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RAS, James S. - ARTICLES and speeches (1968-1970)



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INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

INTERNATIONAL FINANCE  
CORPORATION

Material for Mr. RAJ speech to the  
Fund-Bank African Club Symposium

filed in Mr. RAJ bk.





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## Industrial Investment Opportunities

### A. Forest Industries:

Sawnwood. Production of sawnwood in Africa, including the Republic of South Africa, totaled 3 million cubic meters during 1961/62; consumption amounted to slightly more than 4 million cubic meters. By 1975, local consumption is expected to reach 7 million cubic meters. By 1975, local consumption is expected to reach 7 million cubic meters. West and Southern Africa should experience no difficulty in finding increased raw material resources, but Eastern Africa probably, and North Africa certainly, will have to rely somewhat on imports of sawnwood.

Wood-based panel consumption in 1961/62 exceeded local production of 280,000 cubic meters by 90,000 cubic meters, and it is estimated that consumption will have increased to 980,000 cubic meters by 1975. Plywood, which is currently manufactured in West Africa, may increase its share of total board products consumption. In the other regions of Africa, consumption of fiberboard and particle board should rise more rapidly....

The projected increase on the consumption of pulp and paper is even more staggering, rising from 1960-62 average annual consumption of 90,000 tons (compared to annual production of 35,000 tons) to 2,420,000 tons by 1975.

### B. Building Materials Industry:

The growing demand for building materials and components and the need to expand the building materials industry in the years to come are clear. The magnitude of the projected shortfall in the domestic supply of materials in 1970 is shown in the table below:



Table XIII. Estimates of Demand and Shortfall for Selected Building Materials and Components in Africa, 1970<sup>1</sup>

Materials	Units	North Africa		West Africa		Central Africa		East Africa	
		Demand	Shortfall	Demand	Shortfall	Demand	Shortfall	Demand	Shortfall
<b>Basic Materials</b>									
Cement.....	Million tons.....	8.5	3.3	4.5	3.5	1.5	0.2	2.5	0.4
Sawnwood.....	Million cubic meters.....	2.2	2.0	1.0	---	0.5	---	0.8	0.3
Iron and steel products.....	Million tons.....	1.9	1.4	1.0	1.0	0.3	0.3	0.9	0.8
Sheet glass.....	Thousand tons.....	41.0	27.0	14.0	14.0	5.0	5.0	14.0	14.0
<b>Secondary materials and others</b>									
Asbestos cement products.....	Thousand tons.....	170.0	50.0	80.0	50.0	45.0	20.0	70.0	20.0
Clay products <sup>2</sup> (excluding ceramic sanitary wares).	Thousand tons.....	---	105.0	---	30.0	---	10.0	---	15.0
Paints and varnishes <sup>2</sup> .....	Thousand tons.....	---	20.0	---	25.0	---	10.0	---	10.0
Plywood.....	Thousand cubic meters.....	210.0	130.0	65.0	5.0	30.0	---	45.0	35.0
Board products.....	Thousand tons.....	55.0	45.0	35.0	35.0	5.0	5.0	20.0	20.0

<sup>1</sup> Excluding Southern Africa.

<sup>2</sup> Only shortfall in domestic supply estimated.

Source: *ibid.*

### C. Iron and Steel Industry:

Future consumption of iron and steel in Africa is likely to increase at an annual rate of 8-9%, varying from a 50% rise above this average for cold reduced sheet to an increase only marginally above present levels for rails and galvanized sheet. The table below shows the consumption figures which have been projected for various regions of Africa in 1970 and 1980:

Table XIV. Projected Steel Consumption in Africa, 1970 and 1980  
(Thousands of tons)

	North Africa		West Africa		Central Africa		East Africa	
	1970	1980	1970	1980	1970	1980	1970	1980
Rails.....	100	150	140	180	30	40	---	---
Bar rod and sections.....	1,000	2,250	390	990	130	310	340	820
Plate and sheet.....	600	1,800	300	750	150	400	330	690
Tubes.....	300	670	100	230	30	80	10	20 <sup>1</sup>
<b>Total<sup>2</sup></b> .....	<b>2,000</b>	<b>4,520</b>	<b>930</b>	<b>2,150</b>	<b>340</b>	<b>830</b>	<b>680</b>	<b>1,530</b>

<sup>1</sup> Seamless only.

<sup>2</sup> Including welded tube.

Source: *ibid.*



D. Chemical Industry:

Current consumption and projected demands for most chemicals in individual countries do not justify their production on a national basis, owing to the capital-intensive nature of an industry which is characterized by high economies of scale and obsolescence. Therefore, a regional approach is going to be a basic prerequisite, in most cases, to the successful development of the chemical industry in Africa, concludes the UN Economic Commission for Africa.

...While the preconditions for creation of medicinals and pharmaceuticals sector -- basic chemical industries, costly laboratories, skilled personnel -- are still in early stages of development, the fertilizer industry has more immediate prospects. This is encouraging in view of the prospective significant rise in future demand and the sector's impact on the development of the entire economy and on some of the basic chemical industries in particular. Fertilizers will have to be the principal means of raising agricultural productivity to keep pace with the rapid growth of population.

Current and projected fertilizer consumption, in thousands of tons of pure nutrients, is as follows:

	Region of Africa			
	North	East	West	Central
<b>Nitrogen</b>				
1961/62.....	245.5	46.9	5.2	2.3
1970.....	450.0	220.0	47.0	40.0
1980.....	900.0	465.0	250.0	200.0
<b>Phosphorus</b>				
1961/62.....	98.7	31.7	7.6	0.7
1970.....	300.0	220.0	53.0	25.0
1980.....	600.0	460.0	150.0	100.0
<b>Potassium</b>				
1961/62.....	28.9	25.0	9.4	1.9
1970.....	75.0	110.0	43.0	25.0
1980.....	200.0	235.0	150.0	100.0



E. Aluminum Industry:

With 33% of the world's bauxite resources and 32% of its high-grade hydroelectric potential, Africa is acknowledged to have the potential to become a world leader in the production of crude aluminum. But as a current and prospective consumer of the metal, the Continent ranks last among world regions.

African consumption of aluminum, virtually all imported, has been rising steadily. The total was some 51,000 tons in 1963. Southern and West Africa each took one-third of this amount, while North Africa used 9,000 tons and Eastern Africa, 6,500 tons. The cost of these imports was \$36 million....

Minimum projections of aluminum consumption in the continent by 1980 of between 75,000 and 114,000 tons will be greatly exceeded by primary aluminum production. As the economies of African countries grow and diversify, however, the uses of aluminum will likewise follow and more aluminum products can be made -- at first in small plants of a few hundred or a few thousand tons annual capacity. Opportunities for the use of aluminum in Africa could lead to much greater consumption levels through important contributions the metal could make to help meet some of the continent's most pressing problems in agriculture, food preservation, sanitation, health, transport, housing, and electrification.



Part I

FOREIGN INVESTMENT IN AFRICA

Summary of Source Material

1. Foreign direct investment in industry has not so far been a major source of finance in Africa due to: 1) lack of investment incentives, and 2) non-viability of projects, due in part to limited size of markets, insufficiency of real purchasing power, and inexperienced management.

For External Sources of Financing see: note by UN Economic Commission for Africa secretariat, prepared for 1966 Symposium on Industrial Development in Africa (No. 1 below).

-- Abstract from speech by Bax Nomvete, of UN Economic Commission for Africa, before SID 1968 World Conference (No. 2 below).

2. Factors affecting the investment climate in Africa and proposals for an action program for the future were discussed in the Report of the Executive Secretary of the UN Economic Commission for Africa, on the Conference of Industrialists and Financiers, January 1967, (No. 3 below).

-- At this meeting, the Bank and IFC representative said it was hoped that the IFC "with the recent substantial enlargement of its loanable fund would be able to play a greater role in financing industrial development in Africa." (Page 22 of Executive Secretary's Report.)

-- A statement made at the meeting by W. H. Beatty, Vice President, Chase Manhattan Bank, described operations of the Edge Act Corporations in Africa, including their use of facilities of the IFC and other agencies. Beatty also cited the multinational character of these investments, and provided examples -- the Liberian Bank for



Industrial Development and Investment, and the Banque Ivoirienne de Developpement Industriel. (Annex IX, p.57 of the Executive Secretary's Report.)

3. To overcome the handicap posed by fragmented markets, initiatives have been made toward economic integration.

-- These initiatives are cited in the article by Andrew M. Kamarck, Director of the World Bank's Economics Department in his article one African Economic Development; Problems and Prospects, which appeared in the January 1969 issue of Africa Report (No. 4 below).

-- The Kamarck article notes that economic unions, common markets, or customs unions need to have as a base a better inter-African structure. The article cites steps in this direction taken by the African Development Bank, the Economic Commission for Africa, the UN Development Programme, and the World Bank.

-- On the need for a continental structure program, the late Kenyan Minister for Economic Development, Tom Mboya, in his speech to the 1968 SID World Conference (No. 5 below) noted that the infrastructure inherited by Africans from the colonial powers was designed mainly to facilitate trade between the colony and the metropolitan country. The main aim was to maintain "spheres of influence" and to link their "possessions" as effectively as possible with the home economies. There were practically no transverse roads and railways linking the African countries with each other.

4. While a large part of foreign investment in Africa has been in extractive activities, there is a trend towards diversification.

-- Example: Major projects initiated by U.S. investors in sub-Saharan Africa since 1960 have been in extractive industries: aluminum production in Guinea by Olin Mathieson and Harvey Aluminum, and in Ghana by Kaiser



Aluminum and Reynolds Metals; manganese production in the Congo (Brazzaville) and Gabon by U.S. Steel; and iron ore mining in Liberia by Bethlehem Steel and Republic Steel, and in Gabon by Bethlehem Steel; copper in Mauritania, with IFC and Charters of London.

-- In recent years, however, there has been a notable increase in investment in diversified manufacturing projects. Many of these are relatively small-scale joint ventures with local or other foreign partners. Representative examples of such projects include: the manufacture of spring mattresses in the Ivory Coast, Morocco, and Algeria by firms affiliated with Simmons Co.; the manufacture of soaps, detergents and toiletries in Morocco and Kenya by Colgate-Palmolive subsidiaries; participation in the Nigerian cotton textile industry by Indian Head mills; production of ceramic tile and sanitaryware in Uganda by Interkiln Engineering Inc., jointly with the Uganda Development Corporation; a commercial shrimp fishing and freezing operation in Cameroon, financed jointly by the Gorton Corporation and other interests; the cultivating and canning of pineapples for export and the canning of other fruits and vegetables for local consumption in Kenya by California Packing Corporation with Kenya Cannery Ltd.; a transistor radio assembly plant in Zambia owned by a subsidiary of International Telephone and Telegraph Corporation. (From Africa supplement to International Commerce, 1968, published by the U.S. Department of Commerce). Also, tourism in Kenya and Tunisia, with the help of IFC and foreign partners including American Express (etc.) in Tunisia and Pan American in Kenya.

-- U.S. private investment in Africa is discussed in an article by F. Taylor Ostrander of American Metal Climax Corp., which appeared in the January 1969 issue of Africa Report (No. 6 below). Ostrander noted that U.S.



direct investment in "black Africa" (excluding South Africa and Libya) was nearly \$1.2 billion, and that in this area, the proportion of U.S. direct investment in the extractive industries is over 80 per cent, 56 per cent in petroleum and 26 per cent in mining and smelting. Manufacturing and trade account for only about 6 and 5 per cent each. Ostrander estimates that if U.S. direct investment in black Africa totaled \$1.2 billion, then British, French, Belgian, and West German investment must total perhaps 3 to 5 times that figure.

5. Industrial investment opportunities in Africa's forest industries, building materials industry, iron and steel industry, chemical industry, and aluminum industry were discussed in an article on Industrial Development in Africa, which appeared in the 1968 Africa supplement to International Commerce, published by the U.S. Department of Commerce (No. 7 below).



## Part II

### IFC IN AFRICA

1. IFC has invested \$69.14 million in 18 companies doing business in 12 African countries -- Ethiopia, Ivory Coast, Kenya, Liberia, Mauritania, Morocco, Nigeria, Senegal, Sudan, Tanzania, Tunisia and Uganda. Other investors both African and foreign, made separate investments of over \$209.7 million in these companies.

(The IFC investments are listed in Annex A)

2. Participations in IFC's commitments in Africa total \$20.54 million, or 30 per cent of IFC investments in the region.

3. IFC's commitment of \$20 million in loan and share capital to the \$60 million copper mining project, Societe Miniere de Mauritanie, is the second largest single commitment made so far by IFC.

4. IFC investments in Africa cover a wide range of projects, such as fertilizer plants (Senegal and Tunisia), copper mining (Mauritania), textile plants (Ethiopia, Nigeria, Sudan and Uganda), sugar production and refining (Ethiopia and Tanzania), food processing and canning (Morocco), a pulp and paper plant (Ethiopia), and a company to promote and finance tourism enterprises (Tunisia).

5. IFC has helped establish or expand special institutions in the field of industrial development -- private development finance companies, which do in their own countries what IFC does in many countries. These local development finance companies provide medium and long-term loans and equity capital for local industry, carry out underwriting activities, promote new enterprises, and assist entrepreneurs in preparing investment proposals.

IFC has helped to finance 21 development finance companies; four of these are in Africa (Nigeria, Ivory Coast, Liberia and Tunisia).

6. Most of IFC's commitments so far have been in the manufacturing industry, but it is diversifying. It has financed enterprises directly related to agriculture -- grain storage, livestock production, and production of animal feed. In June 1969, it invested for the first time in the silk industry, in a project combining agricultural and industrial financing. It has invested in a privately owned electric power company. In December 1966, it made its first investment in the tourism industry, by providing finance for the construction of a hotel and game lodges in Kenya. In June 1969, IFC made its second investment in Africa, in Compagnie Financiere de Touristique, a specialized development company to promote and finance tourism projects on a nationwide scale in Tunisia.



Annex A--List of Investments

IFC IN AFRICA

<u>Country and Obligor</u>	<u>Operational Investments</u> \$	<u>Standby and underwriting commitments</u> \$
<u>Ethiopia</u>		
Cotton Company of Ethiopia, S.C. (Textiles)	2,507,557	
Ethiopian Pulp and Paper, S.C. (pulp&paper)	200,000	1,708,501
H.V.A.-Metahara, S.C. (sugar)	<u>7,037,672</u>	<u>2,007,026</u>
Total	9,743,582	3,708,501
<u>Ivory Coast</u>		
Banque Ivoirienne de Developpement Industriel, S.A. (industrial financing institution)	204,081	-
<u>Kenya</u>		
Kenya Hotel Properties, Ltd. (Tourism)	3,073,186	-
<u>Liberia</u>		
Liberian Bank for Industrial Development and Investment (Industrial financing institution)	-	250,000
<u>Mauritania</u>		
Societe Miniere de Mauritanie (Copper mining and treatment)	20,006,515	-
<u>Morocco</u>		
Banque Nationale pour le Developpement Economique (industrial financing institution)	1,495,774	-
Compania Industrial del Lukus, S.A. (Food processing and canning)	<u>1,388,486</u>	-
Total	2,884,260	
<u>Nigeria</u>		
Nigerian Industrial Development Bank, Ltd. (Industrial financing institution)	-	1,400,000
Arewa Textiles, Ltd. (Textiles)	<u>1,571,031</u>	-
Total	1,571,031	1,400,000
<u>Senegal</u>		
Societe Industrielle d'Engrais au Senegal (Fertilizer)	3,459,766	-
<u>Sudan</u>		
Khartoum Spinning and Weaving Company, Ltd. (Textiles)	688,893	-
<u>Tanzania</u>		
Kilombero Sugar Company, Ltd. (Sugar)	4,657,485	-



	<u>Operational Investments</u>	<u>Standby or Under- writing commitments</u>
<u>Tunisia</u>		
NPK-Engrais, S.A.T. (Fertilizer)	\$ 3,500,000	-
Societe National d'Investissement (Industrial financing institutions)	575,926	-
Compagnie Financiere et Touristique	<u>9,904,762</u>	-
	\$13,980,688	
<u>Uganda</u>		
Mulco Textiles, Ltd. (Textiles)	<u>3,508,436</u>	
Total.....	<u>\$63,774,808</u>	<u>\$5,365,527</u>

Total IFC Commitments in Africa --- \$69,140,335



## ANALYSIS OF IFC INVESTMENTS IN AFRICA

1. Problems of industrial development common to Africa and other developing regions are:

- Gap in technological environment between Africa (and other developing regions) and the industrialized countries of North America and Western Europe
- Weakness of local capital markets; the lack of institutions to mobilize and direct private capital into long-term industrial investment
- Shortage of professional managers knowledgeable in techniques of controlling large-scale industrial enterprises

2. IFC's industrial financing operations in Africa are helping to surmount the above problems.

### Examples:

It has often been IFC's experience that in financing enterprises where advanced or complex technology is involved, it is desirable to have a foreign technical partner, if possible through a joint venture arrangement, where both parties (local and foreign) have an equity stake in the venture.

--In the Somima copper mining project in Mauritania, the principal technical sponsor was Charter Consolidated Limited, a British company with extensive mining interests. Charter also became the largest shareholder in the venture.

New Segregation Process: The copper deposits at Akjoujt, Mauritania, consist of an upper part of refractory copper oxide, overlying copper sulphide ores. The latter can be treated by conventional methods but the oxide ores require the use of segregation procedures. The sponsors (Charter and four French institutions) proposed the use of a newly developed segregation process, TORCO (Treatment of Refractory Copper Ores), proven by trial operations carried out in Zambia and in a pilot plant in Milan, Italy.

--Cotton Company of Ethiopia provides a good management story. In 1961, local competition developed to an extent unforeseen by existing management, and the company deteriorated rapidly. Declining sales, rising costs and shrinking profits resulted, in the 8 months ended May 1963, in a loss.

The company decided that the cure could be found in modernization of its plant and upgrading of management. With Fuji Spinning Company Limited and Marubeni-Iida Company Limited of Japan as sponsors, the company undertook to modernize, to expand its finishing facilities, and to construct a new plant equipped with 12,000 spindles and 400 looms adjacent to the existing plant. The total cost of the project, including provision for permanent working capital, was estimated at \$5.4 million.

IFC came into the project to fill a financing gap. The project was



not viable unless reorganized on a large scale, and funds to finance it on that scale could not be found without IFC's presence.

The two Japanese companies acquired 30 per cent of the company's share capital, for an investment of \$1.65 million. IFC made a loan of \$1.5 million and subscribed to 20 per cent of the shares. The IFC equity investment amounted to slightly over \$1 million. Ethiopian private investors and a holding company in which the Ethiopian Government had a substantial interest held the remainder of the company's shares.

The two Japanese companies provided vigorous management and technical assistance, and they also undertook to provide training for Ethiopian staff, both in Ethiopia and Japan.

The modernization and expansion program was completed in 1966. The Japanese management has been successful in controlling costs and achieving new operating efficiencies. Since the completion of the program, the company's production has doubled and its profits have increased from \$102,000 to \$1.7 million per annum. High earnings, and very satisfactory dividends, are expected to continue.

--IFC investments in local development finance companies help mobilize private capital for industrial investment. In helping prepare financial plans for these companies, IFC has asked foreign business interests, such as banks, insurance companies and other corporations operating in the country, to participate in the equity financing.

**Examples:** Liberian Bank for Industrial Development and Investment. Among the equity investors were the Bank of Monrovia, an affiliate of the First National City Bank of New York; Firestone Plantations Company; International Trust Company of Liberia; Istituto Mobiliare Italiano, and LAMCO Joint Venture.

Nigerian Industrial Bank Limited.

Eight American, European and Japanese investment institutions were brought by IFC into this project: Chase International Investment Corp., Bank of America, Irving International Financing Corp., and Northwest International Bank, of the United States; The Bank of Tokyo, Limited, of Japan; Istituto Mobiliare Italiano, of Italy; Commerzbank A.G., of Germany; and the Societe Financiere pour les Pays d'Outre-Mer, of France.



3. In general, IFC investments in African industries have resulted in:

- Establishment of new enterprises or new kinds of industry  
(Examples: SIES fertilizer plant in Senegal, the first facility of its kind in West Africa; Ethiopian Pulp & Paper, S.C., the first major paper mill in the country)
- Modernization of traditional labor intensive industries, a start in the industrialization process. (Examples: IFC investment in the textile plants in Nigeria, Sudan, Ethiopia and Uganda.)
- Making existing investments more effective through fuller utilization of plant (Example: IFC investment in Cotton Company of Ethiopia; part of the project was expansion of the textile mill's finishing facilities.)

4. IFC has encouraged the development of local capital markets.

Examples: Sometimes, IFC makes an equity investment with the proviso that the shares will be offered to the local public once the venture is profitable and demand exists. In Nigeria, the IFC and two Nigerian development institutions that sponsored Arewa Textiles Limited agreed to reserve one-tenth of their equity holdings for sale to Nigerian private investors.

In HVA Metahara, in Ethiopia, IFC made an underwriting commitment of up to the equivalent of \$2 million, in addition to loan and equity commitments. IFC's underwriting commitment involves 100,000 shares to be offered to the public in Ethiopia.

In Ethiopian Pulp and Paper, S.C., as part of the total financing of about \$8.7 million needed to bring the paper mill into production, IFC agreed to co-underwrite a public share offering in the amount of \$1.7 million equivalent.

5. In its industrial financing operations, IFC has sometimes been required to take the lead in reshaping a project in order to enhance its economic viability.

Example: N.P.K. Engrais, S.A.T.

When the proposal to construct a triple superphosphate fertilizer plant was brought to IFC's attention by the Swedish sponsor, the IFC appraisal placed strong emphasis on the marketing arrangements and on the competitiveness of the company's operations at world market prices. As a result, the sponsor agreed to enter into a long-term contract to purchase part of the output of the new plant for sale in Europe.



5. IFC's new policy on investment promotion is especially important to the growth of private enterprise in Africa. This need for the systematic promotion of projects and project financing was stressed at the 1967 Conference of Industrialists and Financiers, sponsored by the UN Economic Commission on Africa. At the March 1968 Conference on Industry and Finance, also sponsored by the Commission, discussion centered on the establishment of subregional industrial information and promotion centers in Africa. The Commission's Report on this 1968 Conference is attached.



# **TOURISM'S ROLE IN ECONOMIC DEVELOPMENT**

An Address

by

**JAMES S. RAJ**

Vice President

**INTERNATIONAL FINANCE CORPORATION**

to the

**COUNCIL OF THE**

**INTERNATIONAL HOTEL ASSOCIATION**



Dublin, Ireland

May 15, 1969



I wish to thank the organizers of this meeting for giving me the opportunity to discuss the work of the International Finance Corporation in the development of the tourism industry. The conditions that make tourism development an attractive investment proposition are of particular interest to IFC, an affiliate of the World Bank established in 1956 for the purpose of encouraging the growth of the private sector of the developing countries. I cannot think of any other field in which the touch of the entrepreneur is more necessary to success than the tourism business, for tourism is the business of handling people.

I would like my talk to be of practical value to you as investors in tourism, so I will make it my objective to tell you what our interests in tourism are, what we see as the way to assist the growth of tourism in developing countries, and what assistance we can give in setting up and carrying through tourism investments. I welcome your questions, and I am keeping my remarks brief to give time for questions and answers.

IFC's first investment in the tourism industry was made two and a half years ago—in a hotel in Kenya—but our interest in tourism dates back earlier than that. Several of the 19 development finance companies, or local private development banks, which we have helped set up since 1961—



in 17 countries—have made the promotion of tourism projects, chiefly hotel enterprises, an important part of their programs.

The World Bank has for some years made loans for infrastructure works in which tourist traffic constitutes part of the demand. During the past year the Bank decided to undertake a more coherent and consistent program of financing tourism development. For this purpose a Tourism Projects Department was established.

This will result in increased knowledge in the field and will add to the World Bank Group's investment facilities in the important and complex area of tourism, where, in many cases, substantial spending by governments on supporting infrastructure is needed to insure success.

Generally, the Bank will consider making loans for tourism-connected infrastructure facilities. This might be an individual project such as a major highway or airport, where the main justification is tourism development. Alternatively, it might be for a collection of interrelated infrastructure works in a region of a country regarded as having a high priority for tourism development. Or, it might be infrastructure related to development of a specific tourism complex to be undertaken by an institution controlled by the public sector.

So far as superstructure is concerned—the tourism enterprises themselves—the Bank is now considering loans to specialized hotel credit institutions, in addition to those already made to development finance companies of a general nature. In the relatively few cases where superstructure, such as a hotel or a related service industry, is controlled by the public sector, the Bank's financial support would be possible.



*The work of IFC and the Bank will thus be complementary in developing tourism in the developing countries.*

Since IFC's investment in Kenya Hotel Properties Limited, the Corporation has provided finance to hotel enterprises in Jamaica and El Salvador; and we have now made a new departure in Colombia, in the form of an investment in a promotional company organized to develop tourism potential. In all these ventures, members of the International Hotel Association are involved in one way or another.

Let us look for a moment at the background of tourism as a development enterprise. It would appear that we are witnessing a revolution in travel. Travel for pleasure, for example, is now within the reach of the average wage earner in the developed countries. In part this is due to the prevalence now of travel organized by travel agencies for large groups of people at relatively lower costs. Further, record crowds are being attracted not only to traditional vacation spots but to many places off the beaten path, because many people have seen the standard attractions and are looking for something new. The something new is very likely to be in a less developed country. With the coming of the jumbo jets, world travel will have the potential for a further substantial increase.

*Because the developing countries generally are located in regions blessed with mild climates, they have become major beneficiaries of the search of many tourists—who tend to live and work in northern cities—for the sun. For tourists looking for more than just the sun, the developing country usually offers the interest of a distinctive way of life, and often the remains of ancient splendors.*



There is a special need for tourism investment to take advantage of these potentials in the developing lands, since one of their economic difficulties is often a lack of modern hotel accommodations. Here I refer not only to conveniences, but also to the seating space and the technical facilities and services needed to attract conventions. The hotel IFC is helping to finance in Kingston, Jamaica, will provide that island nation with convention facilities that do not exist there. This should be of major economic import to Jamaica, and it should be of major import to the hotel—and, by the way, to nearby hotels—as a business proposition. Thus, we have come to regard the financing of hotel investment as an integral part of a tourism program for a whole country or area.

### Criteria

*Further, each IFC investment must be of economic priority to the country involved, as well as a sound business investment. That is, it must show not only prospects for a reasonable return on the capital put in by IFC and other investors, but must also promise a favorable economic impact on the country and on the area in which the project is located.*

Therefore, in our hotel investments, we consider not only forecasts of room occupancy rates and tourist inflows, but we also make a determination of the economic result to the host country.

Prior to investing in Kenya Hotel Properties Limited, for example, we took note of the fact that tourism ranks second, after coffee, as a source of foreign exchange for the country; that research by private investors and the Kenyan



Government indicated that the annual inflow of some 80,000 tourists would more than double by 1970, the hotel project's first full year of operation; and that, if this growth trend were to be maintained, additional hotel facilities in Nairobi and in the coastal area, as well as in Kenya's game parks, which are principal tourist attractions, would have to be built.

The project which we have supported in Kenya, together with investors in the United States, the United Kingdom, Germany and Kenya, helps to meet these needs. It consists of the construction of a 200-room hotel in Kenya's capital city, game lodge facilities in Kenya's national parks, and a 100-room hotel on the beach near Mombasa. The downtown hotel, the Nairobi Inter-Continental, is scheduled to open for business this month.

The developmental factor was also strongly present in our investment in the Jamaica Pegasus Hotel in Kingston. The establishment of new hotel facilities was deemed essential to maintaining the impetus in the growth of tourism, which was second only to bauxite exports as a source of foreign exchange. Moreover, with its convention facilities, the hotel would help Kingston realize its potential as a site for business meetings.

In El Salvador, the Hotel Camino Real, also a tourist and convention hotel, will serve both national and regional needs. It will not only add to the country's foreign exchange resources and provide 270 new jobs, most of which will be filled by Salvadorans; it will also promote travel in the entire Central American region and cater to business organizations and individual businessmen who are increasingly in contact with their counterparts in the other countries in the Central American Common Market.



One major problem facing the tourism industry in the developing countries is the need for foreign capital which is not tied to imports of equipment, and which, when combined with local finance, will make it possible for facilities to be built in time to keep pace with the rapid growth of the tourism market.

IFC money is not tied to the purchase of specific equipment or to a specific country, it is available for foreign exchange and for local currency expenditures, and it can be used for working capital as well as for fixed assets.

We do have our restrictions. We do not engage in refunding operations, and we do not make any commitments for the financing of exports or imports—other than capital equipment—or for real estate development.

Foreign capital has accompanied IFC in each of its tourism industry investments. I noted previously that in the financing of Kenya Hotel Properties Limited, the investment group brought together by IFC included German, British, and United States financial interests. These were investors in their own right, subscribing to shares in the hotel enterprise, thus supplementing venture capital put in by IFC and Kenyan investors.

There is another way by which IFC brings foreign capital into a project. In the hotel project which we supported in Jamaica, IFC enabled British, Canadian, Italian and United States investors to become partners in the enterprise by offering them participations in the IFC commitment.

Private participants in IFC commitments to hotel financing include such investment institutions as Barclays Overseas Development Corpo-

ration Limited and the Commonwealth Development Finance Company, Limited, both of the United Kingdom; Bamerical International Financial Corporation, a subsidiary of the Bank of America, of the United States; The Royal Bank of Canada International Limited, of Nassau, the Bahamas; Banca Nazionale del Lavoro, of Italy; Citizens and Southern International Corporation, of the United States; and Internationale Finanzierungs A.G., of Switzerland.

*In our hotel investments, we have applied a basic rule which we have worked out over the years in financing development investments of other kinds. The rule is that, in financing enterprises in the developing countries, the most effective structure is one in which local finance and management are combined with foreign finance and management.*

**I**n financing an enterprise, we look to other investors to provide most of the funds needed by the project. Of the approximately \$6.7 million needed to finance Kenya Hotel Properties Limited, we committed up to \$3.1 million of our funds, or 46 per cent of the project cost. In the financing of the Jamaica Pegasus Hotel, IFC money accounted for \$2.9 million, or 34 per cent, of the \$8.6 million required to complete the project. In the case of the Hotel Camino Real in San Salvador, we put up \$933,000, or about a fourth, of the \$3.7 million total cost.

*IFC's role, however, is not limited to that of filling up financing gaps. In nearly all of its investments, IFC also performs a catalytic function, acting as a mobilizer of other investors' funds.*

*IFC interests itself in more than the provision of capital. We help in determining the*



*true financial requirements of a project, and assist the sponsors of a project in arriving at a sound financial plan, tailored to their needs. We also help in finding financial and technical partners for the sponsor, in organizing the corporate structure, and in recruiting managerial and technical personnel. Further, in many cases, IFC advances proposals for improvement of the project.*

### **Promotional Efforts**

In July 1968 we decided to take on a more active and a more central role in helping enterprises to come into being. This is authority to commit funds to promote development investments that have a reasonable prospect of being suitable for financing by IFC in accordance with established criteria.

Under this policy, we can give financial and technical support in the preinvestment stage of potential projects, by paying part of the costs of feasibility studies. In such instances, we can help pay the costs of putting together all the elements of a project—industrial, technical and financial, including the search for an appropriate business sponsor.

In other cases, we can put our funds into the equity of pilot companies, along with other investors interested in backing the prospective full-scale enterprise. This pilot company would undertake the studies and carry out the negotiations needed to implement the project.

We have used this new investment technique in setting up a promotional company in the tourism field. In December of last year, we helped with a small initial investment to sponsor a promotional company in Colombia that was or-

ganized primarily to develop that country's tourism potential. Colombia offers the traveler a wealth of attractions, varying from the cool interior highlands to its tropical Caribbean beaches. Because of limited hotel and other tourist facilities, however, tourism has not contributed significantly to the nation's economy.

The new company, *Compania de Desarrollo de Hoteles y Turismo Limitada* (*Hoturismo*)—which in English means “Company for the Development of Hotels and Tourism”—had 13 sponsors, including IFC, which subscribed equally to its initial capital. These equity funds are intended to be used largely to finance expenses connected with promotion of hotel and other tourism projects in Colombia, which we think has a plan of action with considerable potential.

*Hoturismo* will make basic decisions on such matters as resorts to be developed, nature of facilities to be established, contracts for carrying out a project, and a financial plan for the project.

For each tourism project *Hoturismo* decides upon, a separate company is to be organized, to carry out the project. The 13 sponsors of *Hoturismo* would be invited to join in the financing of this new company. It is expected that *Hoturismo* would bring into each project chosen an investor experienced in tourism promotion and hotel operation, and would invite local investors to participate in the venture. Each new company formed to implement a tourism venture would pay *Hoturismo* for studies or other services related to the project.

The sponsors of *Hoturismo* include two government organizations, one of which is the national tourism agency, plus the principal Colombian airline, four private Colombian development



banks, two Colombian insurance firms and three Colombian industrial companies.

IFC was asked to join in this venture because the others in it wanted to profit from IFC's general experience in financing development investment. This experience spans a period of over 12 years, during which we have helped to finance 130 privately owned enterprises, involving about \$1¾ billion, in 39 of our member countries, investing \$340 million of our own funds. These projects include industrial, mining and agricultural investments, and services including an electric power company and tourism.

During this period, we have evolved in the direction of greater flexibility in our policies and investment techniques, having in mind that each investment has its own particular environment, with its own specific requirements. This flexibility is being brought to bear in our tourism industry investments.

**I**n view of special problems in arranging finance for hotel and other tourism enterprises, many people involved in tourism development have underscored the pressing need for specialized institutions to finance activities in this field. It has been pointed out, for example, that there is a difference between financing a hotel enterprise and that of ordinary mortgage financing, and that, in many cases, private investors are hesitant to invest in hotel building, which involves a heavy, long-run investment.

Further, it has been noted, tourism is a highly competitive industry, and tourism enterprises, to stay in business, also have to compete for scarce capital. This need is felt more keenly in the developing countries, where capital for investment in almost any industry is limited.

*IFC is now feeling its way towards developing the concept of a tourism holding company that would provide equity and loan capital to hotel and other tourism projects, and that would provide the initiatives needed to develop the country's tourism sector as a whole. It is likely that within a short while we would try out this concept in a suitable country. IFC would of course as usual put in equity funds and provide loan capital to such an enterprise.*

### **Government Collaboration**

IFC's investments in the tourism industry are in countries where the government is working to create a favorable climate for private investment, and where there is a national or regional plan for tourism development. Tourism cannot exist apart from basic infrastructure supporting facilities—highways, ports, sewerage systems, swamp clearance, etc.—and provision of such infrastructure is traditionally a responsibility of governments.

IFC's tourism industry investments have had strong support from the host governments and, in some cases, government agencies have become partners in these enterprises. The Tourist Development Corporation of Kenya, the main agency of the Government's tourism development effort, is one of the shareholders of Kenya Hotel Properties Limited. Construction of the game lodges in Kenya's national parks will be undertaken by Kenya Safari Lodges and Hotels, which was formed by the Kenyan Government and British and German investors to promote game lodge development.

In Jamaica, the Government is giving strong encouragement to development of the tourism industry, which contributes some \$80 million a



year in foreign exchange resources, and which is the country's fastest growing provider of employment. In Colombia, two Government organizations were co-sponsors of the promotional company formed to prepare the groundwork for tourism projects, and in El Salvador, the Government, through its Central Bank, made available a loan that amounted to about a third of the entire project cost of the Hotel Camino Real. The hotel at San Salvador is one of a network of hotels being built in the Central American region at the urging of a regional organization established to promote integrated development of the tourism industry in Central America.

In the tourism industry, it is not uncommon for governments to make direct investments in tourism projects, in the implementation of a national tourism program. Governmental participation in a project is no bar to IFC participation, so long as the project remains predominantly privately owned. We expect that governmental interest in projects we help finance should be no more than 25 per cent.

There are dangers in trying to predict the future of tourism development, since the tourism industry is affected by many non-economic factors. The world political situation, changes of fashion (what is "in" or "out" as tourist resorts), and the existence of cumbersome travel regulations, for example—as all of you here know very well—influence development of this unusually sensitive industry.

*Yet, given present trends, there is every likelihood that the rapid rise in world travel will continue, and that tourist inflows to the developing countries will grow at a faster pace than tourist traffic generally.*

Your President, Mr. Mack, was not merely engaging in wishful thinking when, in his speech to the General Congress of your Association last October, he directed your attention to the great opportunities that lie ahead, and cited the fact that millions of people "are earning more . . . consuming more . . . living better . . . and traveling more than ever before."

By all counts, therefore, the future of the tourism industry seems to hold increasing opportunities for collaboration between members of the International Hotel Association and IFC. We hope that we can be of service to you, and we stand ready to discuss projects in the tourism industry.

Additional copies may be obtained by writing to the Publications Section, Room D900, International Finance Corporation, 1818 H Street, N.W., Washington, D.C. 20433.



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**Remarks of****James S. Raj****Vice President****International Finance Corporation****to the Council of the****International Hotel Association****Thursday, May 15, 1969****Royal Hibernian Hotel  
Dublin, Ireland**



I wish to thank the organizers of this meeting for giving me an opportunity to discuss the work of the International Finance Corporation in the development of the tourism industry. The conditions that make tourism development an attractive investment proposition are of particular interest to IFC, an affiliate of the World Bank established in 1956 for the purpose of encouraging the growth of the private sector of the developing countries. I cannot think of any other field in which the touch of the entrepreneur is more necessary to success than the tourism business, for tourism is the business of handling people.

I would like my talk to be of practical value to you as investors in tourism, so I will make it my objective to tell you what our interests in tourism are, what we see as the way to assist the growth of tourism in developing countries, and what assistance we can give in setting up and carrying through tourism investments. I welcome your questions, and I am keeping my remarks brief to give time for questions and answers.

IFC's first investment in the tourism industry was made two and a half years ago -- in a hotel in Kenya -- but our interest in tourism dates back earlier than that. Several of the 19 development finance companies, or local private development banks, which we have helped set up since 1961 -- in 17 countries -- have made the promotion of tourism projects, chiefly hotel enterprises, an important part of their programs.

The World Bank has for some years made loans for infrastructure works in which tourist traffic constitutes part of the demand. During the past year the Bank decided to undertake a more coherent and consistent program of financing tourism development. For this purpose a Tourism Projects Department was established.



This will result in increased knowledge in the field and will add to the World Bank Group's investment facilities in the important and complex area of tourism, where, in many cases, substantial spending by governments on supporting infrastructure is needed to insure success.

Generally, the Bank will consider making loans for tourism-connected infrastructure facilities. This might be an individual project such as a major highway or airport, where the main justification is tourism development. Alternatively, it might be for a collection of interrelated infrastructure works in a region of a country regarded as having a high priority for tourism development. Or, it might be infrastructure related to development of a specific tourism complex to be undertaken by an institution controlled by the public sector.

So far as superstructure is concerned -- the tourism enterprises themselves -- the Bank is now considering loans to specialized hotel credit institutions, in addition to those already made to development finance companies of a general nature. In the relatively few cases where superstructure, such as a hotel or a related service industry, is controlled by the public sector, the Bank's financial support would be possible.

The work of IFC and the Bank will thus be complementary in developing tourism in the developing countries.

Since IFC's investment in Kenya Hotel Properties Limited, the Corporation has provided finance to hotel enterprises in Jamaica and El Salvador; and we have now made a new departure in Colombia, in the form of an investment in a promotional company organized to develop tourism potential. In all these ventures, members of the International Hotel Association are involved in one way or another.



Let us look for a moment at the background of tourism as a development enterprise. It would appear that we are witnessing a revolution in travel. Travel for pleasure, for example, is now within the reach of the average wage earner in the developed countries. In part this is due to the prevalence now of travel organized by travel agencies for large groups of people at relatively lower costs. Further, record crowds are being attracted not only to traditional vacation spots but to many places off the beaten path, because many people have seen the standard attractions and are looking for something new. The something new is very likely to be in a less developed country. With the coming of the jumbo jets, world travel will have the potential for a further substantial increase.

Because the developing countries generally are located in regions blessed with mild climates, they have become major beneficiaries of the search of many tourists -- who tend to live and work in northern cities -- for the sun. For tourists looking for more than just the sun, the developing country usually offers the interest of a distinctive way of life, and often the remains of ancient splendors.

There is a special need for tourism investment to take advantage of these potentials in the developing lands, since one of their economic difficulties is often a lack of modern hotel accommodations. Here I refer not only to conveniences, but also to the seating space and the technical facilities and services needed to attract conventions. The hotel IFC is helping to finance in Kingston, Jamaica, will provide that island nation with convention facilities that do not exist there. This should be of major economic import to Jamaica, and it should be of major import to the hotel -- and, by the way, to nearby hotels -- as a business proposition.



Thus, we have come to regard the financing of hotel investment as an integral part of a tourism program for a whole country or area.

Further, each IFC investment must be of economic priority to the country involved, as well as a sound business investment. That is, it must show not only prospects for a reasonable return on the capital put in by IFC and other investors, but must also promise a favorable economic impact on the country and on the area in which the project is located.

Thus, in our hotel investments, we consider not only forecasts of room occupancy rates and tourist inflows, but we also make a determination of the economic result to the host country.

Prior to investing in Kenya Hotel Properties Limited, for example, we took note of the fact that tourism ranks second, after coffee, as a source of foreign exchange for the country; that research by private investors and the Kenyan Government indicated that the annual inflow of some 80,000 tourists would more than double by 1970, the hotel project's first full year of operation; and that, if this growth trend were to be maintained, additional hotel facilities in Nairobi and in the coastal area, as well as in Kenya's game parks, which are principal tourist attractions, would have to be built.

The project which we have supported in Kenya, together with investors in the United States, the United Kingdom, Germany and Kenya, helps to meet these needs. It consists of the construction of a 200-room hotel in Kenya's capital city, game lodge facilities in Kenya's national parks, and a 100-room hotel on the beach near Mombasa. The downtown hotel, the Nairobi Inter-Continental, is scheduled to open for business this month.



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One major problem facing the tourism industry in the developing countries is the need for foreign capital which is not tied to imports of equipment, and which, when combined with local finance, will make it possible for facilities to be built in time to keep pace with the rapid growth of the tourism market.

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Foreign capital has accompanied IFC in each of its tourism industry investments. I noted previously that in the financing of Kenya Hotel Properties Limited,



the investment group brought together by IFC included German, British, and United States financial interests. These were investors in their own right, subscribing to shares in the hotel enterprise, thus supplementing venture capital put in by IFC and Kenyan investors.

There is another way by which IFC brings foreign capital into a project. In the hotel project which we supported in Jamaica, IFC enabled British, Canadian, Italian and United States investors to become partners in the enterprise by offering them participations in the IFC commitment.

Private participants in IFC commitments to hotel financing include such investment institutions as Barclays Overseas Development Corporation Limited and the Commonwealth Development Finance Company, Limited, both of the United Kingdom; Bamerical International Financial Corporation, a subsidiary of the Bank of America, of the United States; The Royal Bank of Canada International Limited, of Nassau, the Bahamas; Banca Nazionale del Lavoro, of Italy; Citizens and Southern International Corporation, of the United States; and Internationale Finanzierungs A.G., of Switzerland.

In our hotel investments, we have applied a basic rule which we have worked out over the years in financing development investments of other kinds. The rule is that, in financing enterprises in the developing countries, the most effective structure is one in which local finance and management are combined with foreign finance and management.

In financing an enterprise, we look to other investors to provide most of the funds needed by the project. Of the approximately \$6.7 million needed to finance Kenya Hotel Properties Limited, we committed up to \$3.1 million of our funds, or 46 per cent of the project cost. In the financing of the Jamaica Pegasus



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In July 1968 we decided to take on a more active and a more central role in helping enterprises to come into being. This is authority to commit funds to promote development investments that have a reasonable prospect of being suitable for financing by IFC in accordance with established criteria.

Under this policy, we can give financial and technical support in the pre-investment stage of potential projects, by paying part of the costs of feasibility studies. In such instances, we can help pay the costs of putting together all the elements of a project -- industrial, technical and financial, including the search for an appropriate business sponsor.

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We have used this new investment technique in setting up a promotional company in the tourism field. In December of last year, we helped with a small initial investment to sponsor a promotional company in Colombia that was organized primarily to develop that country's tourism potential. Colombia offers the traveler a wealth of attractions, varying from the cool interior highlands to its tropical Caribbean beaches. Because of limited hotel and other tourist facilities, however, tourism has not contributed significantly to the nation's economy.

The new company, Compania de Desarrollo de Hoteles y Turismo Limitada (Hoturismo) -- which in English means "Company for the Development of Hotels and Tourism" -- had 13 sponsors, including IFC, which subscribed equally to its initial capital. These equity funds are intended to be used largely to finance expenses connected with promotion of hotel and other tourism projects in Colombia, which we think has a plan of action with considerable potential.

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For each tourism project Hoturismo decides upon, a separate company is to be organized, to carry out the project. The 13 sponsors of Hoturismo would be invited to join in the financing of this new company. It is expected that Hoturismo would bring into each project chosen an investor experienced in tourism promotion and hotel operation, and would invite local investors to participate in the venture. Each new company formed to implement a tourism venture would pay Hoturismo for studies or other services related to the project.

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During this period, we have evolved in the direction of greater flexibility in our policies and investment techniques, having in mind that each investment has its own particular environment, with its own specific requirements. This flexibility is being brought to bear in our tourism industry investments.

In view of special problems in arranging finance for hotel and other tourism enterprises, many people involved in tourism development have underscored the pressing need for specialized institutions to finance activities in this field. It has been pointed out, for example, that there is a difference between financing a hotel enterprise and that of ordinary mortgage financing, and that, in many cases, private investors are hesitant to invest in hotel building, which involves a heavy, long-run investment.

Further, it has been noted, tourism is a highly competitive industry, and tourism enterprises, to stay in the business, also have to compete for scarce capital. This need is felt more keenly in the developing countries, where capital for investment in almost any industry is limited.



We are now feeling our way towards developing the concept of a tourism holding company that would provide equity and loan capital to hotel and other tourism projects, and that would provide the initiatives needed to develop the country's tourism sector as a whole. It is likely that within a short while we would try out this concept in a suitable country. IFC would of course as usual put in equity funds and provide loan capital to such an enterprise.

IFC's investments in the tourism industry are in countries where the government is working to create a favorable climate for private investment, and where there is a national or regional plan for tourism development. Tourism cannot exist apart from basic infrastructure supporting facilities -- highways, ports, sewerage systems, swamp clearance, etc., -- and provision of such infrastructure is traditionally a responsibility of governments.

IFC's tourism industry investments have had strong support from the host governments and, in some cases, government agencies have become partners in these enterprises. The Tourist Development Corporation of Kenya, the main agency of the Government's tourism development effort, is one of the shareholders of Kenya Hotel Properties Limited. Construction of the game lodges in Kenya's national parks will be undertaken by Kenya Safari Lodges and Hotels, which was formed by the Kenyan Government and British and German investors to promote game lodge development.

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about a third of the entire project cost of the Hotel Camino Real. The hotel at San Salvador is one of a network of hotels being built in the Central American region at the urging of a regional organization established to promote integrated development of the tourism industry in Central America.

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There are dangers in trying to predict the future of tourism development, since the tourism industry is affected by many non-economic factors. The world political situation, changes of fashion (what is "in" or "out" as tourist resorts), and the existence of cumbersome travel regulations, for example -- as all of you here know very well -- influence development of this unusually sensitive industry. Yet, given present trends, there is every likelihood that the rapid rise in world travel will continue, and that tourist inflows to the developing countries will grow at a faster pace than tourist traffic generally.

Your President, Mr. Mack, was not merely engaging in wishful thinking when, in his speech to the General Congress of your Association last October, he directed your attention to the great opportunities that lie ahead, and cited the fact that millions of people "are earning more...consuming more...living better...and traveling more than ever before."

By all counts, therefore, the future of the tourism industry seems to hold increasing opportunities for collaboration between members of the International Hotel Association and IFC. We hope that we can be of service to you, and we stand ready to discuss projects in the tourism industry.

Thank you.





March 6, 1970

Dear Mr. Patton:

I enclose a brief statement which you requested earlier from Mr. Raj, touching on the assistance available from the World Bank Group for tourism development. We appreciate your offer to read this message to the session on Financing of the Annual Workshop of the Pacific Area Travel Association.

As requested by you, I am sending separately, by messenger, 25 copies each of two documents mentioned in the message -- the IFC General Policies booklet and Mr. Raj's speech before the Council of the International Hotel Association.

Please accept my best wishes for a successful session. I would appreciate receiving reports of the Workshop proceedings and of the PATA annual meeting, if these are available.

Sincerely yours,

Frank O'Brien, Jr.  
Chief, Information Services - IFC

Mr. James R. Patton, Jr.  
Patton, Blow, Verrill, Brand & Boggs  
1200 17th Street, N.W.  
Washington, D.C. 20036

Enclosure

cc: Mr. Raj  
Mr. von Hoffman  
Mr. Paterson  
Mr. Lind

FO'B/mj



The World Bank and its affiliate, the International Finance Corporation, were unable to send representatives to this meeting.

They have asked me to express their regrets and have supplied me with the following message to you on the assistance that is available from them in our field of tourism development.

The World Bank Group has in the past several years increasingly given support to the growth of tourism facilities in its developing member countries. Investments thus far in tourism have been made in Latin America, the Caribbean and Africa, by the International Finance Corporation. This is the member of the World Bank Group that attempts to further economic development by encouraging the growth of productive private enterprise in the developing countries.

However, the World Bank itself is entering the field. Mr. Robert S. McNamara, President of the Bank, has established a Tourism Projects Department, and assigned it to identify, appraise and supervise projects in tourism development and provide advice on problems and policies in this sector. The Bank is prepared to consider financial support both for tourism-connected infrastructure facilities and for tourism enterprises themselves. Bank financing, whether it is provided to governments or to private enterprises, requires a government guarantee of repayment.



IFC investments are made without government guarantee of repayment, and IFC, unlike the Bank, can supply equity as well as loan capital. The Bank affiliate has provided funds to help finance a \$39.3 million company in Tunisia established to promote tourism there on a national basis. IFC has also helped finance hotel projects in Kenya, El Salvador, Jamaica and Colombia.

It prefers projects that are part of a broad scale development scheme, such as the network of hotels being established throughout Central America, of which the hotel assisted by IFC in El Salvador is a part; the hotel in Kenya, which is part of a network of accommodations being built to draw people to the country's game parks, and the Tunisian promotional company, designed to help the country make tourism a principal development industry.

IFC prefers tourism projects that are designed to take advantage of the ability of the big jets to bring large numbers of people on "package" tours, on the grounds that this results in maximum earnings for the developing country.

Tourism, like other projects, must satisfy IFC's criteria for investment, including the requirement that they be sound from both a business and a developmental viewpoint, that adequate private capital is not available on reasonable terms, and that there is local participation in the ownership of the project, which must be predominantly privately owned.



Projects, such as roads, airports, water or power supply, may be eligible for financing by the World Bank as assisting tourism development. Bank funds might also go to an institution in the borrower country whose function is to establish and develop a tourism complex. Finally, where appropriate, the Bank might make a loan for "super-structure," such as a hotel or a related service industry, in places which already have adequate infrastructure facilities.

In the case of both Bank and IFC assistance to tourism projects, it must be established that development of the tourist trade has a place in the country's overall development picture, and also that the project itself is economically justified.

I have available IFC's statement of operating policy and investment criteria, IFC, General Policies, and the text of a speech by the Vice President of IFC, Mr. James S. Raj, "Tourism's Role in Economic Development" for any who may want them.

You will find the address of the World Bank in Washington in each, and any enquiries you may want to make may be addressed to the Department of Information and Public Affairs, which will route them to the Tourism Projects Department of the Bank, or to the indicated investment department of IFC.

On Page 12 of the IFC policy document you will find a list of data needed to decide whether an investment proposal is of a kind that warrants their serious consideration.

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