

EVIDENCE ON THE IMPACT OF INTERNATIONAL FINANCE CORPORATION TOURISM INVESTMENT ON LATIN AMERICAN AND CARIBBEAN ECONOMIES

Elvis Mujačević, University of Rijeka

Ana Vizjak, University of Rijeka

Andrea Cindrić, University of Rijeka

ABSTRACT

The International Finance Corporation (IFC) as a member of World Bank Group is the largest multilateral source of loan and equity financing for private sector projects in developing countries. Particular focus of International Finance Corporation is to promote economic development by encouraging the growth of productive enterprise and efficient capital markets in its member countries. The purpose of this article is to show the correlation between International Finance Corporation investments and economic development of the region, country, national economies and private enterprises or companies that make partnership with International Finance Corporation. The main object is to evaluate in details the connection and difference between International Finance Corporation and investments in different projects and the difference if the Organization is not investing in some projects or in the specific country. The research objective is to determine the role and significance of International Finance Corporation investments in tourism and hospitality industry on the example of Latin America and Caribbean, and analyze interrelationship between investments and development of specific country in which investments are made, and development of its whole economy and to draw attention on need for stronger implementation and importance of International Finance Corporation as a source of investment funds.

JEL: F21; L83; O1; O16; P45

KEYWORDS: International Finance Corporation, investments, tourism, hospitality, economic development, Latin America and Caribbean

INTRODUCTION

Tourism, a vital sector of the world economy, accounts for over 25% of the world's trade in services. Since its foundation more than 50 years ago, the mission and vision of the International Finance Corporation is focused on the development of developing countries in the way to finance private sector projects, and maximally up to \$ 100 million. Of course, it does not invest in projects without any criteria, but it has priority sectors or those who have a high impact on developing country economies. International Finance Corporation has developed for this purpose Development Outcome Tracking System, an instrument that serves to track properly the progress of the project in which it invests. This tracking System allows the feedback to invest better and more precisely where is needed in the future, without unnecessary wastage of financial resources. Just mentioned DOTS system allows tracking the indicators for development of the country, region or specific economic sectors. Tourism and hospitality industry is a part of industry of Global Manufacturing and Services, and to show the correlation between IFC investment and economic development of the region it is important to present data that show how much is the development outcome by region specifically for this sector.

The tourism industry has shown consistent growth over the past three decades with the developing world capturing an ever increasing share of tourism receipts. Continued growth of tourism is forecast although the rate of such growth varies significantly by destination. The financing of leisure-oriented hotels in

countries which have few resources other than natural beauty, and few immediate alternatives for economic development besides tourism, has an important developmental impact. Resort developments can also promote economic development of a country's less developed regions.

To demonstrate the role of IFC investments in tourism and hospitality industry and what impact the investments have in the economic development of entire regions or countries, Latin America and Caribbean region has been the subject of research. Given that this is a region where there are more than 500 million people, of whom 25% live in extreme poverty, the more the role of the IFC increases in these conditions and it is important to show a link how this region can potentially develop. IFC specifically for the LAC region has the strategic objectives which primarily include the creation of a positive economic environment for entrepreneurial development and for development and construction of infrastructure that is essential for the further development of the region, both for tourism and as for other industries. The combination of developmental impact, investment risk, and lack of other sources of long-term finance is a natural argument for IFC's catalytic and investment role in hotel and resort investments. Moreover, future demand for IFC financing is expected to be strong due to continued growth in the tourism industry, the opening of new regions to international travelers, and increasing government interest in the sector. Since 1956, IFC has invested over \$2 billion in 220 hotel projects in more than 80 countries. Tourism brings great potential for job creation, growth in tax revenues, improvements in foreign exchange earnings, and opportunities for related smaller businesses. This ability to facilitate local, regional, and national economic growth, thus helping reduce poverty, is the reason why IFC is deeply committed to the industry. IFC's commitment extends to environmental protection and cultural preservation, with investments in hotels and touristic resorts that complement unique natural habitats and enhance the attractiveness of historically remarkable sites.

LITERATURE REVIEW

Over recent decades some countries from Latin America and Caribbean region have experienced an important development due to the positive effect of tourism on the services sector (Aguayo, Exposito & Lamelas, 2001). According to Aguayo, Exposito & Lamelas (2001), industry and tourism should be the primary goal of the development of the region, because with their development will come to the development of the sector they belong to, and it will cause the creation of new jobs and increasing of production. Mavrotas (2002) wrote about the importance of investments in the private sector and investigated the significance of IFC in investing in private enterprises. Such kinds of investments benefit the economy, promote a sound environment and social well-being, and are examples of good business for other entrepreneurs.

A World Development Report (2010b) says that the tourism industry is having a big impact on local people and local economies in many developing countries. In recent years, the role of tourism has become more recognized in the context of the sustainable use of natural resources and the sector's potential contribution to the country's economic growth. For this reason, development of tourism is essential to the economic development of developing countries. Therefore, Oyewole (2009) has demonstrated that tourism is a major source of foreign exchange inflows, which gives the momentum to national economy.

Region of Latin America and the Caribbean is a region of great diversity and region with a huge number of poor populations. According to Kos-Stanisic (2009) a substantial proportion of the population of Latin America and Caribbean are people who are on the margins of society, about 40 million which represents about 10% of the total population. Krtalic & Tomic (2006) are mentioning that this area is one with the largest and the constant economical inequalities in the world. But on the other hand, the Region has perhaps the greatest natural predispositions and richness of resources. Christie and Crompton (2001) have also researched many projects on tourism that were supported by the IFC.

Te Velde and Nair (2006) investigate whether and how developing countries can use foreign investment for their development. They refer to the Caribbean whose tourism is the most important services sector. While the case is shown for the FDI (foreign direct investment), not only for IFC, they also emphasize how the investments are critical for further development of the sector, so it is important to understand what drives it. Additionally, Wilkinson (2009) in the case of the Caribbean came to realize that there is still a huge space for improvement. Tourism in the LAC region and the Caribbean Islands has yet to begin to develop properly because the islands still have disorganized system of government and lack of clear development strategy, there is no integrated plan for national development and countries are focused on attracting as many tourists instead of the more tourist spending .

Besides these shortcomings, lack of regional cooperation and local funding sources are negligible (Wilkinson, 2009). In spite of this, Ashley & Mitchell (2007) identifies in The Overseas Development Institute review of 3 main pathways through which tourism affects poverty reduction: tourism is more labor-intensive than other non-agricultural, tourism direct effects on wages and earnings of those who participate directly in the sector as workers or entrepreneurs and it also uses a relatively high proportion of unskilled or semi-skilled labor. For these reasons, in some countries, tourism is an important source of employment for poor people (Bertola, 1993). Because of this, Latin America and Caribbean need to invest into tourism and hospitality industry. Moreover, in his article Oyewole (2009) made projections to 2020 in which he explored the potential of tourism development for the LAC countries in the region.

The projection came to a result that till 2020 the number of tourist arrivals in the LAC region should increase to a maximum of 100 million people, and in 2004 (which was last year of research) was achieved a total of 51,21 million of tourist arrivals. Mentioned projection anticipates an increase to 50 million or an increase of 100% by the end of 2020th year. Additionally, tourist arrivals are simultaneously monitored by the inflow of foreign currency which is anticipated to be increased from \$ 34,11 billion by 2020 to \$ 75,79 billion. This kind of projection also anticipates increasing revenue more than 100% (Oyewole, 2009). Tourism in the LAC region will be highly sensitive to economic changes that will eventually happen in the region precisely because tourism is closely linked to future income and employment growth (Strizzi & Meis, 2001). They believe it is time that LAC countries of the region began to develop significantly, because if they remain in place there will not be opportunities for growth and thus will be difficult to attract new tourists and restore existing ones.

Right here there is a space for IFC to operate and to create the potential for its impact on tourism development in Latin America and Caribbean, and through the development of tourism there is the opportunity for development and progress of the entire region.

PORTFOLIO OF INTERNATIONAL FINANCE CORPORATION

IFC highlight report (2009b) reported that the core business of IFC is financing private sector projects, helping private companies in finding financial resources in international capital markets and providing advice and technical assistance to enterprises and governments.

The vision of this organization is to give poor countries the possibility of improving their lives and ability to exit from poverty. IFC promotes private sector investment in developing countries and it is actually the largest multilateral source of financing for private sector projects in developing countries. Specifically, in the IFC Corporate Overview (2009c), their purpose is clear "*To create opportunity for people to escape poverty and improve their lives by:*

- Promoting open and competitive markets in developing countries;
- Supporting companies and other private sector partners where there is a gap;
- Helping to generate productive jobs and deliver essential services to the underserved. "

International Finance Corporation promotes sustainable economic development through private sector. IFC's strategy is reflected in the investment sector and in countries with unfavorable economic situation. Priority sectors for the development of IFC are the ones who have a high impact on the economy of developing countries, and they include the financial sector, health and education, infrastructure, information and communication technologies, and investments in small and medium enterprises. Together they represent about 70% of IFC investments. International Finance Corporation is the largest single source of direct financing private sector projects in developing countries. While IFC's investments and loans granted under market conditions, it doesn't compete with private capital.

IFC finances projects to cover risks in countries that otherwise cannot get enough funds, and under reasonable terms from other sources. Since the IFC does not require government guarantees, it is involved with the partners in the division of project risk. Funds and other investors, financiers are attracted by the IFC so the Corporation is actively seeking partners for joint ventures and for collecting additional funds loans or investments from other institutions for projects that intend to support. These investments range 1-100 million \$ with a limited number of investments. IFC continues to develop new financial tools that enable companies to manage risk and expand their access to foreign and domestic capital markets. As mentioned in the IFC Corporate Overview (2009c), IFC has 5 basic forms of its financial commitment: *A loans; Participation in share capital; B loans; Partial credit guarantee; C loans*. Impact of International Finance Corporation is huge. In Doing Business Report (2010a) it is said that about 85% of the world's economies have made it easier for entrepreneurs to operate in the past five years.

IFC's Participation in Investments

To ensure the participation of investors and lenders from the private sector, International Finance Corporation limits the total amount it can give. For new projects the maximum is 25% of the total estimated project cost, or in exceptional cases up to 35% for small projects. For expansion projects IFC may provide up to 50% of project costs, provided that the investments do not exceed 25% of the total capitalization of the company's project. If the project is accepted by the IFC, it enters into a cycle. The project cycle illustrates the stages through which a particular project is passing. Project cycle begin with sending requests for funding of the proposed project until the end when it ends the cycle of investment. That International Finance Corporation itself could follow its own investment and positive effects of exercise in the region or Member State, IFC has developed a Development Outcome Tracking System (DOTS) to monitor results. DOTS system provides a realistic assessment of the extent to which it is achieved to promote sustainable private sector investment in developing countries, all aimed at reducing poverty and increasing prosperity of human life. The specificity of the system established in 2005 was also that he surveys the investment while the project is still active and allows him to make any changes and to continuously monitor the progress and if something goes wrong, allows immediate response. Using standard performance indicators DOTS system allows to monitor the overall development and to compare it with the regions and industries.

IFC investments in the financial year 2009 amounted to \$ 14,5 billion in comparison with the previous record in 2008 (\$ 16,2 billion) were reduced by almost 2 billion (IFC, 2009a). Of this amount, \$ 10,5 billion the IFC invested for its own account and mobilized an additional \$ 4 billion from other sources. More than 50% of the projects in which IFC has been involved were the world's poorest countries. In FY2010 this trend has continued (Table 1).

Table 1: Total IFC Investments (\$ millions)

IFC Investments	2010	2009	2008
Total project number	528	447	372
Total number of countries	103	103	85
IFC own funds	12,664	10,547	11,399
IFC mobilized funds from others	5,377	3,962	4,752

Table shows a comparison of IFC investments for the last 3 financial years.

In FY2010 the year, IFC has participated with a total of \$ 12,664 million of its own funds to 528 projects and has mobilized \$ 5,377 million of funds which is far the most funding (IFC, 2010). In 2009, the IFC was involved with investments totaling \$ 10,5 billion, compared with \$ 11,4 billion in 2008. Although there has been a reduction in spending, compared to 2007 the investments increased by more than \$ 2 billion which represents a positive trend. In addition, IFC in 2009 mobilized resources for a total of \$ 4 billion compared with \$ 4,8 billion in 2008. Although the investment amount is less compared to 2008, the number of projects increased. In 2008, IFC has participated in 372 projects, in 2009 in 447 projects and in the 2010 in a record 528 projects. Also, the number of countries in 2010 which the IFC collaborated with stagnated in comparison to 2009, but with the comparison in 2008 there were only 85 partner countries.

Development Outcome of IFC Investing

Despite the impact of financial crisis that started in developed countries and it was present in the larger part of the developing countries during the financial year 2009, IFC has managed to maintain relatively the same level of promoting the economic development (World Bank, 2009). Although the overall result of IFC's development remained the same as last year, different regions have passed through the ups and downs because they were affected by the economic crisis in different ways and with different intensity (Table 2).

Table 2: Development Outcome by Regions for FY2010 (\$ millions)

	Development outcome	IFC investments	Rated projects
IFC	71%	15,431	493
Sub-Saharan Africa	66%	1,069	62
Europe and Central Asia	66%	4,954	126
Middle East and North Africa	70%	975	43
East Asia and the Pacific	72%	2,237	85
Latin America and Caribbean	77%	4,818	120
South Asia	79%	1,167	47

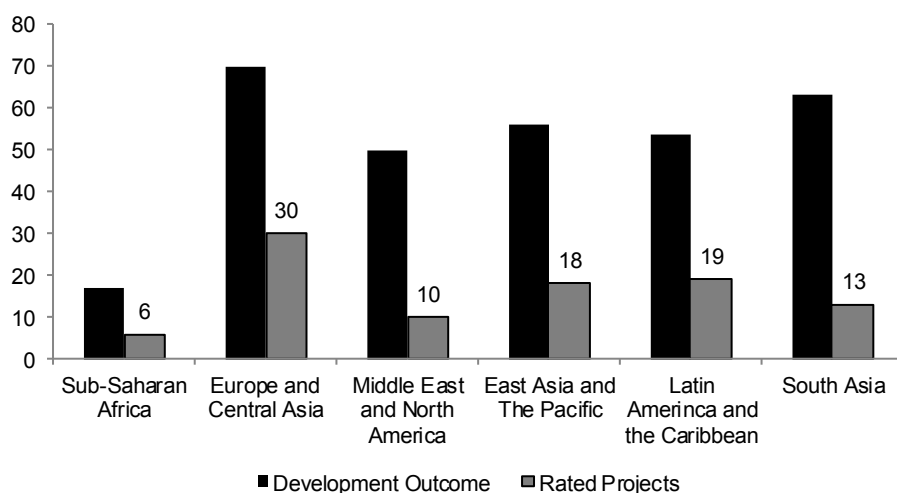
This table shows development outcome for every region where IFC invested, number of rated projects in the region and the amount of invested funds that IFC has made. The data is shown for financial year 2010.

In 2010, 71% of the total IFC investments were rated high. Development results of IFC investments overall have remained quite stable over the past two years, at 71% in FY2010 again, the same as in previous two years, despite the most serious financial crisis in decades that has impacted all the regions. The region in which are the most highly rated projects is South Asia, 79%, and least judged regions regarding their development results were Europe and Central Asia and Sub-Saharan Africa, which had about 66% positively assessed the results of development. In 2010, the most positive effects of

development were achieved in South Asia, but are followed by Latin America and Caribbean with 77%. IFC investments: in 2010 IFC invested a total of \$ 15,431 million. However, the difference can be observed in regions where the regions of Europe and Central Asia and Latin America and the Caribbean invested over 50% of the total amount or \$ 9,772 million. This year, least funds were invested in the region of Middle East and North Africa, \$ 975 million, which seems small compared to other regions. Rated projects show the height of investments followed by the number of projects and the expected two regions that have the largest IFC investment have the largest number of projects, a total of 226. Other regions do not have anywhere near the accepted projects, so their investments are smaller. The difference between the regions with the highest and lowest number of projects is quite noticeable.

The manufacturing and services sector plays a vital role in creating economic opportunity and reducing poverty in developing countries. Investments in the sector create jobs, increase the availability of affordable goods and services to consumers, and support the growth of small and medium enterprises along the supply and distribution chain (Ashley and Mitchell, 2007). Tourism and hospitality industry is situated in industry of Global Manufacturing and Services. In FY2010 there were some differences in this industry when comparing Regions (Figure 1).

Figure 1: Development Outcome by Industry of Global Manufacturing and Services by Regions



This figure shows Development Outcome by regions for FY2010 (%) and number of rated projects. The presented data shows the difference of investments between every region. Also, figure shows the results and numbers of rated projects where Europe and Central Asia has the most rated project, and Sub-Saharan Africa has the least rated projects.

Overall results for the development outcome of this sector were estimated with 57% efficiency compared to earlier 2009th year when they were assessed with 54%. This sector is much diversified and includes: nonmetallic mineral product manufacturing (19%), tourism (14% of projects), industrial and consumer products (14%), pulp and paper (13%), chemicals (10%) and wholesale and retail trade (9%). Europe and Central Asia was the region with most Global Manufacturing and Services projects, 30 projects. Region with the least projects was Sub-Saharan Africa with only 6 projects. These two regions were also the best and worst performing: 70% of projects in Europe and Central Asia were rated high, and only 17% of projects in Sub-Saharan Africa were rated high. Other regions were rated between 50% and 62%.

IFC plays a significant role in development by financing in many developing countries (Mavrotas, 2002). The following table shows the relationship between 2 years and the extent of the IFC's influence on the

development of countries, and thus indirectly on the development of the region, economic development and a better standard of living.

Table 3: IFC Development Outcome for Countries US\$

Investments	2008	2009
Employment provided (million)	2,1	2,2
Microfinance loans (million)	8,5	8,5
Amount (\$ billions)	\$ 90,63	\$ 101,32
Customers reached with services (million)		
Power generation	153,4	132,2
Power distribution	28,5	29,4
Water distribution	21,6	34,6
Gas distribution	12,5	15,7
Patients reached	5,5	7,6
Students reached	1,2	1,4

Table shows impact of IFC for developing countries for years 2008 and 2009.

IFC's investments have generated directly or indirectly about 2 million new jobs in these recession times (Table 3). Manufacturing clients tend to create or maintain more employment and generate more local purchases than any other sector. The purchasing had a further multiplier effect in the local economies through the support for SMEs, indirect job creation, and increased tax payments. Microfinance loans: in both years, there have been 8,5 millions of loans entirely worth of about \$ 100 billion. Customers reached with services: services are divided into power generation, power distribution, water distribution, gas distribution, patients and students reached. These kinds of development outcome are important for every single people and through them IFC can monitor economic growth of the country. Power generation has reduced in comparison of 2008 but still there were 132,2 millions of new customers who reached with service. Power distribution has slightly increased from 28,5 in 2008 to 29,4 millions of customers in 2009. Positive trend has continued also on water and gas distribution. Also there were 5,5 millions patients reached in 2008 but in 2009 the number of patients increased to 7,6 millions. The number of students has slightly increased, for 200,000 new students in the year 2009, compared with the year 2008.

IFC effectiveness of investing for private sectors are (Mavrotas, 2002): they have generated greater benefits for customers, employees, suppliers and taxpayers; investments in targeted high-risk countries performed better developmentally.

LATIN AMERICA AND CARIBBEAN REGION

The region of Latin America and the Caribbean is marked by myriad problems of the economic system which, together with the problems of the tax system prevents significant economic progress and poverty reduction, which is one of the main features of the area. Latinos live in a complex economic system, in which people are ranked from too rich to those on the edge of existence (Aragao, 2005). Economically speaking, natural resources and agriculture are still of utmost importance to the economies of these countries. This region is home to 569 million people (Mowforth, 2008). About 75% of the population lives around the city and therefore LAC region is one of the most urbanized among developing countries. Around 128 million (24.5%) of people are living in poverty. Their average income is less than \$ 2 per day. Out of 128 million who are living in poverty, 50 million (9.5%) are extremely poor and their average income is less than \$ 1 a day.

In this region, IFC is the most focused on key development challenges faced by countries in Latin America and the Caribbean, and its strategic priorities include improving the business environment, infrastructure projects that include residents who are most exposed to poverty, those at the bottom of the economic pyramid (BOP), increasing the focus on fewer countries, especially countries in Central

America and the Caribbean, promote investment in "clean" technology to allow mitigation of climate change, support private sector participation in infrastructure development and increase access to finance, with emphasis on micro, small and medium enterprises.

Investments in 2009 reached the amount of \$ 2,721,000 (IFC, 2009b). This amount was divided into a total of 124 projects which are implemented in 21 countries within the region. In comparison to 2008, funding was reduced by about \$ 200 million which represents a decrease from the number of projects. So before there were fewer projects in the region but the funds which IFC provided was higher. However, in financial year 2009 the number of countries with which IFC cooperates increased, even for the 4 countries. Considering that 2009 was affected by the global crisis, in other regions the majority came to reducing the number of partner countries because some projects are implemented and have become inactive, but for this region that is not the case. IFC is continuing investments in this region. Investments are increasing, particularly in Central America, the Caribbean and Peru State. The explanation can be found in IFC's strategy for the region that is more focused on the areas of Central America and the Caribbean, probably because there is a high concentration of very poor population (Morley, 2001).

Table 4: Development Outcome by Industry by all IFC and LAC Region US\$

Development outcome by industry		IFC			LAC	
Oil, Gas, Mining and Chemicals	79%	38	1,546	100%	7	879.3
Health and Education	85%	13	127	100%	5	106.5
Agribusiness	78%	37	1,172	92%	12	816.9
Infrastructure	70%	61	1,719	89%	28	1,094
Global Financial Markets	73%	177	7,202	70%	37	2,639.5
Private Equity and Investment Funds	74%	47	592	67%	12	102.7
Global Manufacturing and Services	70%	20	2,659	53%	19	924.5

This table shows data about all IFC investments by industry and all investments that IFC has made in LAC region also by industry. The data is for FY2010 (Fiscal Year 2010 starts July 1, 2009 and ends June 30, 2010).

The table shows the amount of development results achieved by sectors, the number of projects that participated in the assessment and the amount of IFC investment in them. Results are presented for the IFC as a whole and for the region of Latin America and the Caribbean. Development Outcome by industry: In those results are included a total of 493 projects with total value of \$ 15,431 and positive ratings were 71% of projects in FY2010. IFC's development results remained strong as in FY2009 and FY2008, compared to 63% in FY2007. Most progress has been achieved in education and health where the success of investments rated high 85%. During the year, IFC has invested in 13 projects totaling \$ 127 million.

The amount of investment compared to other sectors is relatively low, but the investment has reached the expected results. Oil, Gas, Mining and Chemicals and Agribusiness were the second and the third strongest industry departments, consolidating their performances of last year. Sector that has completed a minimum expectation was Manufacturing and Global Services, only 57%. As the past year, results varied significantly on regional basis (70% of projects were rated high in Europe and Central Asia but only 17% in Sub-Saharan Africa). However, in these sectors were invested over \$ 2,5 million more than in education and health, a total of \$ 2,659 million. Other sectors have all maintained a similar value within 10 percentage points, from 70% to 80%. In the region of Latin America and Caribbean, the sectors of infrastructure, agribusiness, health & education, and oil, gas & mining industries performed best with

high developments results scores near or above 90%. On the other hand, manufacturing investments were doing poorly at just 53%. IFC's total investment in the LAC region have totaled \$ 6,7 billion in relation to the previous year, the investments were for \$ 555,000,000 higher. The largest investments are in the financial sector, amounting to 2,6 billion dollars and also for infrastructure investment, which amounts \$ 1,09 billion. These two sectors together account more than 50% of total investment in Latin America and Caribbean. Minimum investment of IFC in the region is for sectors such as local funding, which amounts to only \$ 3,800,000 million. Also, education and health is at the bottom of the scale and costs in relation to other investments "only" \$ 106 million.

IFC Financing in Tourism for Latin America and The Caribbean

This ability to facilitate local, regional, and national economic growth is the reason why IFC is deeply committed to the tourism and hospitality industry. Investing in it, IFC helps reduce poverty in this area (Markandya, Taylor & Pedroso, 2005). Commitment does not stop here, IFC also extends to environmental protection and cultural preservation, with investments in hotels that complement unique natural habitats and enhance the attractiveness of historically significant sites.

The projects in which IFC invests its resources and mobilize other people covering the region of Latin America and the Caribbean are included in Sector Accommodation & Tourism Services. Project categories include A, B and C, whether they are still active or are completed. Since the establishment of IFC, there are totally 21 projects for LAC region in Accommodation & Tourism Services (Table 5).

Table 5: IFC Investments in Accommodation & Tourism Services in LAC Region

Project Name	Country	Total Project Cost (USD)	IFC Financing (USD)	Envir. Category	Beginning of cooperation
Oasis Complex	Haiti	29,000,000	\$7,500,000 A and C Loans	B	June 2010
Brief project description: The proposed project is to complete the construction of a hotel/mixed use development – Oasis Complex. The first phase of the project includes the development of: a 132 room business hotel; a retail component; a conference center; 3 restaurants and a lounge bar; a central courtyard; parking facility.					
City Express II	Mexico	/	\$20,000,000 equity investment	B	June 2010
Brief project description: The aim of IFC investments is capital increase that will help the Company consolidate its leading position in the budget business hotel sector, accelerate existing growth plans and initiate its expansion outside of Mexico. The project consists of the development of new hotels. City Express will benefit from IFC's experience and knowledge in emerging markets, particularly in its proposed expansion plans to other countries within Latin America.					
Crane	Barbados	/	\$10,000,000 A Loan \$10,000,000 C Loan	B	June 2010
Brief project description: The project aim is expansion of the largest employer in Barbados' east coast. The proposed project is to: continue construction at the Company's existing site, commence construction at a site owned by the Company and to acquire new land for continued growth. IFC is expected to help in providing and catalyzing long-term financing to support the Company during difficult credit markets; to help to promote the development of the tourism and construction industries in Barbados.					
Hospiteum	Central America Region	30,500,000	11,000,000 A Loan 3,000,000 C Loan 9,000,000 mobilized funds (7,000,000 senior loan, 2,000,000 Subordinated debt)	B	June 2009
Brief project description: The aim of the project is to facilitate Hospiteum's entrance into the budget hotel segment in Central America by providing a long term financing solution to the Company. The project is expected to add to the country's business and tourism infrastructure by expanding and improving the existing base of accommodation facilities and business services. The project will create opportunities for economic links between tourism and other sectors. In addition, the project will create both direct and indirect jobs					
City Express	Mexico	39,500,000	17,500,000 A and C loans	B	May 2009
Brief project description: The project includes financing of 5 new hotels and refinancing of one existing hotel, located in Mexico City.					

Peru OEH II	Peru	29,000,000	13,000,000 A loan	B	June 2007
Brief project description: The IFC role in this project is refinancing existing loans. It will encourage local banks to lend. The proposed project will continue to contribute to Peru's tourism infrastructure, raise the level of competition and service standards, and improve the offerings to meet the evolving tourism demand					
Courtyard Caribe	Caribbean Region	78,000,000	23,000,000 A loan	C	May 2007
Brief project description: The projects aim is to support greenfield development of five hotels. Development impact: It will make a contribution in the improvement of the business hotel infrastructure; The expansion of business hotel chains will support local trade and business development.					
OEH Mexico	Mexico	19,000,000	\$7,500,000 A Loan	B	May 2007
Brief project description: The project includes investing in the renovation and expansion of operations of Casa de Sierra Nevada, Mexico, a boutique hotel in San Miguel de Allende, Mexico from 33 rooms to 60. It is expected that this project will lead to more jobs, increased foreign exchange earnings and strengthened links with tourism in this area.					
Occidental DR	Dominican Republic	92,000,000	10,000,000 A Loan 40,000,000 B Loan 20,000,000 C Loan	B	August 2004
Brief project description: The project consists of establishing a new company using three existing properties fully owned by Occidental, refurbishing the facilities of one hotel to rebrand it to a higher standard and upgrading the fire and life safety systems of another hotel. The proposed project aims to improve the capital and financial structure of the Company.					
Marriot Courtyard – Port of Spain	Trinidad and Tobago	11,000,000	1,600,000 A Loan 2,000,000 C Loan	B	December 2003
Brief project description: The project entails the construction and operation of the 124-room Marriott Courtyard Hotel in Port of Spain, by Caribe Hospitality of T&T (CHTT).					
Occidental MEX	Mexico	150,000,000	30,000,000 A Loan 40,000,000 B Loan 10,000,000 Convertible C Loan	B	March 2003
Brief project description: The project is aimed at spinning off four Occidental's hotels in Mexico in one company (the company) that will become the main vehicle for Occidental's future developments in Mexico and the region.					
Bel Air Planton Ltd.	Grenada	6,300,000	1,500,000 senior loan 500,000 income participating loan	B	December 2001
Brief project description: The tourism resort that will be constructed and operated will consist of 24 villas and a central complex which will group the reception area, offices and lounges, a restaurant building, a spa and a swimming pool.					
Parque Ecoturistico Canon del Sumidero, S.A.de C.V.	Mexico	8,600,000	2,150,000 equity investment	A	July 2001
Brief project description: The project will consist of the construction of: restaurant and launch facilities, theater, kitchen swimming pool, small animals' zoo, butterflies and birds areas, museum and botanical garden.					
Inka Terra, Peru S.A.C.	Peru	18,000,000	5,000,000 A Loan 3,000,000 C Loan	B	December 2000
Brief project description: The project will include expansions of hotels at several sites. Two of the projects will be renovation of existing structures, two will be additions to existing lodges, and two will be entirely new structures.					
Peru Orient Express Hotel	Peru	22,500,000	6,000,000 A Loan 4,000,000 C Loan	B	August 2000
Brief project description: Refurbishing an existing 3 and 5 star hotels; converting a building adjacent to the Monasterio Hotel to a 58 suite, 5 star hotel; the purchase and installation of the furniture, fixtures, equipment, and required environmental and fire and safety features; and the allocation of funds for pre-opening costs, interest during construction, working capital, and contingency costs.					
Grupo Posadas S.A.de C.V.	Mexico	185,600,000	25,000,000 A Loan 30,000,000 B Loan 10,000,000 C Loan 15,000,000 equity investment	B	June 1999
Brief project description: The project consists of: the construction of five new hotels in Mexico, bringing in a total of 685 additional rooms and the implementation of a debt retailing program to replace the bridge financing incurred for the acquisition of the Caesar Park chain in South America.					
Puras do Brasil Sociedade Anonima	Brazil	48,000,000	13,000,000 senior loan 2,000,000 convertible loan	B	August 1999
Brief project description: Most new cafeterias/restaurants will be opened at industrial firms in the Northeast and North of the county. Puras' goal is to seek contracts serving meals to large numbers of factory workers. Cafeterias are generally located in buildings near factories.					
Multiplaza	Honduras	40,120,000	10,000,000 senior loan	B	June 1998
Brief project description: The project consists of a mixed-use development including a 157 room hotel and an adjacent shopping mall in Tegucigalpa. The proposed hotel will be the first 5-star chain hotel in the city. The Multiplaza which will be located at the same site will be one of the largest shopping centers with four anchors, a supermarket, local stores, a large food court and movie theaters.					

Flamenco Bavaro	Dominican Republic	56,000,000	6,300,000 senior A Loan 21,700,000 senior B Loan 7,700,000 quasi equity investment	B	April 1998
Brief project description: The project will consist of the construction of the Flamenco Bavaro resort, an 853 room four star hotel to be located near Punta Cana. The hotel will be built, owned, and managed by companies affiliated with Occidental Hotels, a leading Spanish hotel chain which is active in the Dominican Republic.					
SEF Cara Lodge	Guyana	1,400,000	700,000 long term debt	B	January 1998
Brief project description: The project consists of the following key elements: refurbishment to parts of the existing property and completion of the two existing suites; purchase of about 8,000 sq.ft. of adjoining land at the rear of the building; construction of an additional 20 rooms, addition of a small conference facility and expansion of the central facilities; and provision of working capital.					
Grupo Posadas III – Swap	Mexico	60,000,000	50,000,000	C	December 1994
Brief project description: The major component of the project consists in the financing of: the construction of three new hotels in Leon, Ciudad Juarez, and Colima; a new communication and reservations system; and a debt maturity retailoring program.					

Table shows 21 touristic projects that IFC had invested from 1995 to 2010, for Latin America and Caribbean region. Of totally 21 projects that are in the Accommodation & Tourism Services, a state that has the most tourism projects is Mexico, a total of 7. The next state is Peru with 3 projects, followed by the Dominican Republic with 2 tourism projects, and 1 project have been realized in countries: Barbados, Guyana, Trinidad and Tobago, Grenada, Brazil, Honduras, the region of Central America, Caribbean and Haiti.

Peru Orient Express Hotel project began in 2000 and is still active. The company that owns this hotel gained it during the privatization of the hotel by the government of Peru. Peru Real Estate SA holds 60% ownership. Within the enterprise, other than hotels, they owned more shopping centers and homes on the coast of Lima. The total project cost is estimated at \$ 22,5 million. IFC's investment consists of a loan amounting to \$ 6,000,000 and a loan of C \$ 4,000,000. The proposed project includes: renovation of resting categorized with 3 stars and its 32 rooms which are both within Machu Picchu; refurbishing the existing 123 rooms in a 5-star hotel, Hotel Monasterio in Cusco, converting the existing building to the Hotel Monasterio, which will consist of 58 apartments and will be categorized as a 5-star hotel; purchase and installation of furniture, inventory and equipment purchase and installation of the necessary environmental and safety equipment, and the allocation of funds for interest during construction, working capital and contingency costs. Conceptually the project makes sense for this kind of tourism because they are attracted to this field: cultural enthusiasts and others interested in seeing the ruins of Machu Picchu and the city of Cusco. IFC's involvement in the proposed project will provide long term financing for projects of this kind, at a reasonable price. For the project is expected to generate an additional 200 jobs directly, but a significant number of indirect employments. The positive effects will be visible on the regional economy, such as restaurants, agriculture and sightseeing tours. State tax revenues will also increase. In addition, the company will invest in improving human resources professional training to become a world-famous hotel. Also, the fact that this project restores a historic monument (Nazarenas Convent) is an important part of the project.

Occidental DR is a project between the Dominican Republic and the IFC signed October, 6th 2004 and is still active. It belongs to the category B of environmental standards. The project consists of establishing a new hotel company with the 3 existing buildings owned by the company Occidental, aimed at renovating buildings and rising to a higher standard and upgrade the fire safety system. The proposed project aims to improve equity and financial position of the Company to continue the capital program in the Dominican Republic. The total project cost is estimated at \$ 92 million. OHM has requested IFC's assistance to mobilize up to \$ 70 million to finance the project. The proposed IFC investment would include a loan amounting to \$ 10 million B loan of up to \$ 40 million and C loan of up to \$ 20 million. A loans and B loans will be invested directly in Occidental subsidiary in the Dominican Republic; a C loan will be invested in OHM, the holding company Occidental group. Tourism in the Dominican Republic is of great importance and is responsible for the strong growth in the economy of which in the 90s they opened directly or indirectly more than 554,000 jobs (16.2% of total employment), contributing \$ 5,6 billion of economic profit.

Most investments of the IFC are concentrated in building new capacity, about \$ 339,500,000 that is 15 out of 21 projects (71%) and at least a portion of the funds is intended to build new capacity.

Modernization and reconstruction of existing buildings is planned in only 4 projects, and the amount for that is about \$ 36,000,000 or 7.7% of overall IFC investments for the projects inside the Region. \$42,600,000 is taken for 6 projects which included the expansion of their own capacities. This amount consists of 9% of the total funds which IFC has invested in tourism projects LAC region. The remaining amount of approximately \$ 80,000,000 is intended to restore the debt and refinance companies that have entered into business with the IFC. In total there were 4 (19%) of the overall project. However, it should be noted that companies that have received funds to restore the debt or refinance did not receive funds solely for debt repayment and refinancing. They cooperated with the IFC primarily to build new capacity and they parallel received additional funding for financial restructuring.

Table 6: Total Worth of Touristic Projects in Region and by IFC Funds

	Total worth (\$)
All projects (Own funds + IFC funds)	800,000,000
IFC funds	464,000,000
- A Loan	173,400,000
- B Loan	131,700,000
- C Loan	84,448,000
- Other	74,240,000

Table shows the total value of all tourism projects in the region of Latin America and the Caribbean, and the division of shares or with how the funds IFC participated in their development. IFC funds are divided by type of financing.

The total value of projects of LAC region is estimated at approximately to \$ 800,000,000 (Table 6). From that amount, the total IFC financing consists of \$ 464,000,000 which represents 58% of total assets. A loans make up \$ 173,400,000 and make the 37.4% of total IFC loans. They also have the largest share of loans to this sector. B loans constitute 28.4% of total loans, or \$ 131,700,000. C loans are not as frequent as the first two and they make up 18.2% of total IFC loans. The remaining 16% belong to other species such as long term debt, quasi equity investment and other species (Figure 2).

Figure 2: IFC Funds Invested in Tourism Projects for the LAC Region (\$)

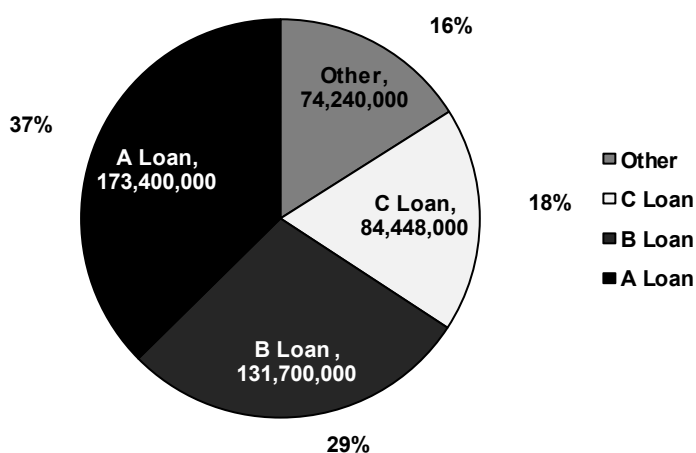


Figure shows the amount of funds that were invested to finance the projects. Presented in form of its financial commitment and shows their share of the overall participation of IFC in project financing.

Tourism projects have a big role in stimulating private sector development mainly through their linkages with the local businesses as well as through induced demand for other tourism related activities (tour

guides, restaurants, etc.). IFC investments have a strong demonstration effect in the development of the tourism sector (IFC, 2007). Through the tourism sector, the objective of developing the economy locally, nationally and regionally is achieved and it is also achieved greater development of population, development of new and better standard of living for developing countries which actually is the purpose of action of International Finance Corporation (IBRD, 2003). Besides the obvious investments of IFC and mobilized resources which the Organization moves, it comes also to other positive developments, such as creating new jobs. Also by investing in tourism and hospitality industry it is possible to generate foreign currency income and also promotion of the whole Latin America and Caribbean region as a good value for money tourist destination (Aragao, 2005). More additional positive things that IFC is generating is transfer of resources and technology, improvement of domestic management skills, fostering of broader public participation in company ownership and promotion of the economic integration of Latin America and Caribbean. Financing tourism projects makes possible to monitor the work, promoting development and providing technical assistance to economic operators in the tourist region. Any help is appreciated, whether it is of a financial or advisory nature. It allows you to resolve the current problems, and other common economic interests.

CONCLUSIONS

The main goal of this article was to show the correlation between International Finance Corporation investments and economic development of the Latin America and Caribbean region through the tourism and hospitality industry. The fundamental purpose of existence of the International Finance Corporation is actually to help countries that have not been able to finance projects that have positive effects on the entire country: the development of good business ideas, development of new jobs, the development of the economy and thus the development of higher standards for all citizens living in the country.

The primary data used in this study were researches carried out by the International Finance Corporation. All data and information contained in tables and figures are part of IFC's Annual Report (2009, 2010) and its supporting documents (IFC, 2009b, IFC, 2009c). Data used for analysis are mostly for FY2009 and FY2010. The fiscal year for the IFC starts on 1 July and ends 30 June next year. In addition to primary data, secondary data sources from World Bank reports, published literature, reports and publications (The International Bank for Reconstruction and Development, 2003, World Travel and Tourism Council, 2006) were compiled and presented. At the beginning of the work general data were analyzed such as the scope of the corporation and its interests and amounts of funding with which it participates in selected projects. After presenting DOTS, which is used in the data relevant to the LAC region, follows an introduction to the LAC Region. The focus is exclusively on tourism and in this part of the region there are 21 projects. Brief descriptions about each particular project are mentioned, such as: Project Name, Country, Total project cost, the share of IFC financing, Environmental category, Beginning of cooperation and all the data are synthesized in the form of Table 5. Globally, the number of projects in which IFC participates increases each year by about 80 more projects, taking part with about \$ 10 million of its own funds. This information is not negligible and it is obvious that such a large capital needs to run the economy. In some sectors of the LAC region was reached 100% of the effect that the IFC had expected (Oil, Gas, Mining and Chemicals, Health and Education). These results indicate that realized IFC's investments had the impact.

The research objective was to determine the role and significance of International Finance Corporation investments in tourism and hospitality industry on the example of projects in Latin America and Caribbean. With developing and investing in the tourism sector should result with long-term positive changes, such as generating new jobs, increasing of production and starting the economy at both national and regional levels. IFC's investments in the tourism sector confirmed that. As for investment in tourism of LAC region, the International Finance Corporation has invested its funds or those mobilized. Most investment has been invested in building new capacities (\$ 339,500,000). Through the construction of

new capacities came to the launch of other industries, like construction, food and others, and through involvement comes to starting capital and to the creation of new investments. Through the tourism sector, the objective of developing the economy locally, nationally and regionally is achieved and it is also achieved greater development of population, development of new and better standard of living for developing countries which actually is the purpose of action of International Finance Corporation. Yet in this area there are many problems such as random systems, vague strategy of development, lack of regional cooperation and local sources of financing are too small. Because of that there is such a need in order to draw attention on necessity for stronger implementation and importance of the International Finance Corporation as a source of investment funds.

In this research we did not focus on a particular country and on the impact that the International Finance Corporation has to a certain country. We analyzed every touristic project in the region since the establishment of IFC to present and then the data were synthesized in order to see the impact of projects on the region as a whole. In this sense we are talking about the total tourism investments in LAC region, about the number of new working places and how much is economic growth and productivity. There was also a possibility that parallel, in some other industry, arrived some unknown development or investment, so it is possible that the data are interpreted as if tourism was the one that activated it but it was actually something else triggered the positive trends of the economy. In the future, instead of synthesizing the data on an industry level (in this case the industry of Global Manufacturing and Services) it could be possible to collect and display the results only for the tourism sector so then we would be able to see more clearly their influence on the development of the region, their impact in reducing poverty, the inflow of foreign currency and other side effects that the development of tourism is carrying. Also the focus could be put on the arrangement of institutions at the national level and on developing clear strategies for tourism development.

In 2009, IFC's portfolio companies provided over 689,000 jobs in Latin America and Caribbean, served 1,8 million patients and over 916,000 students, generated power for over 67 million customers, and distributed power, gas and water to 31 million customers. Regardless of whether talking about projects relating to tourism or only on projects that include infrastructure, agriculture, etc. They all have potential for development, not just the local area, regional or national spaces, but by investing in development of a tourism project it represents the investment in the full development of specific region. Of course it is very long and difficult path of developing countries that are just beginning their development. They now have a great potential for success, but also for failure if they do not succeed in their development. Therefore, the IFC is in such cases the key organization that actually provides the potential for advancement. Yet in the end, International Finance Corporation must have an interest in investing because then there would not be economically justifiable reason for its existence. Although the ultimate goal of the Corporation is successful and profitable business, her role is extremely important in respect of investment projects in developing countries and because it is such a unique and irreplaceable, in the world and in the funding for tourism in the region of Latin America and Caribbean.

REFERENCES

- Aguayo, E., Exposito, P., & Lamela, N. (2001). Econometric model of services sector development and impact of tourism in Latin American countries. *Applied Econometrics and International Development*, 1(2), 1-10.
- Aragao, T. (2005). Economic growth and social stagnation in Latin America. *Croatian international relations review*, 11(40/41), 143-146.
- Ashley, C., & Mitchell, C.J. (2007). *Tourism and poverty reduction: Pathways to Prosperity*. London: Earthscan Publishers.

- Bertola, G. (1993). Factor Shares and Savings in Endogenous and Growth. *American Economic Review*, 83(5), 1184-1198.
- Christie, I.T., & Crompton, D.E. (2001). Tourism in Africa. *Africa Region Working Paper Series*, 12.
- International Finance Corporation. (2007). *Developing tourism and business infrastructure – Enhancing economic growth in emerging markets*. Washington, DC: International Finance Corporation.
- International Finance Corporation. (2009a). *International Finance Corporation Annual Report 2009*. Washington, DC: International Finance Corporation.
- International Finance Corporation. (2009b). *International Finance Corporation Highlights*. Washington, DC: International Finance Corporation.
- International Finance Corporation. (2009c). *Corporate Overview*. Washington, DC: International Finance Corporation.
- International Finance Corporation. (2010). *International Finance Corporation Annual Report*. Washington, DC: International Finance Corporation.
- Kos-Stanišić, L. (2009). *Latinska Amerika: povijest i politika*. Zagreb: Golden marketing.
- Krtalić, S., & Tomić, D. (2006). Fiscal systems in LAC Region in the frame of globalization at the beginning of the 21st century. *Ekonomika istraživanja*, 19, 92-104.
- Markandya, A., Taylor, T., & Pedroso, S. (2005). Tourism and Sustainable Development: Lessons from Recent World Bank Experience. *The Economics of Tourism And Sustainable Development* (pp.225-251). Cheltenham: Edward Elgar.
- Mavrotas, G. (2002). Multilateral Development Banks and Private Sector Financing: The Case of IFC. *UNU World Institute for Development Economics Research*, 118. Retrieved from <http://www.wider.unu.edu/stc/repec/pdfs/rp2002/dp2002-118.pdf>
- Morley, A.S. (2001). *The Income Distribution Problem in Latin America and the Caribbean*. Santiago: United Nations, Economic Commission on Latin America and the Caribbean.
- Mowforth, M. (2008). *Tourism and responsibility: Perspectives from Latin America and the Caribbean*. London: Routledge.
- Oyewole, P. (2009). Prospects for Latin America and Caribbean Region in the Global Market for International Tourism: A Projection to the Year 2020. *Journal of Travel & Tourism Marketing*, 26(1), 42-59.
- Strizzi, N., & Meis, S. (2001). Challenges Facing Tourism Markets in Latin America and the Caribbean Region in the New Millennium. *Journal of Travel Research*, 40(2), 183-192.
- Te Velde, D., & Nair, S. (2006). Foreign Direct Investment, Services Trade Negotiations and Development: The Case of Tourism in the Caribbean. *Development Policy Review*, 24(4), 437-454.
- The International Bank for Reconstruction and Development. (2003). *Inequality in Latin America and the Caribbean: Breaking with History?* Washington, DC: World Bank.

Wilkinson, P.F. (2009). Predictions, past and present: World and Caribbean tourism. *Futures*, 41, 377–386.

World Bank. (2009). *World Bank Annual Report 2009*. Washington, DC: World Bank.

World Bank. (2010a). *Doing Business 2011: Making a Difference for Entrepreneurs*. Washington, DC: World Bank.

World Bank. (2010b). *World Development Report 2010 - Development in a Changing Climate*. Washington, DC: World Bank.

World Travel and Tourism Council. (2006). *Progress & priorities 2006/2007*. London: WTTC.

BIOGRAPHY

Dr. Elvis Mujačević is an Assistant Professor of International Finance at Faculty of Tourism and Hospitality Management in Opatija, University of Rijeka, Croatia. He can be contacted at: Faculty of Tourism and Hospitality Management in Opatija, Primorska 42, 51410 Opatija, Croatia. Email: elvism@fthm.hr

Prof. dr. sc. Ana Vizjak is an Associate Professor at Faculty of Tourism and Hospitality Management in Opatija, University of Rijeka, Croatia. She can be contacted at: Faculty of Tourism and Hospitality Management in Opatija, Primorska 42, 51410 Opatija, Croatia. Email: anav@fthm.hr

Andrea Cindrić is a former student of the Faculty of Tourism and Hospitality Management in Opatija, University of Rijeka, Croatia. She studied Business economy in tourism and hospitality and holds a Master in Economics of area: International Management in Tourism and Hospitality area. She can be contacted at: Drage Gervaisa 24, 51000 Rijeka, Croatia. Email: cindric.andrea@gmail.com