groups such as the Radisson, Onomo Group and the Sheraton.

- In addition, the chain's success in the region has sparked interest among similar chains in Africa such as the Senegal-based Telyium Group, which is planning an extensive expansion throughout the West and Central Africa as part of its development plan.

Other Social and Environmental Impacts

- The hotel has implemented several corporate social responsibility initiatives, for example, participating in the United Against Malaria (UAM) campaign, and the distribution of in-kind goods and bonuses during the traditional holiday of Tabaski

and the new school year. These gestures have helped developed a positive and a strong relationship between the hotel and the employees.

- The hotel has implemented international standards in areas like sewage treatment, solid waste disposal, power and water conservation, fire and life safety and employee safety and training.



Photo © Azalai Grand Hotel



Photo © Azalai Grand Hotel

Creating Opportunity for Small Business

Express Gravures et Impremeries is a printing business established in 2002 by an entrepreneur named Konary Issa. After winning a contract to supply the Azalai Hotels Group, Konary was able to establish a formal office and hire employees. Today, the print shop provides notebooks, printed materials, and embossed papers to Embassies and the hotel group accounts for about a quarter of the firm's business. The company's employees have learned a trade, and some have started their own businesses.

Creating a Career Path

Cisse Adama Malik joined the hotel restaurant in 2008 as a dish washer. Since then, he has been promoted three times to his current job of "Chef Qualifié", and his salary has tripled. Cisse said training provided by the hotel has helped him rise to his more senior position, a role where he will have responsibility for training more junior employees.



Photo © The Mövenpick Ambassador Hotel

THE MÖVENPICK AMBASSADOR HOTEL, GHANA

Restoring a Landmark to Former Glory

The Ambassador Hotel Accra was originally developed by the United Kingdom and presented to the government of Ghana as a gift on the attainment of independence in 1957. Once a national heritage, the building degenerated over the years until it was disposed of by the state. The Ambassador was given a new lease on life in 2006, when the old establishment was demolished to give way to a modern five-star luxury hotel.

The reconstructed hotel was developed by KHI Ghana Limited, a subsidiary of Kingdom Hotels Investments (KHI), a leading global hotel and resort investment company with operations in emerging and frontier markets across Asia, the Middle East, North Africa and Sub-Saharan Africa. KHI Ghana agreed under a 50-year concession to invest \$104 million in rebuilding the Ambassador Hotel into a five-star luxury hotel under the management of the upscale Mövenpick brand with space for offices and retail. The 2008 global financial crisis made it difficult for KHI to secure long-term capital, so IFC stepped in to refinance a \$46 million credit line.

Since its opening, the Mövenpick Ambassador hotel has been a great success, and it stands as the leader in the Accra market today in terms of revenue per available room.

Development Impact: 2014 Snapshot

Contribution to GDP

- The hotel contributed just under \$24 million to Ghana's gross domestic product.

skills. This labor force development facilitates broader social mobility and human capital formation.

Total Tax Contribution

- The hotel paid \$2.4 million in taxes. The Mövenpick's contribution to tax revenues is set to increase in 2016 when a tax holiday agreement negotiated with the government expires.

Supply Chain Benefits

- Local suppliers, the vast majority of whom are SMEs, have developed strong linkages to the hotel as a result of its procurement strategy of securing local goods and services when possible.
- The hotel's demanding standards and training of local suppliers had a positive impact on the quality control of goods and services and local workforce skills, which extended beyond the hotel to the broader economy. Suppliers gained a significant boost to reputation which resulted in opportunities to work with other hotel groups later on.

Labor Market Impact

- The hotel has created 300 direct jobs, and supports an additional 3,200 jobs through indirect and induced channels. A majority of those jobs are filled by Ghanaians, many of them women and youth. Over a quarter of the hotel's Ghanaian direct employees are aged 29 or under, and 38 percent of national employees are female.
- The hotel is a training center for employees who gain relevant skills, including transferable soft

Development Impact: 2014 Snapshot

Spending by Guests Outside the Hotel

- Quantifying guest spending outside of the hotel is difficult. Estimates based on economic modelling and guest interviews suggest that the total spending of guests in the local economy ranges between \$3.4 million and \$9.6 million.

Demonstration Effects

- The hotel's presence as a high-end facility has attracted international and regional events in Accra, which in return has brought spill-over benefits to the wider economy.
- Possibly linked to the success of the Mövenpick's conference center, there have been recent investments in conference facilities by other hotels.

Other Social and Environmental Impacts

- Since 2012, the hotel has been awarded a Green Globe certificate, which is a global travel and tourism industry certification program for sustainable tourism.
- Seeking to engage local artists in recreating pieces from the old Ambassador Hotel, as well as producing original artwork, the Mövenpick established "Art Academy." Today, the Mövenpick houses more than eight hundred pieces of Ghanaian art including wood carving, textile weaving, and paintings.



Photo © The World Bank Group



Photo © The Mövenpick Ambassador Hotel

Transferring Better Standards

Big Gyimah is a small business that has been selling fruits and vegetables to the hotel since 2012. Since then, the business has grown from three to eight employees, and its sales to the hotel have increased from \$1200 per month to \$5000, about 40 percent of its business. Seventy to 80 percent of its produce is sourced from female farmers. Since the Mövenpick Ambassador abides by international standards for hygiene, Big Gyimah has had to adopt these high standards for food safety. This has helped this supplier raise its reputation in the market and improve the quality of its products for other customers.

Creating a Career Path

Edmund Yemoh Mensah joined the Mövenpick Ambassador in 2011 as an Income Auditor. He showed leadership qualities that led to a quick succession of promotions, to Senior Accountant and then Chief Accountant. He is now in the position of Assistant Financial Controller.



Photo © Asian Development Bank

SHANGRI-LA'S VILLINGILI RESORT & SPA, MALDIVES

Creating Jobs in a Nation of Atolls

Crystal-clear blue water and 26 white sand atolls make up the Republic of Maldives. Tourism has helped the country transform from one of the poorest countries in the world thirty years ago to a middle-income country today. Villingili is a large island with lush vegetation, palm trees and three natural lagoons located in the southernmost part of the country. The government planned the luxury Shangri-La's Villingili Resort and Spa together with Shangri-La Group, a leading owner and operator of deluxe hotels and resorts in Asia, the Middle East, North America and Europe. When the government was unable to meet investment obligations to the project, IFC helped finance the \$143 million investment project with a \$50 million loan.

Development Impact: 2014 Snapshot

Contribution to GDP

- The hotel contributed just over \$27 million to Maldives' gross domestic product.

Total Tax Contribution

- The hotel contributed \$8.3 million in taxes to the government
- High tax contributions for this hotel reflect high tourism tax rates in this tourism-centric economy.

Labor Market Impact

- Shangri-La sustains over 1,600 jobs overall, including almost 600 direct jobs.
- The share of women working at Shangri-La is twice the average for the hotel industry in Maldives, a country where the culture discourages women from working in resorts.
- The hotel is creating stable job opportunities for Maldivians under 24, who make up ten percent of Shangri-La's workforce.
- Given Shangri-La's high standards, its training programs are high-quality and transfer skills to employees useful for other resorts in Maldives.

Spillover Benefits

- Shangri-La has actively supported local producers through its engagement with the Addu Meedhoo Cooperative Society (AMCS), which provides about 10-15 percent of the hotel's monthly consumption of fruits and vegetables. The operation helps 50 farming households. Products are grown and produced locally in the nearby island of Meedhoo, and revenues flow to local farmers.
- As a high-end luxury resort operating in a country with limited industrial capacity, Shangri-La imports a large share of goods. This limits its impact on the local economy beyond the resort itself.

Development Impact: 2014 Snapshot

Spending by Guests Outside the Hotel

- The all-inclusive nature of the resort limits spending beyond the hotel. Guest spending was largely at businesses operating within the hotel and for airfares paid by guests for transport from Malé to Gan Island, a route operated exclusively by Maldivian Airways. Together, it is estimated that these resulted in additional consumer expenditure of between \$5.4 million and \$7.6 million.

Demonstration Effects

- Improved transportation links that Shangri-La's presence has brought to the Addu Atoll is expected to support future tourism-related investments, but it is too soon to judge.

Other Social and Environmental Impacts

- At the global level and in Maldives, Shangri-La is known for its commitment to bio-diversity and environmental sustainability through its Reef Care project and other activities through the hotel's Eco Centre.
- Shangri-La has a record of excellent management of the environmental, health and safety (EHS) measures.



photo©UNDPMaldives

Supporting Local Farmers

Shangri-La helped create the *Addu Meedhoo Cooperative Society* as a corporate social responsibility initiative to support local farmers. The hotel financed acquisition of greenhouses for the farmers and provided technical assistance in areas like efficient water management and conservation. Shangri-La's support has help the cooperative grow to a network of 50 farmers and diversify the number of agricultural crops from three to over 25. It provides coop members with food safety and other technical assistance workshops.

Shangri-La's support to local farmers has been recognized with the World Responsible Tourism Award 2015 in the Best Hotel for Local Sourcing category.



Photo © Shangri-La's Villingili Resort & Spa



photo©UNDP/Maldives

STAY CONNECTED

WEB: www.ifc.org/tourism

LINKEDIN: www.linkedin.com/company/ifc

TWITTER: twitter.com/IFC_org

For more information about IFC's investments in hotels and tourism please contact:

Henrik Pedersen
Global Manager
Tourism, Retail, and Property
Email: hpedersen@ifc.org
Hong Kong, China
www.ifc.org/tourism

Andrei Tomilin
Sector Lead
Tourism
E-mail: atomilin@ifc.org
Washington DC, USA
www.ifc.org/tourism

Bernard Micallef
Senior Industry Specialist
Tourism
E-mail: bmicallef@ifc.org
Washington DC, USA
www.ifc.org/tourism



2121 Pennsylvania Ave. NW
Washington, DC 20433
Tel. 1-202-473-1000