



**Financing Tourism in the Caribbean - International  
Trends and Caribbean Perspectives by Auliana Poon**

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FINANCING TOURISM IN THE CARIBBEAN -  
INTERNATIONAL TRENDS & CARIBBEAN PERSPECTIVES

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## Executive Summary

### **1. Tourism Growth and Prospects**

World tourism set new records in 1988 as tourist arrivals reached 390 million and international receipts exceeded US\$150 billion, making it the world's largest industry. Tourism is expected to continue this upward trend. Tourist arrivals in the Caribbean exceeded 10 million for the first time reaching 10.25 million, generating US\$7.29 billion in revenues, and producing jobs directly and indirectly, for an estimated 350,000 persons. Tourism continues to generate incomes, foreign exchange and government revenues. In 1987, the Caribbean tourist accommodation sector comprised 2613 units with a total of 108,242 rooms. Of these, 78 percent were in hotels, 19 percent in apartments and villas and 3 percent were in guest houses.

The prospects for Caribbean tourism are bright. However, given the volatility and competitiveness of tourism, its future in the Caribbean will depend increasingly upon:-

- a) the innovativeness of the Caribbean tourism industry.
- b) the integrated and united development of the Regional tourism industry.
- c) the development of the total services sector, of which tourism is one component.
- d) the development of tourism facilities and services based upon flexibility, segmentation and diagonal integration (FSDI) as opposed to mass, standardized and rigidly packaged (MSRP) holidays, hotels, hosts and tourists.
- e) marketing and demand conditions in major generating markets.

### **2. International Trends in Tourism Finance**

Six trends in international tourism finance were identified. These included the dominance of the management contract; time share; villas and condominium developments; leasing; the increasing importance of Japanese investments and diagonal integration. The major findings are as follows:-

- \* Nearly 50% of MNC involvement in the Caribbean is through the management contract - a vehicle which involves little direct investments in the sector. This means that visible signs of MNC presence in the Caribbean do not necessarily or automatically imply ownership or investment by MNCs in the Caribbean hotel sector. This has meant that the investment funds to build hotels and put them in place usually had to come from elsewhere - governments usually filled this gap.



- \* Time share is becoming an important and growing source of finance in the international tourist industry, particularly in the USA and Europe. Time share has not as yet taken off in the Caribbean. However, the Divi Hotel hotel chain - the third largest operating in the Caribbean, uses time share as a source of finance for about 19% of its hotel operations in 1988. Plans are underway to increase this share to 25% by 1992.
- \* Condominium developments also offer prospects for tourism finance. This route toward individual ownership of units which are returned to the hotel pool for management, is also providing useful source of finance. This route is already being taken by some hotels in some Caribbean islands such as Windjammer in St. Lucia and Glitter Bay, Pemberton resorts in Barbados, among others.
- \* Leasing has also become an important source of tourism finance since it removes the capital and risk commitment of ownership and direct investment. This is especially important for airlines (eg. BWIA relies 100% on leasing to finance its aircraft purchases) but has also taken on significance with government hotel ownership and private sector leases, especially in Jamaica.
- \* The Japanese have a huge trade surplus (US\$96.56 billion) and the highest income per capita (US\$19,642 in 1987). Quite opposite to their American counterparts who have opted for the management route, the Japanese have a strong preference for ownership and direct investment as they continue to outbid their US counterparts in the purchase of major hotel chains and tourism resort complexes. The Japanese are already involved in the Caribbean in islands such as Aruba, The Bahamas, Cayman Island, The Dominican Republic and Jamaica. The Japanese provide new opportunities for Caribbean tourism finance. However, the nature, type and implications of Japanese investments in the Caribbean needs further examination.
- \* Diagonal integration is brought on by new information technologies. It is a new trend emerging in the international tourist industry which spawn a new breed of producers/investors who are cross-fertilizing their services (eg. Banks and travel agencies). Tremendous synergies, systems gains and scope economies are obtained in the process. Diagonal integration has implications for tourism finance; potential investors will increasingly come from outside to traditional boundaries of the tourist industry; and local firms in the tourist industry will follow this best practice of diagonal integration and cross-fertilize their own services by moving into non-traditional areas of tourism (eg. entertainment and medical services). These local firms will need access to creative sources of finance.

### **3. Multinational Corporations in Caribbean Tourism**

In 1988, multinational corporations accounted for 36.2 percent of total hotel rooms in the Caribbean. Nearly half of Multinational Corporations involvement in the Caribbean (47.9%) is through the management contract; 38.5% is through full ownership; 9.8% through franchises and 3.8% through part ownership (including time share).

Hotel chains such as Accor, Club Mediterranee, Marriott, Sheraton, and Trust House Forte are actively involved in the full ownership of Caribbean properties. On the other hand, hotel chains such as Hilton, Holiday Inn, Pullman and Ramada are involved through the instrument of the management contract. Best Western is a franchise outfit. Some multinational corporations do not have a single type of involvement in the Caribbean, but usually some combination of ownership and management contracts; franchises and management contracts, with management contracts predominating.

### **4. Public Sector Involvement in Caribbean Tourism Industry**

Jamaica provides a very interesting example of government direct involvement in the tourism sector. Government ownership of hotel properties is to the extent of 44.7% of the total stock of hotel rooms, prior to divestment. With two exceptions (14.5% of rooms) where government actually managed hotel properties, all hotels were returned to the private sector, via leasing. This has served as an important source of finance for the tourism sector for both multinational corporations and the local private sector alike.

The ability of government ownership of the hotel sector to assist local properties depends upon the "a priori" existence of local entrepreneurship and managerial talent. In the case of Jamaica some of this development is evident. While MNCs manage 50% of the government-owned hotels, the local innovative private sector managed 25% of the total. In the absence of these innovative managers, the benefits of government ownership to the local economy would not have been as significant. It is clear then that one of the critical areas of investment - human capital - must be given emphasis in the future.

### **5. The Problematique of Caribbean Tourism Finance**

If a hotel project is not viable, finance from any source will not be forthcoming. The key to financing the hotel sector lies in uncovering the constraints to high cost and low profitability of the sector; in creating a profitable and viable industry; and in fostering creativity, entrepreneurship and managerial excellence.

In terms of the attraction of foreign investors, appropriate policies would seem to lie in: identifying the international chains which have a corporate strategy of ownership and investment in overseas properties (eg. Trust House Forte); remove the institutional and economic disincentives to investment; have

clearly defined objectives of incentive policies; commitment and energy in the promotion and administration of incentives schemes.

## **6. Role of Regional and National Banks**

The five financial institutions examined were:

- The Caribbean Development Bank (CDB)
- The Barbados Development Bank (BDB)
- The Commonwealth Financial Corporation (CFC)
- The Caribbean Project Development Facility (CPDF)
- The Caribbean Financial Services Corporation (CFSC)

These financial institutions play an important role in financing the tourism sector.

**The Caribbean Development Bank** plays a relatively minor role in direct finance to the tourism sector, with only 3.8% of total net financing going to the tourism sector between 1970 and 1988. However, with a total of US\$146.6m worth of net financing to financial intermediaries (eg. Development Banks), an important role is indirectly played by the CDB in financing the tourism sector (as the case of Barbados Development Bank demonstrates). Moreover, the President of the CDB has confirmed the Bank's commitment to the development of the tourism sector.

**The Barbados Development Bank** plays a major role in the financing the tourism sector, disbursing a total of BDS\$57m or 38% of total funding to the tourism sector between 1969 and 1988. In 1987-88 a total of BDS\$3.17m was disbursed to the tourism sector. Hotels and apartments received a relatively small proportion of lending to the sector. The ancillary sub-sector (watersports, entertainment, taxi operators) predominated BDBs lending with BDS\$3.3m (or 72%) going to these sub-sectors. This is an important development in the tourist sector because income and value-added in tourism are not limited to accommodation, but to a number of profitable activities outside the sector. This will augur well for the expansion of the services areas of tourism - areas which have traditionally attracted a large proportion of local involvement.

**The Commonwealth Development Corporation**, lends to the public and private sectors. Based on data only for its OECS activities, CDC is not directly involved in the development of the Caribbean tourism sector. Of the L29.1m disbursed by the CDC in 1988, allocations were made to the tourism sector. However the CDC lends to other financial institutions such as the CFSC and the CPDF. It is interesting to note that CDC is becoming involved in the provision of venture capital - a move that will have implications for the financing of tourism and indeed other sectors of the economy.

**The Caribbean Project Development Facility** and the **Caribbean Financial Services Corporation** are lenders to the private sector. They complement one another in that the CPDF grants loans in excess of US\$500,000 while the CFSC handles loans below that amount. Both CPDF and CFSC are affiliates of the International Financial Corporation, the World Bank private sector development. Both of

these financial institutions are currently playing a major role in the finance of Caribbean tourism.

CPDF facilitated investment of nearly US\$20m in the Caribbean tourist industry between 1982-88; CFSC on the other hand, invested a total of 7.05m over the period 1983-December 1988 a, figure representing 59% of their total disbursements.

Two important trends are worthy of note in the financing of Caribbean tourism: the first is the increasing provision of technical assistance, financial management and consultancy services, and not just finance. This is a very important development and a step in the right direction. The second important development is the emergence of young, aggressive and dynamic private sector institutions such as the CPDF and the CFSC. They will fill an important gap in the financial market place. It is interesting to note that CPDF offers technical/marketing partners as part of its financial service and CFSC grants loans not only on pure financial terms, but on an assessment of the long term economic viability of the project, and perhaps more importantly, on the calibre and quality of the implementers. This will serve not only to unleash the investment potential of managers, but of entrepreneurs as well.

#### **7. Financing Tourism - A Case Study of Barbados**

One of the major findings of this research is that the problems of high operating costs, exacerbated by the public sector through high taxes and duty are an all-pervasive problem in the Barbados hotel sectors. From the smallest guest house to the largest hotel; from down market to the up-market properties, hotels were almost unanimous in their identification of taxes and duty as a constraint to their operations. Hoteliers preoccupation with duties and taxes seemed to have created a tunnel-visioned approach to the tourism sector.

This is because when respondees were asked what were the major constraints and opportunities facing the Barbados hotel industry in the next 10 years, all hoteliers, with only one exception could not outline opportunities for the sector. Invariably, hoteliers seemed to be too burdened with short term considerations of costs, duties and taxes to look beyond the horizon. So instead of building and forging competitive strategies and investment plans, too much focus seems to be on the immediate problem of high costs. This is a very sad state of affairs which must be addressed as a matter of urgency.

Some specific findings of the study are as follows:-

Guest Houses relied mainly on private sources for initial investment funding and on the Barbados Development Bank and commercial banks for refurbishment finance.

Apartments were also funded mainly from private funds for their initial investment, but also depended upon the commercial banks and the Barbados Development bank for funding.

Hotels were funded mainly from foreign and local private sources for 46.6% of initial investment (excluding non-responders). There was, some reliance on shareholders, loans from commercial banks, long term mortgages. Government direct participation, the BDB and public shares together play an important role in initial finance (19.8%). The major sources of refurbishment finance was commercial banks, the BDB, and profits, each providing 22%, 17% and 17% of total refurbishment finance respectively.

It should be re-emphasised in closing, that the problematique of Caribbean tourism finance is a complex and multi-faceted one. Likewise, solutions are multi-faceted. A simple reduction in tax and duties would not solve these problems. Perhaps more critically, the issues of finance, profitability, and high costs, hit at the very heart of development strategy and policy. Its use of tourism dependence, government involvement, externalities, production for export versus production for the domestic market are of critical significance. It is the unlocking of this broader development paradigm that holds the key to the competitiveness and survival of its various subsectors, including that of tourism.

## Study Background

This study was requested by Dr. B. Persaud, Head, Economic Affairs Division, of the Commonwealth Secretariat, London, as an input into a forthcoming CIDA/CARICOM/ECLAC/CDB/UWI conference on "Financing Development in the Caribbean" - a conference which must be seen as an important step in advancing knowledge and understanding of the role of finance as an engine of Caribbean development.

Despite the critical importance tourism as an engine of Caribbean Economic development, there exists very little hard data on how the sector is financed. The sufficiency of local sources of finance and terms of borrowing; the extent and nature of local as compared with foreign sources of finance; the role of multinational corporations; and trends in international tourism finance (timeshare, leasing, Japanese investment, diagonal integration), are all areas deserving of indepth research. This study attempts to focus on these issues from the perspective of the tourism sector and hotels in particular.

With a dearth of hard information, and few secondary sources upon which to draw, this study developed and implemented a survey of the tourist accommodation sector of Barbados (April-June, 1989). About 50% of all categories of tourism accommodation were drawn into the sample. The methodology, and a listing of hotels surveyed, are contained in the appendix. Suffice it to say here that hotels were extremely cooperative and a very high response rate was achieved. This study also draws upon on a recent survey (June 1989) conducted by CTO (assisted by this author) on international hotel chains operating in the Caribbean.

It should be stated at the outset that the focus of this study is not on the assessment/measurement of the financing needs of the hotel sector, or the effectiveness of current regional and national lending agencies in delivering finance to the hotel sector. Rather, this study focuses on explaining empirically how the hotel sector is financed in the Caribbean; who does the financing; the problems, constraints and opportunities for tourism finance; the role of the public sector and incentive legislation; and the international trends in hotel finance and their impact on hotel finance in the Caribbean.

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\* A study of this nature has been requested by the Caribbean Hotel Association and is currently being prepared by the European Economic Commission.

## Acknowledgements

Organizations such as the Barbados Tourist Board, Caribbean Development Bank, the Caribbean Project Development Facility, the Caribbean Financial Services Corporation, Barbados Tourism Investment Corporation, National Hotels and Properties (Jamaica), Arthur Young, Peat Marwick, and the tourism specialist at the Caribbean Tourism Organization, were consulted during the course of this study. Discussions with hoteliers outside of Barbados were also undertaken.

I would like to thank especially the Barbados hoteliers for the invaluable information which they have kindly provided during the survey of the Barbados hotel sector, April-May, 1989.

Special thanks to Mr Robin Perry (BA, UWI) and Miss Roseline Poon (UWI undergraduate) who provided excellent research assistance in this project. Mr Arley Sobers and Mr Sherman Williams provided the data and graphics from the Tourism Statistical Report, 1988 (forthcoming July, 1989). Ms Anthea Barrow provided first class typing services.

## Outline of Study

This study is divided into seven sections:-

**Section one** examines the tourism growth performance and prospects for the Caribbean. It examines World and Caribbean tourism trends; market performance; distribution of tourist arrivals and revenue; the structure and performance of the hotel sector; and the contribution of tourism to employment, Gross Domestic Product (GDP), foreign exchange and government revenues. This section also examines the future prospect for Caribbean tourism.

**Section two** examines the international trends in tourism finance with a view to examining their impact on tourism finance in the Caribbean. It also attempts to determine the level and extent to which these trends are already providing constraints and opportunities for the finance of Caribbean tourism. The trends identified include the dominance of the management contract globally, time share, leasing, the growing importance of Japanese investments and an increasingly diagonally integrated tourism industry.

**Section three** examines the role of multinational hotel corporations (MNHC) in the Caribbean tourism sector. The nature, pattern and volume of MNHCs involvement in Caribbean tourism is delineated (drawing upon a recent CTO survey of multinational corporations, June 1989). The impact of MNHC involvement in the finance and control of Caribbean tourism is subsequently analysed.

**Section four** poses the tourism finance problematique in the Caribbean, focusing specifically on the accommodation sector. The problem of tourism finance in the Caribbean is examined at the national and international levels (foreign investment). At the national level, the low levels of profitability of the sector; high rates of interest on borrowed funds; attitudes to risk, ownership and entrepreneurship; and outdated practices, are seen to constitute the tourism finance problematique. At the international level, the role of corporate strategy, and institutional and economic disincentives to investment, are identified as possible causes of the problems of tourism finance.

**Section five** examines the role of the public sector in the finance of tourism and analyses the well-identified, but changing trend in Caribbean tourism, toward government hotel ownership and leases to the private sector, particularly in Jamaica. The role of public sector investment in infrastructure and incentive legislation, especially in the light of the nature, pattern and volume of MNHC involvement in Caribbean tourism, is also examined.

**Section six** examines the role of Regional and National Development banks and lending agencies such as the Caribbean Development Bank and the Barbados Development Bank in the finance of Caribbean tourism. It also examines two recent regional initiatives in the financing of tourism, - the Caribbean Project Development Facility (1981) and the Caribbean Financial Services Corporation (1984).



**Section seven** examines the special case of Barbados. It attempts to explain how the Barbados hotel sector is financed; the forms of finance for the sector; the special case of small establishments and the views of hoteliers as to the problems and prospects for finance of the hotel sector.

The Methodology, Survey Questionnaires and Appendices constitute the last three parts of this report.

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**SECTION 1**

**TOURISM GROWTH, PERFORMANCE, AND PROSPECTS IN THE CARIBBEAN**

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## Introduction

This section examines the tourism growth performance and prospects for the Caribbean. It examines World and Caribbean tourism trends; market performance; distribution of tourist arrivals and revenue; the structure and performance of the hotel sector; and the contribution of tourism to the employment, Gross Domestic Product (GDP), foreign exchange and revenues. The future prospects for Caribbean tourism are also examined.

### (i) The World Tourism Picture

World tourism set new records for both volume and receipts in 1988. The World Tourism Organization estimates that international tourist arrivals increased from 71 million in 1960 to 168 million in 1970. In 1988 total international tourist arrivals reached 390 million and international receipts exceeded US\$150 billion. Tourism can now be considered the world's largest industry.

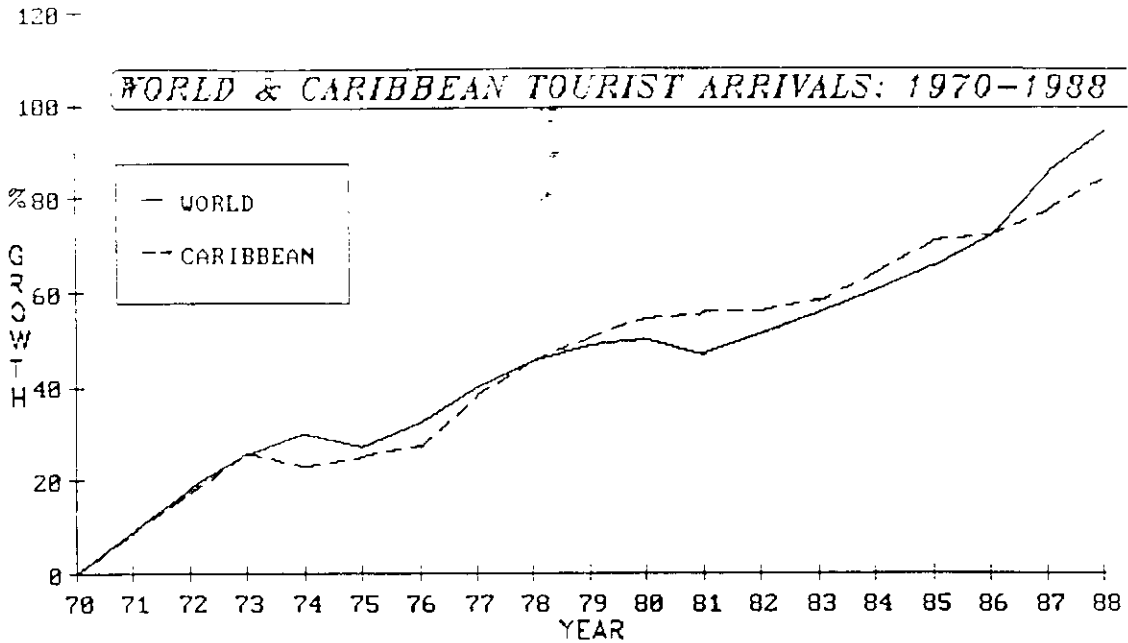
The Economist Intelligence Unit "International Tourism Forecasts to 1999" predicts that World tourist arrivals will increase to 909.7 million in 1999 and expenditures would increase to US\$196.2 billion. These figures represent a 132% increase in tourist arrivals over the 1988 figures and a 30% increase in revenues.

The German market is expected to be the most buoyant, with West Germany capturing 29.5% of international tourist arrivals of the top twenty tourist generating countries (see table 1 in the appendix for more detail).

### (ii) The Caribbean Tourism Picture

In 1988, tourist (stayover) arrivals in Caribbean countries exceeded 10 million for the first time to reach 10.25 million. In addition, there were 6.26 million cruiseship passengers and a large number of other excursionists. The industry generated US\$7.29b in revenues.

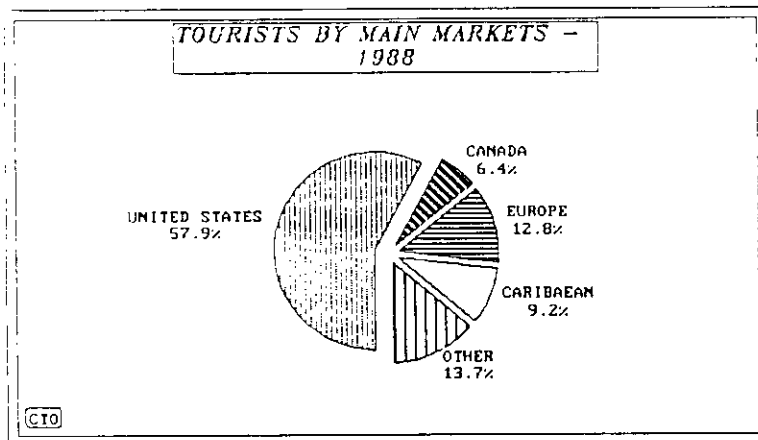
One of the striking features of Caribbean tourism is that since 1984, tourist arrivals have increased by 35 percent, or an annual growth rate of 7.8 percent. This is somewhat faster than that for world arrivals over the same period, which achieved a 25.3% increase, or an average annual growth rate of 5.8% (refer to table 2 in the appendix). Comparative tourist arrivals for the world and the Caribbean is graphically presented in figure 1. Refer to tables 3 and 4 in the appendix for a breakdown of stayover and cruise passenger arrivals for each Caribbean country for the period 1984-1988.



Source: CTO Annual Statistics Report, 1988

(iii) Market Performance

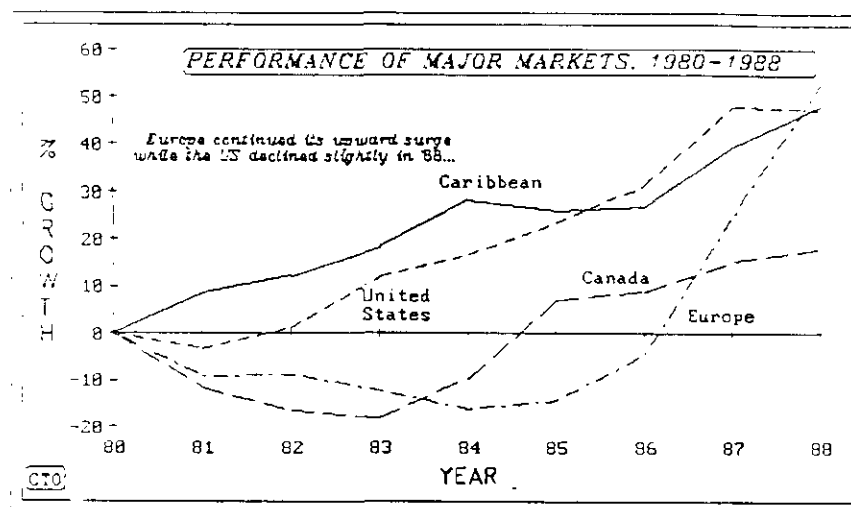
In 1988, the Caribbean region received 57.9 percent of its stay over visitors from the United States; 6.4 % from Canada, 12.8% from Europe, 9.2% from the Caribbean and 13.7% from other destinations including Japan.



The dominance of the North American market as tourist generators to the Caribbean and the relative significance of the European and Regional markets can be gleaned from figure 2.

Despite the dominance of the North American market, main growth impetus for Caribbean tourism in 1989 is expected to come from the

European markets. The performance of the European market was once again outstanding: tourist arrivals from this market increased some 18.6 percent in 1988 when compared with 1987 and more than 75 percent since 1984. There is no sign as yet of any end to the recent boom in arrivals from the United Kingdom, Germany, France and the other European markets; much of this growth represents "trading-up" by persons who would formerly have travelled to a Mediterranean destination. This trend will favour destinations such as Barbados, Antigua, St. Lucia, for which the European market is relatively important.



The relative performance of the major markets for Caribbean tourism (North America, Europe, Canada and the Caribbean) can be seen in figure 3. Europe continued its upward surge while the U.S. declined slightly in 1988.

iv) Distribution of Tourist Arrivals and Revenues

Visitor expenditure for 1988 is estimated at US\$7.29b. Of this total, The Bahamas receives 16.1%; Puerto Rico 14.6%, U.S. Virgin Islands 9.5%; Jamaica 7.4% and Barbados and Bermuda just over 6%. Other islands captured 31.1% of total visitor expenditure. Distribution of U.S. arrivals to the Caribbean is equally skewed with Puerto Rico, the Bahamas and the U.S. Virgin Islands receiving 54.8% of total U.S. arrivals (see figures 1 and 2 in the appendix).

(v) The Accommodation Sector

In 1988, Tourist accommodation rooms in the Caribbean was estimated at 108,242. Of these, 84,103 rooms (78 percent) were located in hotels, 2,949 (3 percent) in guest houses and 21,190 (19 percent) in apartments and villas (Curtin and Poon, CTO, 1988).

The Caribbean is currently in the midst of an unprecedented hotel construction boom - surpassing even the last major boom which occurred in the late 1960's and early 1970's. The destinations most affected are the Dominican Republic (where the number of hotel rooms is projected to increase from an estimated 12,000 in 1987 to possibly 27,600 by 1990), Cuba, Aruba and Jamaica. In the latter case, the destruction caused by Hurricane Gilbert in September 1988 has stimulated fresh building (or rebuilding) plans.

By the end of 1989, the stock of tourist accommodation in the Caribbean may have increased to 135,000 or 50 percent more than in 1982.

This hotel construction boom is being matched in several destinations by investment in infrastructure such as airports, cruise ship facilities, marinas, refurbishment of waterfront business districts. On the other hand, other destinations, for example, some of the smaller islands in the Eastern Caribbean, have a shortage of suitable tourist accommodation.

The size, price, ownership and management characteristics of the accommodation sector is briefly examined below:

**\* Size Distribution**

Most (58 percent) tourist accommodation establishments surveyed in 1988 had less than 30 rooms, but these accounted for only 12.5 percent of all rooms in 1987. In contrast, the 118 establishments with 200 rooms or more, which represented only 7 percent of the total, accounted for 43 percent of all the rooms (see table 1 below).

**TABLE 1: THE SIZE DISTRIBUTION OF CARIBBEAN TOURISM ESTABLISHMENTS**

Rooms	Assessed Establishments		Assessed Rooms	
	Number	% of Total	Number	% of Total
0-29	947	57.9	11718	12.5
30-49	222	13.6	8388	9.0
50-99	211	12.9	14214	15.3
100-199	138	8.4	18488	19.9
200 plus	118	7.2	40283	43.3
TOTAL	1636	100.0	93091	100.0

For the properties surveyed, the average size of establishment was highest in the Dominican Republic, Grand Bahamas, Aruba, Puerto Rico and St. Maarten, and lowest in Saba, Belize, St. Eustatius and Montserrat.

Barbados and Jamaica had the widest range of accommodation by size and by type of establishment.

#### **\* Price Distribution**

The average advertised room rate (weighted according to the distribution of rooms by price range) was \$117.0 in Winter 1987/88, compared with \$85.2 in Summer 1988.

In summer 1988, 70 percent of all rooms cost less than \$100 per couple compared with only 37 percent in Winter 1987/88; in Summer 1988, slightly more than half the rooms were priced between \$50.00 and \$99.00, compared with just over 25 percent in Winter 1987/88.

The seasonal variation in average room rates was found to be greatest in St. Lucia, Montserrat, Tobago and Barbados, the lowest in Guyana, Suriname, Dominica and Trinidad.

The destinations with the lowest-priced accommodation (on average) were Cuba, Dominica, Guyana, Haiti, Saba and Suriname, while those with the most expensive accommodation (on average) were Anguilla, Antigua, St. Barthelemy, St. Maarten/St. Martin and St. John/St. Thomas.

Barbados has the largest number (20) of "expensive" properties (charging \$150.00 or more for a room in Winter 1987/88), but, because of its wide range of accommodation, its average room rate was close to the regional average.

#### **\* International Price Comparisons**

Comparable hotel accommodation would appear to generally cost more in the Caribbean than in other resort areas; for example, the average daily achieved rate per occupied room for a sample of large, international-standard hotels in 1986 was US\$100.81 for the Caribbean sample compared with US\$69.81 for the Pacific Basin sample.

The average achieved rate for the Caribbean sample showed the largest percentage increase over the period 1981/86.

The Caribbean had relatively few rooms in the under \$30.00 and in the \$31.00 to \$55.00 price categories in 1986/87 compared with Mexico, Europe and the United States.

#### **\* Ownership and Management**

A survey conducted by CTRC in 1976 showed that 56 percent of all tourist accommodation establishments in fifteen reporting countries in the Caribbean (but only 37 percent of all the rooms) were owned by local nationals.

Since 1976 there has been a trend in several destinations towards increased local ownership (whether by private individuals/companies or by governments); for example, in Barbados in 1985, 83 percent of all establishments (representing 50 percent of all the rooms) were owned by Barbadian nationals.

However, Poon's 1985 survey of a representative sample of hotels in Barbados, Jamaica, Trinidad and Tobago found that while 75 percent of the rooms in the sample were locally-owned, only 31 percent were locally-managed.

The largest foreign-owned and foreign-managed hotel chain operating in the Caribbean is Club Mediterranee (2410 rooms), followed by Divi Hotels (2199 rooms) and Princess Resorts (1565 rooms).

Caribbean governments (excluding Cuba) own an estimated 9500 rooms (or 11.4 percent of all hotel rooms in the Caribbean) in 43 separate establishments.

(vi) Hotel Performance

It is estimated that about 6.4 million foreign tourists (two-thirds of total tourist arrivals) stayed at hotels and other types of recognized tourist accommodation in the Caribbean in 1987, generating a total of approximately 45 million bed-nights.

Despite the increases in total room capacity in most destinations, average room occupancy rates were generally higher in 1987 than in 1986, with a marked improvement in some countries in the low season.

For the region as a whole, the average room occupancy rate in 1987 is estimated at around 65 percent (compared with 81 percent for Hawaii and 58 percent for Mexico).

Notwithstanding above-average room revenues and about-average occupancy levels, Caribbean hotels tend to be less profitable than those in other parts of the world; for example, in 1986 average income before fixed charges per available room in a sample of large hotels was \$5,264 for the Caribbean sample compared with \$7,705 worldwide.

This issue of performance and profitability will be taken up in section 4, where the problematique of tourism finance in the Caribbean will be addressed.

(vii) Importance of Tourism to the Caribbean

Tourism generates a number of important benefits to the Caribbean including the generation of employment, incomes, foreign exchange and government revenues. These are briefly examined below.



(a) **Employment**

The total number of persons directly and indirectly dependent on tourism for a living is several times larger than those employed in accommodation establishments. These persons would include taxi drivers, workers in bars, restaurants, casinos, souvenir shops and others working in industries directly or indirectly dependent on tourism, including those employed in the public sector.

National estimates of total employment, both direct and indirect, dependent on tourism are available for Aruba, The Bahamas, Martinique, Puerto Rico, St. Vincent and The Grenadines and the U.S. Virgin Islands. For these six countries total employment generated by tourism was about four times greater than employment in accommodation establishments.

For the 14 Caribbean countries for which data is available, the average number of employees per room in tourist accommodation establishments is just over one; this ratio varies considerably both according to season and type of establishment. Taking all of this data into account, it is possible to derive an estimate of employment generated by the tourist sector.

In 1988, total number of rooms was 108,242; the employment per room is estimated at 1.02. This yields employment of 110,874 persons in tourist accommodation throughout the Caribbean. Since total employment generated by the tourist sector is between 3 and 4 times that generated by the accommodation sector, total employment estimates for the Caribbean range between 326,000 to 444,000. With the increased number of rooms expected on stream in 1989 (a total of 135,000 rooms), this figure will increase by between 413,000 and over half a million (550,800).

(b) **Income**

The contribution of the tourist industry to the national income or gross domestic product (GDP) of Caribbean countries is measured by the contribution of visitor expenditure to Gross Domestic Product. For countries for which data is available for 1987, visitor expenditure contributed 39.7% of the GDP of Aruba; 80.7% of that for Antigua and Barbuda; 29.2% for the Cayman Islands, 37.7% for Grenada; 20.7% for Montserrat; 72.9% for St. Kitts/Nevis; 47.5% for St. Lucia; 30.5% for St. Vincent and the Grenadines; 15.4% for Trinidad and Tobago. For Anguilla and the British Virgin Islands, visitor expenditure is larger than the Gross Domestic Product. Visitor expenditure as a percentage of the Gross Domestic product for 24 Caribbean countries for the period 1980-1987 is given in table 5 in the appendix.

In terms of the valued added contribution of the Hotels and Restaurants sector to the Gross Domestic Product, the sector contributed over US\$130m to the GDP of Aruba and Barbados, and between US\$10 and US\$30 million to the economies of Antigua and Barbuda; the British Virgin Islands; Cayman Islands, St. Lucia,

Trinidad and Tobago and Turks and Caicos Islands. (see CTO Annual Statistical Report, 1988).

(c) **Foreign Exchange**

Tourism is a major item of services export which is actually consumed in the destination. In other words, the tourism services are not transported to the consumers but the consumers come to it. Despite being consumed in the host country, tourism generates substantial sums of foreign exchange for countries which export tourism.

Foreign exchange can be proxied by the volume and value of visitor expenditures to the Caribbean Region. In 1988, this figure was estimated to be 7.3 billion US dollars, a substantial sum when compared with that earned by other exports of the region - sugar, bananas, bauxite and oil. Note however, that the US\$7.3b must be seen as gross foreign exchange revenues of the sector. Some of these funds are leaked because of imports and the low level of linkages between tourism and the rest of the economy. In the case of St. Lucia, it is estimated that about 90% of beverages required for the tourist sector and 60% of the food requirements are imported (Poon, CTO, All-Inclusive Hotels in St. Lucia - Implications for Policy and Competitiveness, 1989).

(d) **Government Revenues**

The government also benefits from tourism through the variety of taxes which it receives directly and indirectly from the tourist sector. Such taxes include; hotel occupancy taxes; departure tax, liquor tax, road tolls (eg. in The Bahamas), harbour revenues, customs duties, profit (corporate) tax, leasehold and hotel land tax, taxi and car rental licenses, casino license tax. Data is not currently available to give a complete picture of the aggregate contribution of all of these revenue categories to total government revenues. The case of hotel occupancy tax is examined.

Hotel occupancy taxes complement government revenues by between US\$2 and US\$3 million in Aruba, Cayman Islands, Netherland Antilles and St. Lucia. It is interesting to note further that revenue from hotel occupancy taxes contribute between 2 and 3 percent of total government revenues in the Cayman Islands, St. Kitts and Nevis, St. Lucia and Turks and Caicos Islands (CTO Annual Statistical Report, 1988).

(viii) **Future Prospects for Caribbean Tourism**

The prospects for Caribbean tourism are bright. Governments of the region including Trinidad and Tobago, St. Kitts/Nevis, Antigua and St. Lucia are now placing a great deal of emphasis on the development of the tourist sector. In fact, in the words of the

President of the Caribbean Development Bank, Mr Neville Nicholls, "those economies in which tourism was significant performed consistently better than those in which it was not" (Nicholls, 1988).

A number of other factors also augur well for Caribbean tourism:-

- \* the world tourist industry is growing
- \* there are no substitutes for tourism
- \* leisure time is increasing
- \* consumers want tourism
- \* incomes and desire to travel in non-traditional markets such as Japan is increasing

Two of these points are elaborated on below.

**\* There are No Substitutes for Tourism**

Unlike many commodities, durable goods and even services, there are no substitutes for the tourism experience. Margarine can be substituted for butter; high fructose sweeteners, beet sugar and honey are substituted for cane sugar; plastics for tin and aluminum; and synthetic fibres for cottons, linens and silks. Laundry services and public transportation are substitutes for washing machines and private cars, respectively. Even washing machines and dish washers are substituted for domestic help. However, nothing comes near to substituting for the tourism experience. Looking at movies and at actors basking in the sun is no substitute for actually being there. This means that the demand for holidays will grow rather than be traded off by a substitute.

**\* Consumers Want Tourism**

Not only are there no substitutes for tourism, but within the last 25 years, tourism has become as much a feature of the "good life" as a dish washer or a microwave oven. Consumers will continue to want tourism for a number of reasons related to their levels of education, wealth and past tourism experiences, as well as for reasons related to environmental and other developments in their own societies, homes, families and places of work. Moreover, a number of factors will increase both the desire for and the means with which to purchase travel. Such are: the increased availability of free time, paid holidays and flexible work schedules; population growth; rising income levels in the new information industries (for example, Silicon Valley in California); improved tourism services and facilities; high profit expectations; increasing technological and other innovations in tourism; and increasing government support for tourism.

(ix) Future Directions for Caribbean Tourism

Although tourism is a growing field for which there are no substitutes in the near future, tourism destinations and experiences are highly substitutable. Tourism destinations, services and vacation options abound. This makes tourism a highly competitive industry. While international tourism prospects are very rosy, therefore, survival and competitiveness in the industry is no bed of roses. The Caribbean has to compete with the lions of East Africa, the temples of India, the novelty of China and the cathedrals, beaches and ski slopes of Europe. In forging tourism strategies for the future and in building dynamic and sustainable competitive advantages for the future, a recent study, commissioned by the Commonwealth Secretariat on the Future Prospects and Policies for Caribbean Tourism to 2000 (June 1987) cautioned that the future of Caribbean tourism will depend increasingly upon:-

- a) the innovativeness of the Caribbean tourism industry.
- b) the integrated and united development of the Regional tourism industry.
- c) the development of the total services sector, of which tourism is one component.
- d) the development of tourism facilities and services based upon flexibility, segmentation and diagonal integration (FSDI) as opposed to mass, standardized and rigidly packaged (MSRP) holidays, hotels, hosts and tourists.

The availability and conditions of finance of the tourist industry affect all of the above factors and indeed the future of Caribbean tourism. It is to this critical area we now turn. The next section examines the global context for tourism finance and the implications for the Caribbean. The problematique of Caribbean tourism finance is subsequently addressed.

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**SECTION 2**

**Forms of Tourism Investment and Emerging Trends Internationally**

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## Introduction

This section examines the international trends in tourism finance with a view to examining their impact on tourism finance in the Caribbean. It also attempts to determine the level and extent to which these trends are already providing constraints and opportunities for Caribbean tourism finance. The trends identified include the dominance of the management contract globally, time share, leasing, the growing importance of Japanese investments and an increasingly diagonally integrating industry. These are discussed below.

### (i) **Dominance of the Management Contract**

Contrary to the conventional belief that multinational companies (MNCs) bring capital, equipment and know-how, the experience of MNCs in many developing countries is that they have been involved in relatively little investment or ownership of hotel properties. The principal form of MNC involvement in developing countries hotel sector since 1975 has been the management contract. According to the United Nations Centre for Transnational Corporations (UNCTC), between 1975 and 1978, **90% of all MNC involvement in developing countries hotel sector has been the management contract.**

Multinational corporations (MNCs) are enterprises which operate in more than one national territory. Although already well-entrenched in extractive and manufacturing industries, the presence of the multinational corporation in international tourism is a phenomenon of the 1960s. The United Nations Center for Transnational Corporations (UNCTC) identified three categories of multinational corporations in international tourism: hotels, airlines and tour operators. They observed further, that **MNC involvement in these tourism areas has taken the non-traditional form of involvement such as management contracts and franchises, with little direct investment.** In the hotel sector, the predominant form of TNC involvement is the management contract. Until 1975, the management contract accounted for 63.1% of MNC involvement in developing countries and after 1975, it represented 90.6% of total involvement (see table 2 overleaf).

It is interesting to note, that, whether developed or developing country, the predominant trend of MNCs operating in the hotel sector after 1975 is involvement via the management contract. Comparative data for the developed countries in table 2 confirms this view.

TABLE 2:

PERCENTAGE OF ROOMS OF TRANSNATIONAL CORPORATION-ASSOCIATED  
HOTELS ABROAD BY TYPE AND DATE OF INVOLVEMENT, 1978

	Ownership (or part-ownership)*	Leasing Arrangements	Management contract*	Franchising
<b>Developed Market Economies</b>				
Before 1964	41.0	28.1	30.9	
1965-1974	60.1	10.5	29.5	
1975 + after	25.7	8.8	65.4	
All periods	47.8	11.9	23.5	16.8
<b>Developing Countries</b>				
Before 1964	21.8	45.0	33.2	
1965-1974	22.2	22.2	56.8	
1975 + after	6.7	2.7	90.6	
All periods	17.6	10.3	63.1	9.0
<b>All Countries</b>				
Before 1960	19.0	38.0	33.8	9.3
1960-1964	31.7	21.1	47.2	—
1965-1969	42.2	21.8	29.0	6.9
1970-1974	38.0	14.9	36.8	10.3
1975-1978	21.4	10.3	52.2	16.0
1979 + after	3.3	1.2	87.1	8.3
All Periods	31.4	12.2	44.7	11.7

Source: Dunning and McQueen, "Multinational Corporations in the International Tourist Industry", Annals of Tourism Research, 1982.

From table 2, it can be seen that during the period before 1964 until 1978, ownership or part ownership in developed countries accounted for 47.8% of MNC involvement; leasing 11.9%; management contracts, 23.5%; and franchising, 16.8%. It is interesting to note that after 1975, 65.4% of all MNC involvement in the hotel sector in developed countries was the management contract.

At the same time, however, developing countries do received much more involvement via the management contract (90.6%) compared with (65.4%) for the developed countries.

From the MNCs point of view, management contracts have the advantage of non-committal of huge sums of money and less financial risks should the investment climate become politically unstable. At the same time, they benefit through the instrument of the management contract through which MNCs have control of hotel operations (sourcing, employment, marketing, technology, etc.).

It is perhaps largely because of this strategic decision by multinational tourism corporations to manage and control Caribbean hotels rather than to own them that led a recent study on tourism investment incentives (CTRC/Arthur Young, 1988), to conclude that:

"existing incentives for encouragement of tourism investment in the Caribbean region play a smaller role in attracting new investment than is generally ascribed to them ... ."

The study observed, furthermore, that "the evidence is that **incentives play a minor role in the decisions by foreign investors to establish operations.** Their investment decisions are guided by corporate strategy and their assessment of market strengths and weaknesses, not by incentives."

Despite their lack of investment, MNC involvement in the tourism industry has been tremendous. Multinational corporations, with their considerable financial power have entered the international tourism industry at a very rapid pace since the late 1960s. With

TABLE 3

**SHARE OF TRANSNATIONAL-ASSOCIATED HOTEL ROOMS IN TOTAL HOTEL ROOMS IN SELECTED COUNTRIES/REGIONS, 1978 (%)**

<u>Developed Economies</u>	%
United States	0.6
France	1.8
United Kingdom	2.0
Spain	3.1
Japan	9.6
All Developed Economies	2.1
<u>Developing Regions</u>	
Middle East	16.0
Asia	16.6
Africa	17.7
Latin America	4.6
Caribbean	35.6
All Developing Countries	11.1
<u>Caribbean Region</u>	
Bahamas	35.6
Barbados	14.9
Jamaica	31.0
Martinique	67.2
Puerto Rico	43.3
Trinidad and Tobago	42.6

Source: UNCTC, Transnational Corporations in International Tourism, 1982; 21.



their entry, tourism experienced rapid growth and a concentrated industry structure. At the end of 1978, it is estimated that 81 MNCs from 22 countries were associated with 1025 foreign hotels and 270,646 rooms. These accounted for at least 95% of all rooms in foreign-associated hotels, with the USA accounting for about 50% of all rooms (see table 3). (Dunning and McQueen, 1982; 71).

The impact of MNCs was not only seen from the point of view of the rapid growth and concentration which it precipitated in the tourist industry. Their activity had a great deal of impact on the tourist industries in developing countries. MNCs accounted for a large proportion of the hotel rooms in many developing countries. Multinational corporations account for 43.9% of total hotel rooms in the Philippines; 61.0% in the Seychelles; 49.7% in the Senegal; 33.4% in Venezuela; 14.9% in Barbados; 31.0% in Jamaica; and 42.6% in Trinidad and Tobago (see Table 3).

As a group, the Caribbean accounts for the highest concentration of MNC involvement among all developing countries, in 1978. Transnational associated rooms in the Caribbean was to the tune of 35.6% in 1978 compared with 11.1% for all developing countries; Middle East; 16.6% for Asia; 17.4% for Africa and 4.6% for Latin America. This large percentage of MNC involvement in the Caribbean is partially explained by the proximity of the Caribbean region to North America - North America itself controlling 49.5% of all multinational hotels internationally and 56.2% all rooms (1978).

In summary, then, although MNCs are visibly present in the Caribbean (through well-known brand names such as the Hilton, Holiday Inn and Best Western), this represents little hard investments in the hotel sector. This has implications for the finance of the hotel sector. Because if MNCs only manage, someone must construct hotels and bear the financial risks of establishing hotels - usually this ends up being the government (eg. Heywoods, Barbados; Hilton, Trinidad; and numerous hotels in Jamaica); The tendency of MNCs to manage hotels and not own also has serious implications for the attraction of foreign investment (as we will later demonstrate).

#### (ii) Time Share

Timeshare is another important trend in international hotel investment. Time share has become an important and growing source of finance in the international tourist industry. Developers have been attracted to time share because they see a relatively early capital payback. Companies such as Marriott, Sheraton, Holiday Inn and Club Mediterranee have started to develop and sell time share. The concept is also beginning to take on significance in the Caribbean.

Timeshare is very similar to the concept of individual property ownership where a 100 room resort property may have 100 individual

owners. By virtue of the owners purchase the property (sometimes even before it is built), **the revenue serves as a source of property finance.** In the case of time share, however, clients do not buy the property outright, but they buy the right to use the property for a number of years. The sale of time to individual clients provides a source of finance to tourism investors/property developers.

Time share is not as yet a widespread mechanism of Caribbean tourism finance. However some hotels such as the Divi chain is using timeshare as an important source of finance.

Time share refers to the purchase of vacation time at a specific resort. The ownership of timeshare conveys the right to use the holiday properties on a regular basis. Time share involves the owning of vacation time (usually in one week increments) in one room at a resort for a number of years, spanning the life of the unit. **Time share makes it necessary to sell one apartment 50 times over** for each week of the year (with two weeks for maintenance).

The development of a facility for a time share owner to exchange or swap his/her week in his/her resort has increased the flexibility and popularity of time share. It is estimated that one-third of the time share owners in resorts within the time share exchange facility swap their time shares every year.

By virtue of clients buying the right to use the property for a number of years, **time share guarantees occupancy** once the units are sold. It is estimated by Ragatz Associates (1987) that timeshare resorts experience annual arrival occupancy rates of about 85% and minimal seasonal fluctuations, compared with around 60% occupancy and, often, extreme seasonality for the average resort hotel. **There is also no need for future advertising and marketing of the property.** The major function to be performed is the upkeep and management of the property, to which owners contribute an annual sum for maintenance. Time share, on the part of the owners, acts as a hedge against inflation and it is an investment by individual owners in their own vacation, for a number of years in advance - from 20 years to perpetuity.

It is estimated that the price of a time share villa or apartment will give a **payback of seven to ten years** compared with the accommodation costs of conventional holiday-taking (Economist Intelligence Unit, 1988). This short payback period holds good both for investor and consumer. The problems associated with timeshare are covered in a CTO report, 1982.

#### \* The Global Picture

Time share around the world has been growing fast, at over 30 percent per annum on average since 1980. At the end of 1987, 850,000 time share owners in the USA and 320,000 in Europe demonstrates the growing popularity of the business.

In the USA, resort time sharing is one of the fastest growing sectors of the US resort development industry. Sales in 1986/87 were estimated at about US\$1.2b annually and resorts located within the USA alone. Purchases by US residents in popular foreign locations such as Mexico, the Caribbean and Canada add an additional US\$250m. Growth in the industry has been rapid. Compared with annual US sales volume of about 150,000 timeshare weeks in 1986/87, total volume (time intervals) sold 10 years ago was only 29,000. The total number of timeshare resorts within the USA has increased during the last ten years from 240 to nearly 1,000.

**TABLE 4: SIZE OF THE WORLD TIMESHARE INDUSTRY, 1987**

Region	Owners		Timeshare developments	
	Number	%	Number	%
	('000)			
North America	850	63.0	1,400	66.4
Mexico	40	3.0	120	5.7
Europe	320	23.7	400	19.0
Japan/SE Asia	60	4.4	50	2.4
South Africa	40	3.0	50	2.4
Australasia	30	2.2	70	3.3
Other	10	0.7	20	0.9
Total	1,350	100.0	2,110	100.0

Source: Resort Condominiums, International (RCI); Interval International (II).

The average annual rate of growth of world time share between 1980 and 1987 was 32.5 percent in terms of numbers of owners and 17.5 percent in terms of number of developments.

The world timeshare industry is dominated by North America and Europe which account for 87 percent of owners and 85 percent of developments in 1987. The data for the regional breakdown of timeshare developments worldwide is given in table 4.

## \* The Caribbean Picture

Data is not available at this stage to delineate the contribution of timeshare to the finance of tourism developments throughout the Caribbean. This is mainly because time share has not taken off in the Caribbean and the time share industry is not as yet recognized.

### The Divi Example

The Divi hotel chain is a very interesting example of hotel sector finance. This is because, on the one hand, it is a public company quoted on the New York stock market. Secondly, it is perhaps one of the first hotel chains operating in the Caribbean to use time share as a source of hotel finance in the Caribbean.

The major hotel company to utilize timeshare as a source of finance in the Caribbean is the Divi hotel chain - a hotel chain whose motto is "barefoot elegance" and which operates almost entirely in the Caribbean. In 1988 Divi had 10 properties in 7 islands (Aruba, The Bahamas, Barbados, Bonaire, Cayman Islands, St. Croix and St. Maarten) with a total of 1581 rooms.

Plans to 1992 include the building of properties in Antigua and Turks and Caicos, additions to existing properties and the building of new properties on current islands. This will increase Divi's total rooms to 2575, or a 62.9 percent increase over 1988.

By 1988 about 19% of Divi's total tourist accommodation stock was financed by timeshare. By 1992, Divi plans to increase timeshare to 25%. In other words, for every 200 rooms built, 50 will be timeshare. In fact, as can be seen from table 5, plans to 1992 will increase the proportion of timeshare rooms to 24.2 percent of the total. It is interesting to note that the optimal size of hotel for this "barefoot elegance" hotel chain is between 150 and 250 rooms.

According to Scott Wiggins, Vice President of Marketing, there is a need to obtain more short-term payback of investment income in order to finance further investments and to aid cash flow. This is because, unlike many international hotel chains which do not invest in the Caribbean, but simply undertake management contracts, the Divi chain is an owned and managed hotel chain.

In fact, the strategy of greater reliance on timeshare to the tune of 25% of total room stock, is an attempt to put the organization on sounder financial footing. Divi recorded a loss in 1988-89, for the first year of its 12 years of operation.

A listing of Divi's hotel properties in the Caribbean to 1992 and the significance of time share finance to each property is given in table 5 below.

**TABLE 5: DIVI HOTEL PROPERTIES IN THE CARIBBEAN (1992) - ROLE OF TIMESHARE**

COUNTRY	PROPERTY	TOTAL RMS DATE	PERCENTAGE RMS DATE	TIMESHARE %
ANTIGUA	Divi Antigua	100 1989 200 1990	- - 25 1990 -40	0 20
ARUBA	Divi Divi Divi Tamarijn Dutch Village Divi Village	202 236 50 1990	- - - - 97 50 1990	0 0 100 50
BAHAMAS	Divi Bahamas Sandpiper	250 Dec '89 -	25 1990 17	10 100
BARBADOS	Divi Southwinds Divi St James Divi Heritage	52 116 130 - - 28		55 0 100
BONAIRE	Divi Flamingo	175 20		16
CAYMAN BRAC	Divi Tiara	58	14	24.1
ST CROIX	Divi St Croix	86 40 90/91 100 91/92	30 - -	34.8 0 0
ST KITTS	Divi St Kitts	175	25 90/91	12.5
ST MAARTEN	Divi Little Bay	220	40 89 30 90/91	31.8
TURKS AND CAICOS	Divi	175	25 90/91	12.5
TOTAL		2199	532	24.2*

\*Group Average

Source: Interview with Scott Wiggins, Vice President, Marketing at the Caribbean Hotel Industry Conference (CHIC) '89 (June 11-16, 1989).

### (iii) Villas and Condominium Development

Timeshare and villa developments are similar in that they involve individual holiday makers, rather than companies or typical multinational hotels. It thus involves a different type of investment.

Condos and villa developments differ from time share in that the owner owns the actual unit, rather than the right to use the unit at a specified point in time. Individual ownership of the units has become a source of finance for the hotel industry.

With villa/condo development, an entrepreneur would usually acquire a large parcel of land, develop and landscape it, specify where units should be built, design common areas like shopping services, yachting facilities as well as decide upon a standard for the units. The prospective client would see the plan, sometimes visit the property and decide to buy/build/own one of the units. The units themselves are sold before, after or during construction, depending upon the type of development and the strategy of the developer.

This type of tourist accommodation funding is already taking place in Barbados (Rockley Resort and Glitter Bay), The Bahamas, St. Lucia (Windjammer Landing), Antigua and in a number of other islands. In Barbados, Sandy Beach, an 88 room suite hotel was utilizing both local and regional (Trinidad) funds. These properties eventually add to the stock of tourist accommodation rooms. Since owners do not have the leisure time to avail themselves to the services of the property on a full time basis, they usually place the unit in the hotel operation pool, where the unit is managed and maintained on behalf of the client.

The consumer bears the full risk of the property, as well as profit from ownership where the use of the property in the hotel pool can generate revenues which help to offset the cost of initial finance. It is useful to note that this method of finance is the same technique adopted by many property developers in residential property development. The difference with condo developments for the hotel sector is that common areas and facilities (reception, golf, tennis, shopping, etc.) are provided and used and managed as a hotel. The main difference is that instead of one person/company owning the hotel, ownership is by individuals, who can be both local and foreign.

### (iv) Leasing

Leasing has also become an avenue of finance. In the hotel sector, government ownership of properties, especially in the case of Jamaica was accompanied by a return of the properties via leasing to the private sector (see section 4). Another important area of finance via leasing is the aircraft sector. The national airline of Trinidad and Tobago (BWIA), for example, uses leasing as a

source of finance for nearly 100% of its aircraft fleet.

Globally, leasing has become an important source of finance for airlines. In a recent study of the airline industry by the Economist Intelligence Unit, it was observed that:

"The total value of new aircraft over the next 20 years is estimated at \$414b for about 7,800 to 9,800 aircraft. Even under optimistic assumptions as to the long term profitability of the worlds airlines, it does not seem possible that such large scale purchases could be funded by traditional debt or equity methods. Aircraft leasing is growing fast, and the main leasing companies have already become major players in the aircraft ordering business."

Leasing looks set to become more and more important in the future and in response to its growing importance, new forms of leasing are emerging (Economist Intelligence Unit, 1988).

At one time, airlines purchased outright all or most of their aircraft and they did so in traditional ways. They financed the acquisitions primarily through the sale of equity shares and by conventional, private debt. Their assets served as security. In this regard, airlines were no different from other business sectors which bought their industrial, commercial and scientific equipment.

Governments also developed tax schemes that encouraged companies to invest still more in equipment, in order to expand the economy. For example, the US Investment Tax Credit (ITC), created in 1962, permitted aircraft owners, like other equipment depreciation schedule also permitted rapid deduction of the cost of capital equipment. The low profit airlines thus obtained the cash flow from depreciation they were unable to gain from retained earnings.

Pre-deregulation (1978), operating profit margins for US airlines were unimpressive, averaging 4-9 percent at best. But banks and other financial sources, such as insurance companies lined up eagerly to fund purchases and did so over long repayment periods. The institutions knew they would get their money back: debt payments were part of the cost base used to calculate the fares airlines could charge. Moreover, regulation kept most airlines in business and protected their routes so there was little risk of abrupt changes in aircraft ownership or usage.

Outside the USA, in Europe for example, banks were more conservative. They loaned money for shorter periods. But airlines found capital easily because they were nationalised. Subsidization of aircraft purchases was part of the total bill for government ownership. Governments felt the investment was worthwhile in return for the prestige, foreign currency, tourists and other benefits perceived to flow from the flag carriers.

Aircraft ownership had other attractions for carriers besides easily obtainable loans or tax incentives. Airlines could boost income with the profits from aircraft sales. Companies such as

Northwest and Delta in the USA placed their fleet on rapid depreciation schedules, reaped the cash flow advantages and then sold their still young planes at good prices that added to their bottom lines. These two companies were the steadiest profit performers before 1978 and a share of that profit was attributable to the management of aircraft assets.

In the 1960 US airlines began acquiring some aircraft through long term, so called finance lease. This actually turned out to be another form of purchase. Lessees signed long term, non-cancellable "full payout" agreements that gave them the option to buy the aircraft for a token sum at the end of the lease period. One advantage was that airlines paid less money up front for these acquisitions. Lenders held title to the aircraft. This removed the need for competition with general creditors if an airline could not complete its lease term. Lenders generally signed such leases with the larger carriers who were generally seen to be good credit risks, but who wanted to keep the equipment off the balance sheet.

Since the early 1970s another type of aircraft acquisition has gained prominence, the shorter term (five to ten years) operating lease. In the beginning, this was more popular outside the USA. Larger, scheduled airlines sometimes acquired aircraft in this manner simply to fill in their fleets for seasonal peaks in traffic, or to obtain equipment when an owned aircraft was due for heavy maintenance. Aside from that, weaker, smaller or new airlines were the main users of such deals.

### **Factors Shaping the Growth of Leasing**

The Economist Intelligence Unit identified a number of factors which force airlines to re-evaluate airline acquisition strategies and which are causing all types of leasing to become accepted practice for a variety of airlines, whether they have strong balance sheets or not. Such include:-

- a) Changes in the tax structure which eliminate equipment, tax credits and reduction of accelerated equipment depreciation.
- b) Privatization of airlines such as British Airways and Japan Airlines, forcing firms to stand the test of debt and equity worthiness applied to other private sector firms. British Airways for example, had an aging fleet and a need for more aircraft at the time that it was preparing to sell its shares to the public. It could not unduly burden its balance sheet and, as a result, all the B767s on order are on operating leases, as well as 25 percent of the B757s and more than one third of its B737s (1988).

#### c) Aircraft Costs

Aircraft costs are high. A long range jumbo (the B400s for



example) cost US\$125m while Airbus' proposed long range (A-340) cost about US\$85m, and a standard short-medium haul about US\$253m. These prices are four to six times higher than those charged at the dawn of the jet age and the cost of re-equipping would wipe out most airlines' balance sheets.

#### d) Competition

Competition, de-regulation and privatization are making the airline operating environment very volatile thereby making airlines more wary of committing large sums of money to aircraft they are not sure to use economically. Within the USA airlines cannot guarantee the shape of their route networks in ten years time. Leasing thus offers the flexibility and non-committal of huge sums.

Leasing as a form of finance has now become of crucial importance to manufacture and airline alike.

#### (v) Japanese Investments

One of the interesting features of today's investment environment is the increasing importance of Japanese investments. With a huge trade surplus (US\$96.5 billion in 1987) and the world's largest income per capita (US\$19,642 in 1987), Japan is playing a larger role in the world economy. Quite the opposite to their American counterparts who have opted for the management route to their involvement in the tourist accommodation sector, the Japanese have a definite preference for ownership and direct investment. The Japanese have bought out the Sheraton hotel chain in Hawaii, for example, retaining the Sheraton brand name and the Sheraton management. They have also recently bought out the Ramada hotel chain. Moreover, the Japanese now outbid many American investors and are remarkable in the prices they pay for hotels.

In the Caribbean, Japanese hotel investments have already penetrated Aruba, The Bahamas, and the Cayman Islands, and the Dominican Republic. Although insufficient information is currently available on Japanese investments in the Caribbean, two trends are worthy of note.

Firstly, in the area of hotel and resort developments, preference is for large investments eg. a chain of hotels, rather than a single hotel. In the area of resort development, preference is for resort complexes with the distinct possibility of adding on a golf course - a game that is certainly a number one sport in Japan.

Secondly, in the area of trade and investments, the character of Japanese investments is very interesting. The Japanese are ?

involved in importing 90% of Jamaica's Blue Mountain coffee; in Barbados' Sea Island cotton and in a number of other specialty products from the Caribbean and Latin America. The strategy is one of raw materials procurement, where raw material from Japan is not simply focusing on a supermarket of raw materials and low value added commodities, but on specialty materials.

In Costa Rica, Japanese investors are looking at hotels. In Mexico, they have invested in assembly plants. In Venezuela, they are pouring money into the aluminum and iron industries.

Without a lot of fanfare, the Japanese are buying into Latin America and the Caribbean. According to the Miami Herald, 1989, not only are the Japanese snapping up premium products, but they are laying the groundwork for increased trade once Latin and Caribbean countries rebound from their economic problems.

The determination of the Japanese to redress their trade imbalance and to invest in developing countries can be seen from the development of two bodies recently formed to promote investments in developing countries (Japan Times, March 30, 1989).

At the initiative of Keidanren (the Federation of Economic Organizations), about 100 major Japanese companies have founded the Japan International Development Organization Limited (JAIDO). JAIDO was set up with capital of Y6 billion - Y4 billion invested by 98 private companies and Y2 billion provided by the Overseas Economic Cooperation Fund of the Japanese government. The body, chaired by Shochi Sawa, former chairman of Toshiba Corporation is expected to use the fund to make equity investments in appropriate projects in developing countries. In a concerted action, Keidanren set up the Committee on International Cooperation Projects (CICP) within Keidanren. CICP will examine the approve JAIDO's proposed investments in light of official guidelines. Both bodies will work with the Japanese government, the World Bank, the International Finance Corporation, the United Nations Industrial Development Organization.

In terms of the source and availability of finance, the Japanese market offers renewed prospects for the region. It is in recognition of this fact that led the Council of Caribbean Tourism Ministers to mandate a fact finding mission to Japan in March 1989. The mission was undertaken jointly by the Caribbean Tourism Organization (CTO), the Caribbean Development Bank (CDB) and the Caribbean Hotel Association (CHA) in May 1989. The missions specific objectives/themes were **tourism, investment and technical assistance** (a 1989 report on this mission is available from CTO).

Much more needs to be done both at regional and national levels to understand better the Japanese market in these critical areas of tourism, investment and technical assistance.

It is useful to note also that other countries such as Venezuela, with a well-developed construction sector are now seeking investments/contracts in other Caribbean islands (eg. St. Lucia).

This is being facilitated by finances from the International Monetary Fund which see the export of expertise, construction materials and design to other developing countries as one solution to Venezuela's balance of payment problems.

(vi) **Diagonal Integration and the Finance of Tourism**

From traditional patterns of vertical and horizontal integration in tourism, a new type of integration - diagonal integration - is emerging. This new form of integration has implications for the finance of tourism. Specifically, a new breed of producers/investors are cross-fertilizing services and entering the tourist industry in a big way (for example, the movement of Banks into Travel Agencies (Midland and Thomas Cook, U.K.), Real Estate into travel agencies, etc.. It means therefore that sources of finance will increasingly originate from non-traditional sources. This is an important point because while it is conventionally believed that hotel and tourism investments will come from those already in the industry, this is not necessarily the case. Note the historic tendency for multinational chains to be management companies, rather than owners/investors. In seeking investment funds, it will be wise to look beyond the boundaries of the traditional tourist industry, and beyond the boundaries of traditional multi-national corporations.

In what follows, the concepts of vertical and horizontal integration will be briefly examined; the concept of diagonal integration explained; and the distinguished feature of diagonal integration and the implications for finance will be examined.

a) **Vertical and Horizontal Integration**

In economics, horizontal integration refers to a situation in which firms operating in the same industry or at the same stage of production, come together under some unified control (example, through takeover, a cartel formation, collusive agreement or franchise). Horizontal or lateral integration therefore affects the degree of concentration within a given industry. Vertical integration, on the other hand, refers to a situation in which firms proceed to control successive stages of production. In this respect, one can have forward as well as backward vertical integration. Thus a firm may integrate backwards, wherein it incorporates activities related to the supply or procurement of the inputs (raw materials, producer services, management) which feed into its production process. On the other hand, it may integrate forwards, by moving into activities which are related to the demand, (distribution, marketing, advertising) for its output. Both vertical and horizontal integration are prevalent in the international tourism industry.

**Horizontal integration** is prevalent in each producer segment

airlines, hotels, tour operators and travel agents of the international tourist industry. There are increasing concentration and oligopolistic formations between and among these producer segments. Hotels, for example, increasingly integrate with one another in order to preserve and maintain market shares. Transnational hotel corporations, for example, account for 95% of all hotel rooms in foreign-associated hotels. In the airline industry, anti-trust immunity preserved an oligopolistically structured industry from the Chicago Convention until de-regulation in 1978.

The concept of **vertical integration** in the tourism business is different from that of physical goods production. Whereas in plastics, a firm can integrate vertically into petrochemicals and oil production, in tourism, the final product is an integrated product - a package of services. This means that a hotel company does not integrate vertically into hotel construction, linen and crystal production, but rather, the hotel or airline integrates vertically by trying to provide as many of the constituent services of the total holiday package. In the international tourism industry, airlines are involved in the operation of hotels, car rentals, tour operation and travel agencies; hotels are involved in developing computerized reservation systems and even organizing ground tours and airport transfers; and tour operators are involved in charter airlines and travel agencies. Thus, many suppliers in the international tourism industry are simultaneously involved in the simultaneous provision of a number of tourism services.

In 1978, for example, the UNCTC identified 16 hotel chains linked with airlines; they accounted for 27 percent of all foreign hotels and 34 percent of the multinational hotels in developing countries (UNCTC, 1982; 11). In their analysis of the patterns of related activities of selected airlines, Clairmonte and Cavanagh (1984; 250-254) observed that "airlines have become the driving force in tourist activities", with the majority of them exercising varying degrees of control over tour operators and hotels. They observed, moreover, that several airlines, including Aer Lingus and SAS derived over a quarter of their revenues from non-airline activities. Of the 22 major airlines which they examined, 72.7% were involved in tour operations; 86.3% had hotel interest; 13.6% had interests in car rentals; 68.1% were associated with other airlines; and all of them (100%) had other related interests (Clairmonte and Cavanagh, 1984).

#### **b) Diagonal Integration**

The term diagonal integration describes a distinct and unprecedented development in the tourist industry and in the service sector as a whole, which defies conventional typologies of vertical and horizontal integration as well as diversification. Diagonal integration is brought about by new information technologies. It refers to a process of integration where service firms move into new and different activities, with tremendous systems gains, synergies and scope economies to be had from such

integration.

Diagonal integration is different from traditional forms of vertical and horizontal integration. The distinguishing feature of diagonal integration is not that firms at the same stage of production come together to affect the concentration ratios within the industry (as with the case of horizontal integration). Indeed, hotels and travel finance (credit cards and travellers cheques) are thought to be two different activities, if not industries. The distinguishing feature of diagonal integration is also not that firms integrate to control different stages of production (as is the case with vertical integration). Indeed, financial services is not conventionally believed to be a stage in the production of hotel bed nights.

With diagonal integration, consideration synergies, scope economies and systems gains can be had from the provision of a combination (integration) of services, rather than producing each separately.

Synergies are benefits which accrue to the management, operations and organization of inter-related activities, where each activity is capable of generating benefits that mutually reinforce one another. Each activity adds value to the other, thereby making the whole output greater than the sum of the discrete parts. Synergies can create scope economies.

Systems gains refer to the benefits or economies derived from creating and engineering linkages among design, production, marketing organization and management (Freeman and Perez, 1986). Examples of systems gains are networked activities, where each activity (or sub-division within an organization) can share a common database or pool of knowledge. Systems benefits can occur, for example, when banks use their extensive client information and mailing lists to market different services, such as travel, insurance and real estate.

Economies of scope refer to the lower costs associated with the joint provision of more than one product or service, rather than producing each separately. With economies of scope, the joint production of two goods by one enterprise is less costly than the combined costs of two firms either producing good 1 and good 2. Assuming that scope economies existed in the provision of car rentals and hotel bed nights, for example, it would also mean that the cost of adding on the provision of car rentals to hotel bed nights would be cheaper than producing car rentals alone.

### c) Examples of Diagonal Integration

#### **Airlines**

Today, there are already clear indicators that airlines are diagonally integrating into very different and unconventional

activities due to the overwhelming new possibilities created by information technologies. One such activity is the supply of computerized reservation system (CRS) to travel agents. The entry of airlines into the travel agency computerization market is one of the high value-added information services "spin offs" that airlines can offer, having invested in the development of their information technology (computer and communications) infrastructure. In fact, airlines make more profits from their computerised reservations systems than from their mainline activity of transporting passengers from A to B.

The supply of CRS by airlines to travel agents is a very powerful and strategically competitive move by the industry. In the United States, three of the largest airlines - American Airlines, United Airlines, and Trans World Atlantic - are responsible for 90% of the CRS supplied to travel agents. TRAVICOM in the United Kingdom is owned by British Airways while Lufthansa, Iberia, Scandinavian Airways, and Air France have concluded an agreement for the development of a joint reservation system, AMADEUS, with each having a 25% stake. GALILEO has also been formed by ten airlines - Aer Lingus, Alitalia, Austrian Airlines, British Airways, KLM, Olympic Airways, Sabena, Swissair, TAP Air Portugal and Covia, a subsidiary of United Airlines.

CRSs themselves, and more generally, the access to and development of IT, have become a very powerful competitive weapon of the travel industry. The competitive significance of CRSs stem from strategic as well as cost imperatives. Strategically, CRSs are a very important marketing tool for airlines. They generate invaluable information on the performance of their services, on the performance of travel agents who market their products, and the performance of competitors that are co-host on their systems. The cost imperatives of CRSs are also overwhelming. Having developed these networks, airlines can increase the number of suppliers (co-hosts) and users (travel agents) of their systems, with little or no marginal costs. Since users and co-hosts pay market prices rather than marginal cost prices, CRSs have become a very important profit centre of airline activities. This explains why airlines are fiercely competing with each other to expand their offerings and distributorship, eagerly trying to attract co-hosts and users alike. Airlines, therefore, compete not only on the basis of cabin service, arrival/departure times, connections, leg room, piano bars, food and price (since deregulation), but also with technology. It is no wonder, then, that TWA refers to its PARS system as the "crown jewel" of its empire.

Airlines obtain tremendous synergies and system benefits from the supply of CRS to the travel industry. This is because the CRSs supplied to travel agents are not "stand alone" systems, but are fully integrated with the internal operating and management systems of the airlines. Indeed, these systems provide invaluable information for airlines to monitor their performance as well as for planning and forecasting. For example, they are able to obtain information on the performance of new flights being introduced; on the agencies which generate most sales; on their revenues paid up

by agents; and even information on their competitor's (co-hosts) performance.

### **Tour Operators, Banks and Travel Agencies**

It is not only the airlines that are diagonally integrating. Tour operators in the UK, for example, Thomsons and Horizon are also supplying computerized information systems to travel agents. Other travel organizations such as American Express, and Hotels, are also doing it. Diagonal integration is also not specific to tourism. Midland bank, for example, has entered the travel agency business with its purchase of Thomas Cook, the largest retail travel agency chain in the UK. In 1986 Hogg Robinson, another travel agency chain, moved into real estate and financial services.

### **Diagonal Integration and Tourism Finance**

One of the implications of diagonal integration is that potential investors will increasingly come from outside the traditional boundaries of the tourist industry. This means that the attraction of foreign investors and joint venture partners will not only be the traditional multinational hotel chains. In attracting potential sources of finance, therefore, one must seek to understand the diagonal integrating strategies of companies and identify such non-traditional partners. This will enhance tremendously the possibilities for tourism finance in the Caribbean.

Another implication of diagonal integration is that local firms in the tourist industry are also cross-fertilizing their services and moving into non-traditional areas of tourism (eg. entertainment centres, medical services, etc.). These firms will need access to creative sources of financing.

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**Section 5**

**PROBLEMS OF TOURISM FINANCE IN THE CARIBBEAN**

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## Introduction

This section examines the role of multinational hotel corporations (MHNC) in the Caribbean tourism sector. The nature, pattern and volume of MNHCs involvement in Caribbean tourism is delineated, drawing upon a recent CTO survey of multinational corporations (June 1989). The impact of MNHC involvement in the finance and control of Caribbean tourism is subsequently analysed.

### (i) Pattern and Volume of MNC Involvement in the Caribbean

For the purpose of this analysis, the Caribbean is defined as those island states including: Anguilla, Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Cuba, Curacao, Dominica, Dominican Republic, Grenada, Guadelope, Guyana, Haiti, Jamaica, Martinique, Montserrat, Puerto Rico, Saba, St. Eustatius, St. Kitts & Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, U.S. Virgin Islands. All of these are CTO members excluding Cuba, Dominican Republic and St. Maarten (see appendix for list of CTO members only).

In 1987, the entire Caribbean region (defined as above) had a total of 2613 tourist accommodation establishments of which 1211 (or 47 percent) were hotels, 437 (17 percent) were guest houses and 955 (36 percent) were apartments and villas (see table 6). The total number of rooms in these establishments was 108,242 of which 84,103 (78 percent) were in hotels, 21,190 (19 percent) were in apartment and villas and 2,949 (3 percent) were in guest houses (see table 6).

TABLE 6: STRUCTURE OF THE CARIBBEAN TOURIST ACCOMMODATION SECTOR, 1988

Type of Accommodation	Units	% of Total	Rooms	% of Total
Hotels	1,221	47	84,103	78
Apartments & Villas	955	36	21,190	19
Guest Houses	437	17	2,949	3
TOTAL	2,613	100	108,242	100

Source: Curtin and Poon, CTO Tourist Accommodation in the Caribbean, November, 1988.

In 1988 multinational hotel corporations accounted for 28.1% of the total tourist accommodation rooms in the Caribbean and 36.2% of total hotel rooms. It is interesting to note the comparative data for 1978, where multinational corporations involvement in the Caribbean hotel sector was to the tune of 35.6%. In fact, the involvement of MNCs in the Caribbean hotel sector has retained its high level since 1978.

In terms of the finance of tourism investments in the Caribbean, it is not enough to look at general levels of involvement. Of greater utility to this analysis, is the type of MNC involvement in the Caribbean tourism sector, i.e. whether and the extent to which ownership, management contracts and franchises are involved. It is mainly in the case of ownership that investments are made in the sector.

Table 7 examines the relative importance of ownership, part ownership, management contracts and franchises in the MNCs participation in the tourist accommodation sector of the Caribbean. From table 7, it can be seen that 47.9% of total involvement is through the management contract; 9.8% is in the form of franchises; 38.5% is through full ownership and 3.8% part ownership.

**TABLE 7: THE ROLE OF MULTINATIONAL CORPORATIONS IN THE CARIBBEAN TOURIST SECTOR**

Type of Involvement	No. of Rooms	Percentage
Ownership	11,411	38.5
Part Ownership & Management (including time share)	1,139	3.8
Management	14,174	47.9
Franchise	2,909	9.8
	29,633	100.0

Source: Curtin and Poon - Update of MNC involvement in the Caribbean Tourist Accommodation Sector, June 1989.

In addition to the data presented in table 7 it is useful to note, in addition, that different hotel chains have different strategies and methods of involvement in the Caribbean. Table 8 presents data for 10 international hotel chains in the Caribbean, with their respective world ranking; the number of properties and rooms involved in the Caribbean; and their type of involvement.

The data reveal that corporations such as Sheraton, Marriott, Accor, Trust House Forte and Club Mediterranee are actively involved in the ownership of Caribbean properties. On the other hand, hotel chains such as Ramada, Holiday Inns, Hilton and Pullman have no involvement in the ownership of Caribbean hotel chains, but are involved through the instrument of the management contract. Of the 10 hotels listed in table 8, three are involved in franchising. They are the Sheraton Corporation, Ramada and Holiday Inns. It is interesting to note further that many of the hotels do not have a single type of involvement but a combination eg. ownership and management contracts; franchises and management contracts, with management contracts being the dominant category.

**TABLE 8: SELECTED MULTINATIONAL HOTEL CHAINS AND TYPE OF INVOLVEMENT IN THE CARIBBEAN 1988**

Name	World Rank	Caribbean Properties	Rms	Ownership %	Mngt %	Franchise %
Sheraton Corp	2	2	620		55.0	45.0
Ramada Inc	3	8	1148		78.6	21.4
Mariott Corp	4	2	671	100		
Accor**	8	5		50	61.7	38.7
Trusthouse Forte	9	7	1450	75.9	24.1	
Club Med	12	8	2369	61.7	38.3	
Holiday Inns	13	9	3308		49.1	30.9
Hilton	17	4	1380		100	
Pullman Intl	24	11		10.7	89.3	
Wyndam Hotels	76	4	1586		100	
Best Western	-	6	837			100
Total***	-	49	1,056	25.5	54.4	20.1

\*Percentage derived from room figures.

\*\*Includes Part ownership properties with 61% ownership.

\*\*\*Percentages in this column derived from weighted room average.

Source: As for table 7

#### (ii) Impact of MNC on the Control of Caribbean Tourism

While MNCs own only 13.6 of the Caribbean hotel rooms, they manage and control 22.1%. The data for the ten multinational hotels again reveal the dominance of the management contract. The ten hotel chains are involved in 15,056 hotel rooms in 49 properties of which 54.4% are management contracts; 25.6% is ownership and 20.1% franchise. See table 8 in the appendix for a full listing of all MNCs operating in the Caribbean with an indication of size of property, type of involvement and future plans.

Although there is comparatively less foreign direct investment in Caribbean tourism, there is considerable foreign influence on the extent and pattern of hotel development in many countries. This influence has been exerted not through the traditional means of direct investment but through the transfer of less tangible items or invisibles such as marketing networks, access to computerized reservation systems and management skills.

It would seem as though tourism, and the service sector as a whole, is very susceptible to these less well-understood forms of intangible dominance. It is argued that since tourism is an "experience" good rather than a "search" good (whose attributes can be examined and compared with the advertised claim of the supplier), a trademark of guaranteed quality provides a powerful competitive advantage to a firm, particularly when customers are purchasing the services in an unfamiliar environment. It is also pointed out that, because MNCs operate at a lower costs than indigenous firms; are larger, more diversified and more experienced; and have built up a set of intangible assets, logistical skills, management and organizational expertise, they are able to exert a great deal of control in host countries (Dunning and McQueen, 1982; 83-84).

In no small measure, therefore, MNCs have been instrumental in the rapid growth of the Caribbean tourist industry. Consequently, late entry and the survival of small indigenous enterprises has become very difficult. MNCs have also been very important agents in the spread of mass, standardized tourism and in the globalization of the international tourism industry. Moreover, their presence created a great deal of concern about dependency and autonomy in the developing countries, many of whom had only just begun their careers as independent nation states.

(iii) Impact on Finance of the Caribbean Tourism Sector

One of the clear implications of the above analysis is that visible signs of MNC presence in the Caribbean, through established brand names such as Hilton, Holiday Inn, Best Western, etc., do not necessarily or automatically imply ownership or investment in the Caribbean tourist sector.

MNCs, therefore, do not necessarily bring investment. This has meant that investment usually had to come from elsewhere. And, as we will later demonstrate, this investment gap was filled by the government.

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**Section 4**

**PUBLIC SECTOR DIRECT INVOLVEMENT**

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## Introduction

This section examines the role of the public sector in the finance of tourism. It analyses the well-identified, but changing, trend in Caribbean tourism toward government ownership and leasing of hotels to the private sector, particularly in Jamaica. The management structure of government-owned properties in Jamaica and the impact of government ownership in finance is examined.

### (i) Government Ownership in the Caribbean Hotel Sector

In 1987 government ownership of hotel rooms throughout the entire Caribbean region was to the tune of 11.1% (see table 6 in the appendix for the break down for each island).

In the Caribbean, they have become involved in the hotel sector since the 1970s and in some cases even earlier (eg. Trinidad Hilton). The current large level of government involvement in the Caribbean tourist sector can be explained partially by the dependency mood in the 70s; the socialist policies for example, of Michael Manley in Jamaica (1972 - 1980) and the good performance of export staples (oil in Trinidad, Bauxite in Jamaica) which gave government the financial means, to build or buy hotels. By 1985, local ownership (both public and local private sector) accounted for 68.2% of all tourist accommodation rooms and 76% of all tourist accommodation units in Barbados, Jamaica and Trinidad and Tobago (Poon, doctoral dissertation, 1987).

The involvement of the government in the hotel sector must be seen as a source of finance for the sector as many of the properties have been returned to the private sector for management through leasing agreements. In what follows government ownership and leasing of hotels to the private sector in Jamaica is examined as a source of finance for the sector.

Because of Caribbean Governments' share of the ownership of the hotel sector and its low level of in-house hotel management expertise, leasing has become an increasingly important source of tourism finance. This is because when the government owns the properties and does not manage it, it creates the opportunities for the private sector to manage the hotel with little initial capital outlay. For the Caribbean hotel sector, leasing has made possible the development of a strong entrepreneurial and managerial tourism base in islands such as Jamaica.

To understand the importance of leasing as a source of tourism finance, it is useful to consider that the government of Jamaica currently owns 29.3% of the entire tourist accommodation units of Jamaica, and 44.7% of all available hotel rooms (see Table 9). Having no in-house hotel management expertise, the government now leases these properties to the private sector. A list of the government-owned properties in Jamaica and their respective sizes

is indicated in the table below:

**TABLE 9: LIST OF GOVERNMENT-OWNED PROPERTIES IN JAMAICA**

	HOTEL NAME	SIZE (ROOM)
1	Club Americana (Ocho Rios)	350
2	Eden II (Ocho Rios)	263
3	Fantasy Resort (Montego Bay)	129
4	Holiday Inn (Montego Bay)	516
5	Inn on the Beach (Ocho Rios)	46
6	Jamaica Jamaica (Runaway Bay)	238
7	Jack Tar Village (Runaway Bay)	128
8	Mallards Beach Hotel (Ocho Rios)	400
9	Oceana (Kingston)	200
10	Trelawny Beach Club (Falmouth)	350
11	Wyndham Hotel (New Kingston)	400
12	Wyndham Rose Hall (Mo' Bay)	480
13	Hedonism II	280
14	Jamaica Pegasus (Kingston)*	<u>350</u>
	<b>TOTAL</b>	<b><u>4,130</u></b>
	Total Available Hotel Rooms	9192 (44.9%)
	Total Available Tourist Accommodation (including guest houses, villas and apartments)	14031 (29.4%)

Source: CTCRC Tourist Accommodation in the Caribbean, 1988 page 31, and National Hotels and Properties Limited, Department of Planning, Research and Statistics, Nov 9, 1988.

Note: Figures in bracket represent percent government ownership.

All the above-named Government-owned hotels are up for divestment except the (\*) Jamaica Pegasus and Hotel Oceana.

A similar situation can be seen in Trinidad and Tobago where although owning only three hotels with a total of 582 rooms, this figure represents 38.7% and 17.8% respectively of the total tourist accommodation capacity in Trinidad and Tobago (see table 10).

**TABLE 10: GOVERNMENT OWNERSHIP OF HOTELS IN TRINIDAD AND TOBAGO**

	HOTEL NAME	SIZE (ROOMS)
<b><u>TRINIDAD:</u></b>	Hilton International	418
	Farrell House	51
	TOTAL	<u>469</u>
	Total Available Rooms	1211 (38.7%)
<b><u>TOBAGO:</u></b>	Crown Reef Hotel	113
	Total Available Rooms	634 (17.8%)

Source and notes (as for table 9).

Unlike Trinidad and Tobago and Jamaica, the government of Barbados has opted not to become directly involved in the ownership and management of hotels. The Hilton hotel (a 185 room hotel) was built by the government of Barbados in 1966 and has been operating since then under management contract. It was not until the 1980s that the Barbadian government became further involved in the hotel sector, with the opening of Heywoods (a 306 room property, the largest on the island), late 1983.

Heywoods has been under the management of Copthorne Hotels (formerly UK) since its inception until April 1988. On January 1, 1989 the management contract was award to Wyndham Hotels International.

This government-owned property represents 7.5% of total hotel rooms in Barbados and 4.5% of total tourist accommodation rooms (the latter figure including guest houses and apartments).

(ii) **The Management Structure of Government Owned Properties In Jamaica**

In addition to listing the government-owned properties; identifying the size of government involvement in the hotel sector; and identifying government ownership as a form of finance, it is important to examine, in addition, the management structure of the leased properties. In other words, who manage the government properties - is leasing a form of finance to local private entrepreneurship or does it supply reduce costs to multinational corporations.

In table 11, a listing of the government-owned properties in Jamaica, their respective sizes and an indication of management type is indicated. Table 12 provides the cumulative results.



TABLE 11

Property Name	Size	Lease	Mgt Contact	Local Mgt	Foreign Mgt	MNC Affiliate
Club Americana	350	x			x	x
Eden II	263	x			x	x
Fantasy Resort	129	x		x		
Holiday Inn	516	x			x	x
Inn on the Beach	46	x		x		
Jamaica Jamaica	238	x		x		Local
Jack Tar Village	128	x			x	x
Mallards Beach	400			x NHP		
Oceana	200			x NHP		
Trelawny Beach	350	x			Mixed	
Wyndham Hotel	400	x			x	x
Wyndham Rose Hall	480	x			x	x
Hedonism II	280	x		x		Local
Jamaica Pegasus	350					
Total	4130	13				

Source: As for Table 9

TABLE 12: MANAGEMENT STRUCTURE OF GOVERNMENT OWNED AND LEASED PROPERTIES IN JAMAICA

Management Type	Rooms	% Total
Government (NHP)	600	14.5
Local: of which SuperClub	1043	25.3
Mixed Local/Foreign (non MNC-affiliated)	350	8.5
Foreign: of which linked to multinational hotel chains	2137	51.7
Total	4130	100.0

Note: Figures in bracket relate to the percentage break out for the respective categories but do not add to the totals.

Source: Derived from table 11.

From tables 11 and 12, it can be seen, it can be seen that the Jamaica government, through its National Hotels and Properties Limited (NHP) manages two properties with a total of 600 rooms, which represent 14.5% of total government-owned properties.

Foreign corporations linked to multinational hotel chains managed 6 properties which accounted for a total of 2137 rooms (or 51.7% of total government-owned properties).

Mixed local and foreign (non-MNC affiliated) management accounted for one property with 350 rooms, or 8.5% of total government-owned properties.

Perhaps one of the most interesting categories of management is local management related to the SuperClub properties. SuperClub-managed properties - Jamaica Jamaica and Hedonism II - account for 1043 rooms and represent 25.3% of total government-owned properties.

In the case of SuperClub, as well as Sandals Royal Caribbean (a government -owned property that was formerly leased and recently bought by the innovative locally owned, managed and controlled hotel group, Sandals), government ownership and leases to the private sector has truly served as a finance mechanism which unleashed local indigenous entrepreneurship and managerial talents. Government ownership has thus facilitated local involvement and hotel expansion on the part of innovative local companies.

On the other hand, the Jamaica government ownership of a large part of the hotel sector and subsequent leases to the private sector have served as a convenient source of finance for MNCs. Large multinational corporations and multinational management-only groups (eg. Jack Tar Village) were also favourably assisted.

The key to government involvement in the hotel sector and its favourable impact on the local economy, from the point of view of facilitating and activating local participation, would seem to rest critically on the "a priori" existence of entrepreneurial and managerial talent locally. This is clearly the case with Jamaica's innovative SuperClub and Sandals properties.

(iii) Government Ownership, Leasing and Finance for Tourism

Now how does government ownership relate to the financing of the tourism sector in the Caribbean? The answer is simple: Because of the high cost of hotel construction, estimated at about US\$100.000 for one international standard hotel room, very few hoteliers (especially small local or non-multinational-affiliated\* hotels) can afford the up-front cash.

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\*Even in the case of MNC-affiliate hotels, the involvement may be franchise or management involvement, rather than ownership.

By purchasing hotels and leasing them back to the private sector, the government reduces the larger portion of the initial capital outlay that would have otherwise prevented participation in the hotel industry.

The three major vehicles for the government's return of hotel properties to the private sector are:-

- 1) Management contracts
- 2) Leasing
- 3) Self-involvement
- 4) Sale

In the first case, the government enters into a contractual arrangement with the hotel management company to share profits and have a say in how the property is managed through representatives on the board of directors. Management contracts are a more direct form of involvement than leasing.

The second option, leasing, as its name implies is basically a long term rental of the property to the private sector. In this case the government receives rental income (rather than profit sharing); is not involved in management decisions; and the onus of property maintenance is in the hands of the client. In fact, this is the route that Jamaica has mainly taken. Either of these two options represents a reduction of the capital burden to the prospective hotel manager.

In the third instance the government becomes the private sector and opts to manage the hotels itself. Government simultaneous ownership and management is not very widespread (In Jamaica for example, only two of the thirteen state owned properties are actually state-managed). However, some countries such as Trinidad and Tobago have mainly 'adopted' this route. Until very recently, two of the three government-managed hotels in Trinidad and Tobago have been government-owned. Suffice is to say that, in some cases, the principles of government-managed hotels did not deviate in essence from "normal" government operations. It is perhaps for this reason that the Crown Reef Hotel (Tobago) was closed in 1988, and is likely to be returned to the private sector.

It is also not surprising that the Jamaican Government in 1987-88 has formed a divestment division of its National Hotels and Properties Limited (NHP) to actively seek the divestment of its hotels. It was also recently reported that Cabinet approved the sale of 10 of the 13 hotels - the names and prices have not yet been revealed (Daily Gleaner, April 26, 1989). It is expected that the funds generated from the sale of these properties will go to improving the state of the infrastructure and services in the tourism centres, and will also be used to finance a range of other development projects. This is a very interesting development because hotel finance both in tourism and other sectors of the economy will now be sourced by government divestment of ownership of hotel properties.

## Impact of Government Ownership on Hotel Finance

Government ownership of hotels in the Caribbean (Jamaica and Trinidad in Particular) has been a rather interesting experience. One of the fundamental lessons learnt is that ownership, while necessary, was certainly not sufficient to guarantee control of their hotel sectors. The lack of major ingredients - managerial excellence, entrepreneurship and a local capacity to manage the hotel sector, became clearly visible. As such, the inevitable reliance on foreign management to the extent of 50% of all government-owned properties meant that hotel management contracts were imminent. The striking fact, however, is that while the government bought over hotels which created a sense of local control over the "commanding heights of the economy", they played right into the hands of multinational hotel companies, which have historically had a strong preference for management rather than direct investment in developing countries.

Government ownership of a large proportion of hotels served to reduce capital costs to international investors - the same persons who it is said are expected to bring foreign investment. Not only were capital costs reduced to the foreign investors but also financial risks as well.

### SUMMARY

The ability of government ownership of the hotel sector to assist local properties does depend upon the "a priori" existence of entrepreneurship. In the case of Jamaica some of this development is evident. While MNCs manage 50% of the government-owned hotels, the local innovative private sector managed 25% of the total.

It should be noted that government ownership with the concurrent lack of managerial expertise did create a number of opportunities for international entrepreneurs and hotel managers. As a matter of fact the Dallas-based management-only hotel chain arose specifically out of the need to fill the hotel management gap that had been created in the Caribbean through the spate of government ownership of properties (especially in Jamaica) in the 1970s.

It is clear then that one of the critical areas of investment - human capital must be given emphasis in the future.

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**Section 3**

**MULTINATIONAL HOTEL CORPORATIONS INVOLVEMENT IN  
THE CARIBBEAN TOURISM SECTOR**

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## Introduction

The problems of tourism finance must be addressed at two levels: the national level and the international level. This is because investment at both levels are important in the finance of the Caribbean tourist sector.

At the national level, one is concerned with the level and sufficiency of local investors/entrepreneurs and sources of finance. The major issues of concern at the national level are; the profitability and rate of return of the sector; high rate of interest; non-availability of long-term funding, and attitudes to risk, ownership and entrepreneurship.

At the international level, one is concerned about the level of international investment inflows to the region, and the effectiveness of incentive legislation in encouraging and securing these flows. In this regard, the major issues of concern are: Corporate strategies and philosophies of potential investors which favour management rather than ownership/investment; and Institutional and economic disincentives to investment.

We now turn to examine these national and international issues of tourism finance.

### (1) The National Level

Investment at the national level is not only an important source of finance but it also tends to instill confidence in the sector and serves as the basis of attracting future investments. Local investment is often the catalyst required to enable a country to begin the process of tourism development. The market demand created by pioneering local investors demonstrates to government, the market, major league investors and indispensable support services such as airlines, that the country has the potential to offer strategic benefits to investors in the sector.

The problems of investment in tourism at the national level is related to a number of factors as follows:-

- a) High rates of interest and absence of long term finance
- b) Low levels of profitability of the sector
- c) Small size
- d) High cost
- e) Cultural attitudes toward investment
- f) Management and entrepreneurship

These are discussed below.

#### (a) **High Rates of Interest and Absence of Long Term Finance**

On the surface, the problems of tourism finance would appear to be

related to the unavailability of long term loan capital to the hotel sector and the high rates of interest which are charged. These two factors, many hoteliers argued, prevent or limit investment in the tourist sector, while at the same time, making it impossible for hotels to become viable.

On the one hand, loans are normally given for durations between 5 and 10 years. It is argued that hotels need a payback period well in excess of this, between 15 and 20 years, for an investment to become viable. On the other hand, interest on loans for hotel construction are quite high, ranging from 9 to 12 percent at development financing institutions such as the CDB and local development banks over 20%, and even as high as 26% in Jamaica. The Caribbean Hotel Association (CHA) maintains that the hotel sector needs both long term financing and low rates of interest in order to make financing the tourism sector possible.

High rates on borrowed capital and short payback period, however, are the surface of deeper problems within the Caribbean hotel sector. Such include the low profitability and high cost nature of the sector, cultural attitudes toward investment and the shortage of managerial and entrepreneurial talent. These are elaborated on below.

#### (b) Low Levels of Profitability

The crux of the tourism finance problem in the Caribbean boils down to the bottom line - ie. the profitability of the sector. It has 'often been said' that there are no shortages of funds for good projects. To understand the problem of profitability and rate of return of the Caribbean hotels, it is useful to compare the financial performance of the Caribbean hotel sector with that of other regions in the world. Table 13 provides a comprehensive comparative analysis of results of operations for hotels in Mexico, Latin America, Europe, the Pacific Basin and the Caribbean, provided by Laventhol and Horwath. Note that the sample upon which table 13 is based is very small and is for large hotels which may not be representative of the entire stock of hotel rooms in the Caribbean.

With this caveat in mind, it can be seen that the Caribbean has one of the lowest income before fixed charges, compared with destinations like the Pacific and Latin America. Caribbean hotels achieved a net income before fixed charges of US\$8,325 compared with US\$13,169 for the Pacific basin; US\$11,593 for Europe and US\$9,277 for Latin America. Only Mexico succeeded in achieving a lower income before fixed charges of US\$7,224.

It is interesting to note further that Caribbean hotels receive the highest food and beverage revenues and also the highest total revenues, than other regions. In 1987, the Caribbean received US\$45,290 in total revenues per available room compared with US\$39,147 for the Pacific Basin, US\$37,246 for Europe, US\$26,194

for Latin America and US\$20,700 for Mexico. In terms of food and beverage revenue, the Caribbean achieved US\$15,362 per available room in 1987, which was higher than that for all other regions.

These figures imply that Caribbean hotels achieve the highest revenues compared with other regions of the world (as indicated in table 13). Revenues are calculated by multiplying the total units (bed nights) sold by the price at which it is sold. The key is to determine whether Caribbean hotels achieve higher revenues by virtue of higher bed nights sold (occupancy rates) or by higher rooms rates. In terms of occupancy rates, Caribbean hotels achieved a 76.2% occupancy rate in 1987, which is comparable to other regions like the Pacific Basin with a 75.4% occupancy rate; Europe with 68.9%; Latin America with 70.5% and Mexico with 70.9%.

This means that the higher revenues achieved by Caribbean hotels must have been due to higher rates charged. From table 13, it can also be seen that the Caribbean also has the highest average daily rate per occupied room - US\$94.00, compared with US\$45.77 for Mexico; US\$57.8 for Latin America; US\$81.69 for Europe and US\$73.29 for the Pacific.

The fact that the high revenues achieved by Caribbean hoteliers was due to the high room rates rather than higher occupancy rates seems also to be supported by the fact that room costs in the Caribbean are higher than other regions. Total undistributed expenses per Caribbean hotel room in 1987 was US\$14,365, compared with US\$9,278 for the Pacific Basin, US\$8,243 for Europe, US\$7,527 for Latin America, US\$6,529 for Mexico. Total undistributed expenses per hotel room in the Caribbean was about 50% higher than that of Mexico and Latin America and was 42% higher than the average for all hotels.

The Caribbean therefore seem to be both a high cost and high price destination, which can have adverse effects on the profitability and competitiveness of the hotel sector. This in turn has implications for the finance of the sector and payback period of investment. This finding must be treated with caution because of the inadequate sample base that the data in table 13 was based on. This certainly calls for more indepth research in the industry.

#### (c) **Small Size**

Before proceeding to examine the implications of low profitability and high cost for the finance of the sector, it is useful to examine the issue of profitability and rate of return from the perspective of the small vs. the large hotel operator.

According to data from Horwath and Horwath International, the profitability of the large hotel (200-350 rooms) is greater than that for the medium to small sized hotel (under 200 rooms). The data reveal that hotels under 200 rooms earn a net income of US\$256, compared with US\$3,112 per room for hotels between 200 and 350 rooms.



International Hotels — Regional Analyses — 1987 vs. 1986  
 Results of Operations — U.S.A. Dollars per Available Room per Year

TABLE 13

	Averages for All Hotels		Mexico		Latin America		Caribbean		Europe		Pacific Basin	
	1987	Change from 1986	1987	Change from 1986	1987	Change from 1986	1987	Change from 1986	1987	Change from 1986	1987	Change from 1986
Average Number of Rooms per Establishment	281	0.4 %	294	2.1 %	310	1.6 %	320	(0.3) %	269	— %	468	— %
Percentage of Occupancy	70.0 %	4.6	70.9 %	11.8	70.5 %	10.3	76.2 %	6.1	68.9 %	4.6	75.4 %	3.6
Average Daily Rate per Occupied Room	\$ 71.70	12.6	\$ 45.77	5.0	\$ 57.80	28.2	\$ 94.00	2.5	\$ 81.69	14.6	\$ 73.27	9.0
Average Daily Room Rate per Guest	\$ 50.07	11.5	\$ 27.05	1.7	\$ 36.09	26.5	\$ 52.00	1.1	\$ 60.26	13.2	\$ 50.99	7.8
Percentage of Double Occupancy	43.2 %	3.3	69.2 %	8.2	60.2 %	3.0	80.8 %	3.2	35.6 %	4.7	43.7 %	3.8
<b>Revenues:</b>												
Rooms	\$ 18,312	18.1 %	\$ 11,849	19.8 %	\$ 14,791	41.2 %	\$ 26,035	7.9 %	\$ 20,595	20.9 %	\$ 20,120	14.4 %
Food - Including Other Income	8,919	18.7	4,734	15.1	6,154	35.7	11,567	13.2	9,740	22.4	10,838	18.1
Beverages	3,610	15.4	2,438	9.1	2,887	29.0	3,795	8.0	4,042	18.1	3,812	12.7
Telephone	1,382	19.4	616	20.3	1,060	72.9	839	9.4	1,539	20.6	1,775	10.2
Other Operated Departments	969	9.2	449	12.7	576	22.0	1,799	(44.2)	893	33.1	1,597	7.1
Rentals and Other Income	682	(10.8)	614	(1.5)	726	(22.7)	1,255	5.6	437	(24.4)	1,005	0.3
<b>Total Revenues</b>	<b>\$ 33,874</b>	<b>17.0 %</b>	<b>\$ 20,700</b>	<b>16.5 %</b>	<b>\$ 26,194</b>	<b>35.9 %</b>	<b>\$ 45,290</b>	<b>5.2 %</b>	<b>\$ 37,246</b>	<b>20.4 %</b>	<b>\$ 39,147</b>	<b>14.3 %</b>
<b>Departmental Costs and Expenses:</b>												
Rooms	\$ 4,238	17.5 %	\$ 2,113	20.2 %	\$ 2,514	36.9 %	\$ 6,987	3.6 %	\$ 5,288	17.9 %	\$ 3,914	20.9 %
Food and Beverages	9,415	15.4	4,250	9.5	5,870	36.1	13,084	5.8	10,636	18.0	10,515	15.0
Telephone	1,057	12.9	398	13.9	745	64.5	918	10.9	1,053	13.2	1,448	6.3
Other Operated Departments	505	(0.2)	186	(8.3)	261	19.2	1,611	(47.9)	433	18.6	823	9.0
<b>Total Costs and Expenses</b>	<b>\$ 15,215</b>	<b>15.2 %</b>	<b>\$ 6,947</b>	<b>12.2 %</b>	<b>\$ 9,390</b>	<b>37.6 %</b>	<b>\$ 22,600</b>	<b>(1.9) %</b>	<b>\$ 17,410</b>	<b>17.7 %</b>	<b>\$ 16,700</b>	<b>15.2 %</b>
<b>Total Operated Departments' Income</b>	<b>\$ 18,659</b>	<b>18.5 %</b>	<b>\$ 13,753</b>	<b>18.8 %</b>	<b>\$ 16,804</b>	<b>35.0 %</b>	<b>\$ 22,690</b>	<b>13.5 %</b>	<b>\$ 19,836</b>	<b>22.8 %</b>	<b>\$ 22,447</b>	<b>13.7 %</b>
<b>Undistributed Operating Expenses:</b>												
Administrative and General	\$ 2,739	7.5 %	\$ 1,867	(18.9) %	\$ 2,349	17.3 %	\$ 4,566	(0.7) %	\$ 3,191	6.8 %	\$ 2,423	8.8 %
Management Fees**	853	21.3	886	50.8	825	20.6	941	4.6	513	14.0	1,491	29.8
Marketing and Guest Entertainment*	1,414	9.4	1,436	28.4	1,553	28.6	2,276	(2.7)	1,218	14.7	1,658	6.0
Property Operation and Maintenance	1,829	17.1	1,497	(33.8)	1,791	36.2	3,564	(4.5)	1,887	18.1	1,667	17.6
Energy Costs	1,325	4.8	782	(13.2)	883	17.1	2,811	19.1	1,233	7.1	1,803	(1.5)
Other Operated Departments**	178	—	61	20.7	126	—	207	—	201	—	236	—
<b>Total Undistributed Expenses</b>	<b>\$ 8,338</b>	<b>12.6 %</b>	<b>\$ 6,529</b>	<b>(12.9) %</b>	<b>\$ 7,527</b>	<b>25.2 %</b>	<b>\$ 14,365</b>	<b>2.6 %</b>	<b>\$ 8,243</b>	<b>13.1 %</b>	<b>\$ 9,278</b>	<b>12.9 %</b>
<b>Income Before Fixed Charges***</b>	<b>\$ 10,321</b>	<b>23.7 %</b>	<b>\$ 7,224</b>	<b>50.7 %</b>	<b>\$ 9,277</b>	<b>44.2 %</b>	<b>\$ 8,325</b>	<b>38.9 %</b>	<b>\$ 11,593</b>	<b>30.9 %</b>	<b>\$ 13,169</b>	<b>14.3 %</b>
<b>Total Restaurant Sales:</b>												
Food Revenue - Including Other Income	\$ 8,919	18.7 %	\$ 4,734	15.1 %	\$ 6,154	35.7 %	\$ 11,567	13.2 %	\$ 9,740	22.4 %	\$ 10,838	18.1 %
Beverage Revenue	3,610	15.4	2,438	9.1	2,887	29.0	3,795	8.0	4,042	18.1	3,812	12.7
<b>Combined Food and Beverage Revenues</b>	<b>\$ 12,529</b>	<b>17.7 %</b>	<b>\$ 7,172</b>	<b>13.0 %</b>	<b>\$ 9,041</b>	<b>33.5 %</b>	<b>\$ 15,362</b>	<b>11.9 %</b>	<b>\$ 13,782</b>	<b>21.1 %</b>	<b>\$ 14,650</b>	<b>16.7 %</b>

\*Averages based on total groups although not all establishments reported data.

\*\*Averages based on total groups although not all establishments reported data. Percentage change over prior year not comparable.

\*\*\*Income before deducting depreciation, rent, interest, amortization, and income taxes.

(d) **High Costs**

It is clear that one of the critical problems of the Caribbean hotel sector, which adversely affects its profitability, is its high costs. One element of hotel cost is labour. Compared with other destinations, the Caribbean is certainly not a low labour cost destination, especially those in which currencies are not devalued. Other factors contributing to a high cost tourist industry include the high cost of construction of hotels; overbuilding; high costs and recurrence of maintenance and refurbishment; high cost of advertising and marketing; bankruptcy of tour operators; high energy costs; low productivity and taxation and other costs. Another important component of hotel costs is duties and taxes imposed by government.

In the case of duties and taxes imposed by the government, according to the President of the Caribbean Hotel Association, Mr Alfred Taylor, local hoteliers in Barbados have to pay more for a typical imported item of hotel consumption. This is because of their small size and small bargaining power (compared with that of international hotel chains); they also have to pay for transportation and in turn have to pay three kinds of taxes, including consumption tax and duty. These various costs it is argued, result in hotels paying 2-3 times as much for imported inputs.

The issues of high costs, low profitability and the finance of the hotels have implications which go beyond the hotel sector, beyond tourism and beyond the finance of the sector. They hit at the core of development strategy and concomitantly, government policy.

In an economy such as Barbados where tourism, sugar and services are its mainstay; where manufacturing is not as yet well developed; where large import substituting industries such as automobiles are not protected (as in the case of Trinidad); where there are fairly liberal policies toward imports; and where import duties provide a substantial share of government revenues, the high cost structure of hotels, touches the very heart of the economy's structure and strategy.

This wider Caribbean development problematique does not fall within the scope of this research, but is certainly deserving of more indepth analysis.

(e) **Cultural Attitudes Towards Investment**

Cultural attitudes toward investment is also an important constraint on investments, especially in so far as the colateralizing of funds is concerned. In addition to the fairly high cost of finance, equity funds range from 30 to 45 percent of project cost depending upon source of financing. These colateral funds have an opportunity cost in terms of the alternative uses of these funds. Given the overall high cost of capital funds and the

large sums of funds necessary for equity, one possible solution is the pooling of equity resources. Here, cultural attitudes towards ownership becomes important. This problem is adequately explained by the President of the Caribbean Development Bank, as he observes that:

"Caribbean investors in the tourism industry seem to prefer going it alone. One wonders whether this attitude will not have to change if only because investors will realize that it is **better to be a minority shareholder in a successful hotel than have full control on one that loses money.**"

(f) **Management and Entrepreneurship**

Yet another factor affecting the finance of the hotel sector is the quality and calibre of managerial and entrepreneurial talent. As we have seen, the Jamaican governments' ownership of hotel properties has generated greater positive effects when there existed "a priori" a class of indigenous entrepreneurs and managers who could take advantage of the leases which were provided.

Management is a critically important factor in the success or failure of hotel properties. Good calibre and quality management can turn around unprofitable properties. If the 1960s and 1970s focused on government ownership the 1980s and 1990s must focus on training, building management talents and nurturing entrepreneurial talents.

These local problems of tourism finance affect both local and foreign companies operating in the Caribbean. However, at the level of the international investor, additional constraints militate against the attraction of foreign investments. We now turn to this international dimension.

(ii) **The International Dimension**

Corporate strategies, and institutional and economic disincentives to investment affect the cost of investment; the risk of investment; and the management and physical operations of the company. They also affect the bottomline - operating costs, profit and return on investment. Also affected are the tourism experience of a country and the perceptions of a country's welcome to visitors. In the final analysis, foreign investment is not encouraged to take place. Corporate strategies, institutional and economic disincentives are elaborated below.

(a) **Corporate Strategies and Philosophies**

Whether it is bananas being marketed or investments being put

together, there must be both buyers and sellers. In other words, "it takes two to tango". This is a very important fact of economic life, because while governments may desire to have foreign investments, there must be an equal willingness on the part of investors to effectively want to invest in the countries concerned. In this regard, it is useful to again point out that, globally, MNC involvement in the tourist sector has taken the non-traditional form of involvement (the management contract) rather than the ownership route as with other extractive industries (refer to section three).

Available data provided by the United Nations Centre for Transnational Corporations for 1978 revealed that after 1975, 90% of all multinational involvement in developing countries was through the instrument of the management contract. Data for 1988 reveal that nearly 50% of MNC involvement in the Caribbean hotel sector is through the management contract.

With the clear general preference toward management contracts rather than investment, governments and nations are powerless to attract direct investment even with the best incentives in the world.

What often makes matters worse is when these multinational corporations actually invest in the Caribbean (eg. Accor, Trust House Forte, and Club Mediterranee), they often meet economic (currency devaluations, limitations on profit repatriation) and institutional (bureaucratic delays, restrictive work permits) disincentives to investments. Both the problems of corporate reluctance toward direct investment and disincentives to investment are thus mutually reinforcing problem in the finance of Caribbean hotel projects. We turn now to examine the economic and institutional dis-incentives to investment.

#### (b) Institutional and Economic Disincentives to Investment

One of the most up-to-date studies of incentive legislation in the Caribbean was prepared under the auspices of CTO (then CTCR), Organization American States (OAS), and undertaken by Arthur Young, Barbados. This study provides some very useful insights into the importance of incentive legislation in promoting investments in the tourism sector. Recall from section 3 that one of the major findings of the CTCR/Arthur Young study was that "the evidence is that incentives play a minor role in the decisions by foreign investors to establish operations. Their investment decisions are guided by corporate strategy and their assessment of market strengths and weaknesses, not by incentives". They also observe that:

"existing incentives for encouragement of tourism investment in the Caribbean region play a smaller role in attracting new investment than is generally ascribed to them ... ."

Perhaps more importantly, it is found that even though a country may possess the most perfect incentive code that man can devise, if the disincentives are perceived to be equally high, or higher, investment will not take place.

In their analysis of tourism investment in the Caribbean Arthur Young found significant disincentive to investment in tourism. They define disincentives as "conditions prevailing in a country which tend to create a negative perception of the investment and business climate on the part of either existing or potential investors". The disincentives identified included:-

- \* Complex Administration
- \* Explicit Discrimination against foreign investors
- \* Bureaucratic delay
- \* Petty Regulation
- \* Restrictive work permit practices
- \* Frequent Modification of incentive packages and fiscal and regulatory policies
- \* Lack of government confidence
- \* Excessive or inappropriate forms of taxation
- \* Inappropriate import licensing
- \* Excessive exchange control regulation
- \* Threat of non-convertability/devaluation
- \* Complex custom procedures
- \* Inadequate air access
- \* Inadequate infrastructure/support services
- \* Cost and inefficiency of labour
- \* Inadequacy of trained labour and of training facilities.
- \* High cost on unreliable utilities
- \* Inventory costs
- \* High cost of construction
- \* High cost of hotel marketing
- \* Seasonality
- \* Small domestic market size
- \* Negative social factors
- \* Political risk
- \* Limited capital market
- \* Attitude to foreign investment

It is noted further, that these constraints or dis-incentives to investment serve to discourage investment in the following ways:-

- \* By creating negative perceptions of the investment climate by the investor during the evaluation process.
- \* By increasing the cost of investment
- \* By increasing the perceived risk of investment
- \* By adversely affecting the efficiency of operations.
- \* By adversely affecting operating costs, profit and return on investment.
- \* By adversely affecting the vacation experience of the visitor.

In countries outside the Caribbean region that have been successful in promoting new investment in tourism, it is noted that, the common success factors are:-

- a) the focussing of incentives on clearly defined objectives of the government rather than generalized statements of purpose, and
- b) the creation of a liberal investment climate which is conducive to a positive assessment by the investor and which is responsive and relevant to his needs, concerns and investment strategy. The difference seems to be more
- c) the commitment and energy with which the schemes are promoted and administered.

**(c) Creating a Better Investment and Incentive Climate**

The major recommendations derived from the conclusions of the Arthur Young study are as follows:-

- \* Clearly defined objectives and strategies for the development of tourism need to be adopted by governments, communicated to public sector management and to the populace and the business community and aggressively pursued in a coordinated fashion. All government departments and private sector officials need to be conversant with the government's strategy if they are to respond in a meaningful way.
- \* Central to the promotion of tourism investment is the creation of a stable and attractive business climate which may be substantially accomplished by the elimination of the disincentives to investment outlined above. A robust business climate can not be legislated into existence.
- \* In touristically emergent countries, local investment can be mobilized into hotel development by incentives such as tax exemptions provided those exemptions are not also available in other sectors. Local investment capital is small and will generally support only small scale developments. However, the small scale has the advantage of not requiring substantial air seat capacity from major markets and so can allow the sector to develop on the strength of existing air capacity.
- \* Government promotion efforts can be enhanced by stressing the positive advantages of a healthy business climate and by involving the private sector.
- \* The pivotal role presently given in incentive schemes to tax exemptions requires more detailed assessment in relation to the promotion of foreign investment. Tax exemptions are not relevant to many foreign investments. Any overhaul of the system of tax exemptions needs to be informed by more detailed

knowledge of the costs of the exemptions and the potential impact on existing beneficiaries.

- \* Investors tend to dislike the need to have dealings with government departments, especially if it proves necessary to deal with several different departments to accomplish a single objective. Governments can facilitate the investment evaluation and decision process by providing investors with access to a single department that is responsive to their needs and can function as an intermediary in the investor's dealings with all other departments. In this way, the investor will have to deal with only a single department, and possibly only a single individual to complete all his negotiations with government. Such an approach has proved highly successful in Turkey and Yugoslavia.
- \* There is a need to establish a mechanism for monitoring the impact of incentive provisions so that they can be adjusted to more effectively meet their objectives. Such a mechanism would also make it possible to compare the cost of the incentives offered and granted against the benefits of the investments which ensue.

#### Implications for Finance

In a real sense, if a hotel project is not viable, finance from any source will not be forthcoming. The key to financing the hotel sector lies in uncovering the constraints to high cost and low profitability of the sector; in creating a profitable and viable industry; and in fostering creativity, entrepreneurship and managerial excellence.

In terms of the attractions of foreign investors, appropriate policies would seem to lie in: identifying the international chains which have a corporate strategy of ownership and investment in overseas properties (eg. Trust House Forte); remove the institutional and economic disincentives to investment; have clearly defined objectives of incentive policies; commitment and energy in the promotion and administration of incentive schemes.

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**Section 6**

**ROLE OF REGIONAL AND NATIONAL DEVELOPMENT BANKS  
AND LENDING AGENCIES**

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## Introduction

In this section, an attempt is made to list by name and function the major regional and national (Barbados) organizations involved in the provision of finance to the tourism sector. Five such institutions are identified as follows:-

- (i) The Caribbean Development Bank (CDB)
- (ii) The Commonwealth Development Corporation (CDC)
- (iii) The Barbados Development Bank (BDB)
- (iv) The Caribbean Projects Development Facility (CPDF)
- (v) The Caribbean Financial Services Corporation (CFSC)

As stated at the outset, this study does not intend to assess the capacity and adequacy of these institutions to deliver finance to the tourism sector - this already being done by the EEC. Rather, this study proposes simply to identify these institutions; to identify the volume of funds available to these institutions the terms and conditions of access to the funds; and to assess what proportion of these funds are allocated or effectively disbursed to the tourism sector. This section draws upon agency profiles annual reports and discussions with some of the chief personnel at respective institutions.

All of these lending agencies, with the exception of the BDB are regional. The CDB and the CDC lend both to the public and private sectors while CPDF and CFSC lend to the private sector.

### (i) The Caribbean Development Bank

#### Establishment

The Caribbean Development Bank (CDB) is a regional financial institution established by an Agreement which went into force on January 26, 1970, for the purpose of contributing to the harmonious growth and development of the member countries in the Caribbean and promoting economic cooperation and integration among them, having special and urgent regard to the needs of the less developed member countries of the Region (LDCs). CDB's Headquarters is located at Wildey, St. Michael, Barbados.

#### Membership

CDB's original membership included 16 English-speaking Caribbean countries as regional members and Canada and the United Kingdom as

non-regional members. Venezuela (1973), Colombia (1974) and Mexico and Anguilla (both 1982) subsequently joined as regional members. France joined in May 1984, and Italy in November 1988 as non-regional members.

## **Functions**

During the 19 years of operation, CDB's net financing approved amounted to \$714 million, of which 59% was for LDC projects. Of total resources of \$733 million in CDB at December 31, 1988, \$568 million (77%) was mobilized from outside of the Commonwealth Caribbean, \$83 million (12%) was mobilized from member countries in the Commonwealth Caribbean, and \$82 million (11%) was generated through reserves, current net income and contributions to the Technical Assistance Fund and Basic Needs Trust Fund.

The Charter permits CDB to make loans to private sector entities without Government guarantee. It also permits CDB to invest in the equity of enterprises. CDB also gives technical assistance to government and private sector enterprises in borrowing member countries. CDB operates in the following areas - Agriculture, Marketing, Industry, Tourism, Electricity, Ports (Air and Sea), Telecommunications, Air, Sea and Land Transport, Water and Sewage, Housing, Technical and Vocational Education and Student Loans. It also lends to national development banks or finance corporations.

The majority of CDB funding is allocated to the government. The private sector receives 35.2% (US\$146.6) of total funding indirectly through national development financing institutions and 4.2% (US\$30m) directly disbursed from the CDB (see figure 4 overleaf). In terms of net grants approval by sector, the tourism sector received US\$3.8m or 5.2% of total CDB funding in 1988.

## **CDB and Tourism Finance**

Between 1970 and 1988, the tourism sector received 3.8% of net total financing of the CDB. This financing covered hotel and lodging places, cruise ship piers and marinas, integrated tourism facilities and tourism supporting facilities. Other major recipients of CDB funding for the same period are Transport and Communications (27%); Manufacturing (20.7%); Social and Personal Services (14.6%); Agriculture, Forestry and Fishing (14.3%); Power, Water and Energy 9.1% and Other (9.8%). Total financing for the 1970-88 period amounted to US\$714.2 million.

In 1988, the tourism sector received 5.3% or US\$3.46 million of total CDB approved loans of US\$65.58 million (see table 15 overleaf). Among the projects receiving these loans were:-

- a) The Cotton Bay Club Hotel, Bahamas

- b) Airport improvements in Belize
- c) A Tourism Centre, St. Kitts and Nevis
- d) The Final Designs and Tender Document for Hewanorra Airport, St. Lucia.

The CDB also indirectly assists the tourist sector through the finance of large infrastructural projects by governments of the region, through direct funding. Loans and assistance to smaller projects is channelled through national Development Banks.

The president of the Caribbean Development Bank has also gone on record for his increasing support of the Caribbean Tourist industry - an industry on which many islands must now depend perforce and which has performed better than other exports. In his words:

"I am confident that if the Region considers it prudent to seek to expand and diversify the tourism sector and to promote the development of other tourism-related services, CDB will continue to do everything in its power to assist in facilitating such developments."

(ii) Commonwealth Development Bank

**Constitution and Powers**

CDC (Commonwealth Development Corporation) is a UK statutory Corporation established in 1948. CDC's constitution and powers are laid down by Acts of Parliament, now consolidated in the Commonwealth Development Corporation Acts 1978-1986. These charge the Corporation with the task of assisting overseas countries in the development of their economies and impose on it the duty to secure that its revenues are not less than sufficient to meet its revenue outgoings taking one year with another.

The Corporation seeks to meet these twin objectives by investing its funds in development projects calculated to benefit the economies of the host countries and to be capable of sustaining themselves from their own revenues. CDC invests in both the private and public sector.

**Management Services and Training**

Experienced and effective management is an important condition of CDC investment. CDC is itself able to provide management and technical support services in addition to investment, primarily in the agricultural and agro-industrial sector. Services available range from corporate management of agri-business projects to seconding individual staff to smallholder and small farmer schemes. CDC also meets specific request for management expertise in other sectors including local development banks and housing finance

companies.

### **How CDC is Financed**

CDC is financed mainly by borrowings from the UK Exchequer. CDC also reinvests its funds after repayments have been made to the British Government. In 1987 CDC invested some L1,000 million.

### **CDC Investment Policy**

CDC invests equity and loan in projects capable of servicing their capital and does not make grants. Potential CDC investments should: be within CDC's statutory terms of reference; demonstrate development value; be welcomed by the country concerned; be commercially viable; attract partners and co-investors; have good management.

### **CDC's Partners and Co-Investors**

The Corporation is in partnership with overseas government, their agencies; local entrepreneurs; development agencies; British and foreign financial institutions; and commercial, industrial and agricultural concerns. In many instances this partnership includes a combination of these sources of finance. CDC is especially interested in partnerships with British companies.

### **Size of Investments**

While CDC has no fixed minimum investment it does not normally consider applications for private sector investment of less than L250,000 and expects partners to provide a significant proportion of the capital of a new project. In the public sector a minimum of L1 million is more likely to apply. The largest single investment to date has been L26 million.

Preference is given to projects which: generate foreign exchange or which result in savings of foreign exchange; encourage savings and assist credit formation; create jobs; improve management capability and transfer technology; involve the poorest sections of the community in economic activity.

CDC provides funds as medium and long-term loans; as equity; or as loans with equity features as with loans carrying conversion rights or with rights to participate in distributable profits. When a project has been successfully established CDC is prepared to dispose of its equity in whole or in part on a willing seller, willing buyer basis.

It also offers guarantees to enable local funds to be raised. CDC is also becoming involved in the provision of venture capital and is in a position to take industrial equity participations.

### **Sectors in which CDC Invests**

The wide sector spread of CDC projects includes:-

- \* Primary production and processing  
Renewable natural resources - agriculture, aquaculture, ranching, forestry and minerals together with allied processing plants. (CDC gives high priority to small farmer and other schemes where a substantial number of people can be involved);
- \* Basic development - generation of power, water supply and transport;
- \* Industry - factories, industrial and port development, hotels and transport facilities.
- \* Finance companies - development finance companies, mortgage finance companies, leasing companies, agricultural credit organizations.

CDC is not empowered to undertake projects funding schools, hospitals, public buildings or public service works.

### **Services**

CDC provides specialist and technical back-up services for its projects, including agricultural, engineering, legal, marketing, procurement and recruitment.

### **CDC and Tourism**

There are two Caribbean offices : one based in New Kingston, Jamaica and the other in Castries, St. Lucia. Data from the CDC office in St. Lucia (covering the OECS) revealed that a total of L29.1 million was disbursed by the CDC in 1988. Of this total, L2.7m went to Electricity Generation; L19.25m to Telecommunications; L6.875m to Mortgage finance and L0.261m to development finance.

It can be observed that no disbursements went directly to the tourism sector, although CDC is known to be involved in a major tourism project in Rodney Bay, St. Lucia. It was not possible to

confirm whether this proportion would change in 1989. However, the CDC is a financial source upon which other institutions such as the CPDF and the CFSC draws funding. These latter two organizations as we will later demonstrate, undertakes a large proportion of tourism financing, to the extent of 22% and 59% respectively.

(iii) Barbados Development Bank

**Establishment and Functions**

The Barbados Development Bank was created by an Act of Parliament, Barbados Development Bank Act 1963-48 (Cap. 323) and began operations in April 1969. The main purposes of the Barbados Development Bank are to: provide medium and long-term financing for development enterprises, co-operatives and small businesses, which contribute to the economic growth and well-being of the country; and to mobilize domestic financial resources for long-term financing by encouraging savings and investment.

In order to achieve these objectives the Bank is authorized, to:

- (a) provide financial assistance by way of loans, the purchase of debentures, participation in share issues or by guaranteeing loans from other investment sources;
- (b) issue its own securities;
- (c) act as agents for the sale and purchase of stock, shares, or securities for any monetary or mercantile transaction;
- (d) contract for public and private loans and negotiate the issue of same;
- (e) act as agents for any government or other authority and for public and private bodies and persons.

**Financial Resources**

The Barbados Development Bank has an Authorized Capital of BDS\$30 million which is divided into thirty million shares of the par value of one dollar each. From domestic sources the Bank mobilizes loan funds for development financing by way of National Development Bond Issues. Also important as a source of funding are repayments of loans made by the Bank. Externally, the Bank has received loans from the Inter-American Development Bank (IDB), European Investment Bank (EIB), International Bank for Reconstruction and Development (World Bank) and the Caribbean Development Bank (CDB). Other sources are being negotiated.

## **Projects Eligible for Barbados Development Bank Financing**

The Barbados Development Bank finances projects in the tourism, industrial, small manufacturing, small business and fisheries sectors. The main forms of financial assistance is long-term lending, including some portion of working capital. The Bank may take equity financing in a project where that form of investment capital is not otherwise available and the project is expected to contribute significantly to economic development.

### **Loan Criteria**

- (i) As a banking institution, the Barbados Development Bank must ensure that, in addition to satisfying development criteria, projects financed are also viable and able to service their debts. The Bank believes that ensuring a project's viability is as much in the Client's interest as that of the Bank.

The main criteria used in the evaluation of projects are:-

- (a) long-term financial viability;
  - (b) appropriateness of technology;
  - (c) markets;
  - (d) management capabilities;
  - (e) employment;
  - (f) balance of payment considerations;
  - (g) income distribution;
  - (h) use of domestic raw materials;
  - (i) value added;
  - (j) potential for developing ancillary industries;
  - (k) conservation of energy;
  - (l) effect on the environment; and
  - (m) repatriation and diffusion of ownership.
- 
- (ii) Small-scale enterprises are evaluated mainly on:
    - (a) the financial and commercial soundness of the operation;
    - (b) personal abilities of owner/manager
    - (c) evidence of effectiveness and careful conduct of existing businesses and the seriousness and care exhibited in the planning of new enterprises.

The bank has found that initiative and drive matched with prudent management of resources are a sound recipe for success in these types of enterprises.

### **Level of Participation**

- (i) Loan financing to a single enterprise may not be in excess of 15% of the Bank's paid up capital. Projects in which the

client's contribution is less than 40% of total of the project cost must satisfy more rigorous tests for financial viability and contribution to economic development.

- (ii) In the case of small manufacturers and small businesses, the maximum loan is \$300,000 and \$250,000 respectively.

### **Interest Charges**

The rate of interest charged on Barbados Development Bank's loans is determined mainly by the cost of the funds which the Bank obtains. Other factors affecting the rate are the size of the loan, prevailing commercial rates of interest and the degree of risk involved in the project being financed.

### **Period Of Repayment**

- (i) The Bank's current policy is for a repayment period of up to fifteen years, excluding any grace period.
- (ii) A grace period of up to three years may be given on the repayment of principal from the date of the loan contracts, depending upon the nature of the project and its gestation period.
- (iii) The period of repayment of loans granted by the Bank will be determined on the basis of the economic life of the assets financed, the ability of the enterprise to repay the loan as reflected in its cash flow projections and limitations imposed by lending agencies.

### **Relationship with Enterprises financed**

- (i) Barbados Development Bank will not normally seek to obtain a controlling interest in a project or enterprise, and will also generally avoid assuming primary responsibilities for the management of projects, except in those instances where the project's viability is threatened and a take-over becomes essential in the interest of making the project viable again or to protect its investment.
- (ii) The Bank will require the enterprises which it finances to keep records and accounts in accordance with sound accounting practices and to furnish such information on their operations and accounts as the Bank deems necessary for proper monitoring of the project.
- (iii) All information furnished by clients or their commercial Banks, etc., will be treated as confidential by the Bank.



## **Security**

The Barbados Development Bank will seek adequate security for its loans, including debentures, mortgages, bills of sale and guarantees.

## **Technical Assistance**

The Barbados Development Bank provides technical assistance, where necessary, and as resources permit, to assist clients in project identification, formulation and implementation. This assistance is also extended to clients faced with operating difficulties.

## **Joint Ventures**

The Bank has a particular interest in promoting joint ventures between Barbadian and foreign investors. In addition to assisting with the negotiations and providing loan capital the Bank is willing to take equity participation in the project.

A special fund for this purpose is being established and will be operational from early 1984.

## **Foreign-owned Enterprises**

The Bank will make loans to wholly or majority foreign-owned enterprises when these contribute significantly to local economic development as measured by job creation, foreign exchange earnings and other developmental criteria.

The economic rate of return (ERR) is the test used to evaluate the economic contribution of the project. The project is more attractive as an investment proposal as the ERR approaches and exceeds 30 percent. The preferred debt/equity should not exceed a 60-40 ratio.

## **The BDB and Tourism Finance**

The BDB plays an important role in the finance of the Barbados tourism sector. Between 1969 and 1988 a total of B\$57m or 38.4 percent of total funding was disbursed to the tourism sector. In 1987/88, a total of B\$3.17m (or 38.1%) was disbursed to the tourism sector.

During 1987/88, the dollar value of loans approved to the Tourism sector increased substantially (119%) to \$4.6 million from \$2.1 million in 1986/87. Of the amount approved, \$1.2 million was for the establishment of an entertainment leisure centre. Hotels and

apartments received a relatively small proportion of lending to the sector.

BDB's volume of funding to the tourism sector in 1987-88 is very reflective of the trend over the 1969-1980 period. During this period, 38.4% total disbursements went to the tourism sector (see table 14) for analysis of cumulative disbursement.

The ancillary subsector continued to dominate lending by BDB to the sector, accounting for BDS\$3.3 million or 72% of total loans approved for tourism projects. Taxi operations had loans approved totalling \$0.8 million while hired cares received \$0.3 million. An increasing demand for the services of tour coach operators resulted in further lending from the Bank totalling \$0.6 million for projects in this subsector. Other areas funded included watersports and entertainment operations. The number of job opportunities created within the sector rose to 126 while disbursement for the period increased by 10.3% to \$3.2 million. A breakdown of the tourism sector's lending by size of loan is given in table 15.

**TABLE 15: BARBADOS DEVELOPMENT BANK ANALYSIS OF LOAN PORTFOLIO BY SECTOR AS AT MARCH 31, 1988**

SECTOR	NO	%	\$	%
<b>TOURISM</b>				
Upto - \$50,000	217	69.7	2,595,548	6.8
50,001 - 100,000	22	7.2	1,624,817	4.2
100,001 - 250,000	33	10.6	5,385,226	14.0
250,001 - 500,000	14	4.5	5,453,613	14.2
Over - 500,000	25	8.0	23,319,456	60.8
	311	23(100.0)	38,378,660	40(100)
<b>INDUSTRY</b>	258	19	39,181,388	41
SMALL MANUFACTURING	81	6	1,488,968	2
<b>SMALL BUSINESS</b>	443	32	1,939,900	11
<b>FISHERIES</b>	271	20	5,762,752	
<b>GRAND TOTAL</b>	36	100	95,751,668	100

Source: Barbados Development Bank, Nineteenth Annual Report 1987-1988.

\*This and the above percentages represent only the tourism sector in terms of the distribution of funding categories.

**TABLE 16: BARBADOS DEVELOPMENT BANK CUMULATIVE ANALYSIS OF DISBURSEMENT 1988**

SECTOR	1987/1988	%	CUMULATIVE 1969 - 1988	%
Tourism*	3,170,180	38.1	57,014,723	38.4
Industry	3,028,074	36.4	57,915,831	39
Small Manufacturing	130,732	1.6	3,053,654	2
Small Business	1,019,644	12.3	23,502,941	15.8
Micro-Business	5,624	.1	5,624	.01
Agriculture+	--		657,290	.4
Fisheries+	956,693	11.5	6,521,813	4.4
Grand Total	8,310,875	100	148,671,876	100.0

Source: Barbados Development Bank, Nineteenth Annual Report, 1987-88

\* Includes both Apartments and Apartment Hotels.

+ Agriculture and Fisheries Portfolios transferred to Barbados National Bank, Agricultural Banking Division, with effect, 1987-04-01 and Fisheries returned to BDB with effect 1983-01-01.

(iv) **The Caribbean Project Development Facility (CPDF)**

CPDF was established in 1981 under the auspices of the United Nations Development Programme (UNDP), with the International Finance Corporation (IFC), the World Bank's private sector development affiliate, acting as the Executing Agency. Several other international and government development agencies, also provide funding and assistance for CPDF's activities.

The Caribbean Project Development Facility (CPDF) was created to help entrepreneurs develop and evaluate their proposals for productive investment projects in the Caribbean, and to raise finance for those projects when appropriate. In its first six years, CPDF prepared proposals for approximately 80 projects with a total cost of over US\$200 million. Most of these projects have been successful in raising the necessary finance.

The countries and territories currently served by CPDF are:-

**Services**

Working with project sponsors, CPDF helps formulate and evaluate opportunities for new businesses or the expansion of existing enterprises. If a proposed project appears to be technically and

economically sound, CPDF will help the sponsor obtain suitable financing. Depending on the requirements of each project, CPDF may provide the following services:

- \* **CONSULTANTS:** Provide for specialized consultants to review and make recommendations on the technical, marketing, or other aspects of the project.
- \* **TECHNICAL/MARKETING PARTNERS:** Assist the project sponsor to identify potential technical and/or marketing partners and advise on the contractual arrangements with such partners.
- \* **LOCAL CONDITIONS:** Advise foreign project sponsors on local business conditions, regulations, and requirements and help to identify potential local investors.
- \* **PROJECT APPRAISAL:** Prepare a detailed proposal describing and analyzing the sponsor's investment proposition for consideration by prospective financiers.
- \* **FINANCE:** Identify potential sources of finance and assist the sponsors in discussions and negotiations with interested financial institutions.

#### **Sources of Finance**

CPDF has excellent working relationships with all of the financial institutions providing project finance in the region. These institutions include commercial banks as well as national, regional, and international development lending agencies, many of which also make equity investments in suitable projects. CPDF also has with a wide range of private investors in the region and throughout the world. Project finance may be raised in either foreign exchange or local currency.

CPDF has no funds of its own for project investment, nor, generally speaking, does it have access to subsidized or grant finance to assist projects.

#### **Eligible Projects**

CPDF will assist project sponsors to develop and finance almost any type of productive business enterprise. As a general rule, it focuses on projects with an estimated investment cost in excess of US\$500,000, but is willing to provide advisory assistance to smaller projects as well. CPDF provides assistance in finding finance for working capital or for refinancing existing businesses only when such finance is an integral part of a new business or expansion project. Projects that are essentially trading operations or real estate developments are not within the scope of CPDF's activities.

## Fees and Charges

CPDF charges its clients a success fee of 2.5 percent on the amount of finance it raises for a project. A deposit is required up front as an indication of the sponsor's commitment to proceed with the project, if efforts to raise the finance are successful. This deposit is refunded to the project sponsor if CPDF is unable to raise the financing sought, despite the sponsor's continued efforts. CPDF and the sponsor agree in advance whether certain other expenses (for example, external consultant costs or legal advice) will be paid by the sponsor or shared by the sponsor and CPDF.

**TABLE 17: CARIBBEAN PROJECT DEVELOPMENT FACILITY  
SECTORAL ANALYSIS OF PROJECTS FINANCED 1982-1988  
(All figures in '000 US Dollars)**

Sectors	No. of Projects	Total	
		Investment	Cost
Agro/Agro Processing	19	38,350	39.1
Industry	17	24,659	25.1
Tourism	7	19,792	20.2
Finance	2	15,359	15.6
All Sectors	45	98,160	100.0

Source: CPDF, Barbados, 1989

### CPDF and Tourism Finance (CFSC)

The CPDF finances the tourism sector to the extent of 20.1% (or US\$19.8m) of its total projects finance. Details of the sectoral analysis of projects financed between 1982 and 1988 is indicated in table 17 above.

### (v) Caribbean Financial Services Corporation

#### **Establishment**

CPSC is a regional finance services company established in 1984 to attract and channel new funds to the private sector to assist in meeting medium and long term capital requirements and to provide a broad range of financial services. CFSC is based in Barbados. The creation of CFSC grew out of the awareness of the region's business community as to the key role that it must play in the

economic development of the area. The Corporation seeks to identify impediments to the formation of efficient capital markets and as far as its resources will permit, to become involved in programmes that address those needs. CFSC is managed on a strictly profit oriented commercially viable private sector basis.

## **Facilities**

Facilities currently available at CFSC are:

- \* Medium and long term loans
- \* Co-financing opportunities
- \* Equity participations
- \* Extensive contracts with a wide range of project specialists
- \* Securities brokerage services.

In the future CFSC expects to offer security underwriting and other merchant bank related services.

CFSC will become involved in the areas of manufacturing, agro-industry, tourism and related enterprises which activities will enhance the region's foreign exchange earning capabilities (including via import substitution) and generate employment.

CFSC provides funding for capital cost components (equipment, buildings and real estate) of viable projects.

CFSC's interest rates are competitive and CFSC makes loans with maturities of up to 15 years. Repayment terms including grace periods are arranged as circumstances warrant.

Loans are usually denominated in US dollars reflecting the fact that CFSC's funding sources are in US dollars. CFSC will seek to make arrangements to protect borrowers from exchange risks and, where such options are available local currency loans will be made. CFSC lends based on its assessment of the project. Formal security will usually be limited to the assets being financed.

The maximum size loan that CFSC can make is set by its capital base and is restricted to 15% of its net worth. The maximum loan size is currently US\$500,000. Where loan requirements exceed CFSC's maximum, arrangements can be made to co-finance the transaction with another financial institution.

CFSC provides equity funds for projects similar to those to which the Corporation will lend and in fact usually offers this facility as a part of a financing package; equity and loan funds. CFSC's equity investment in any one project is limited to US\$300,000 (local equivalent).

The Company will provide its services throughout the English speaking Caribbean as is feasible. Activities are currently concentrated on the Windward and Leeward islands and Barbados.

CFSC distinguishes itself from other private sector financial

institutions by offering longer term financing, including equity. The corporation works closely with other existing institutions, private and public, and will initiate co-financing arrangements as may be needed.

There are currently thirty-two shareholders. The shareholders include regional private sector companies and individuals, seven multi-national financial institutions which operate in the area and three international private sector development institutions (CDC, DEG & IFC). CFSC's Board of Directors is made up of prominent regional businessmen and representatives of the participating development institutions, bringing with them a wide variety of business experience.

CFSC's total financial resources exceed US\$20 million. In addition to its equity, retained earnings and reserves (US\$3.6 million) CFSC has received funding support from the United States Agency for International Development and the European Investment Bank. The Corporation maintains close contacts with a wide range of private financial institutions and international agencies and the ability to draw on these resources to the benefit of its clients is an integral part of CFSC's strategy.

#### CFSC and Tourism Finance

CFSC is also involved in financing the tourism sector. Of the total disbursements over the 1984-88 period, US\$7.0m was disbursed to the tourism sector, representing 59.0% of total approvals. The sectoral breakdown of the loan portfolio is given in table 18.

**TABLE 18: CARIBBEAN FINANCIAL SERVICES CORPORTION - DISTRIBUTION OF THE LOAN PORTFOLIO 1984 - END MARCH 1989**

US\$'000

INDUSTRY	VALUE	%
Agro industry	\$ 1,256	11
Manufacturing	1,948	16
Industry - Other	1,709	14
Tourism	7,056	59
	11,969	100

## Summary

The Caribbean Development Bank plays a relatively minor role in direct finance to the tourism sector, with only 3.8% of total net financing going to the tourism sector between 1970 and 1988. However, with a total of US\$146.6m worth of net financing to financial intermediaries (eg. Development Banks), an important role is indirectly played by the CDB in financing the tourism sector (as the case of Barbados Development Bank demonstrates). Moreover, the President of the CDB has confirmed the Bank's commitment to the development of the tourism sector.

The Barbados Development Bank plays a major role in the financing the tourism sector, disbursing a total of BDS\$57m or 38% of total funding to the tourism sector between 1969 and 1988. In 1987-88 a total of BDS\$3.17m was disbursed to the tourism sector. Hotels and apartments received a relatively small proportion of lending to the sector. The ancillary sub-sector (watersports, entertainment, taxi operators) predominated BDBs lending with BDS\$3.3m (or 72%) going to these sub-sectors. This is an important development in the tourist sector because income and value-added in tourism are not limited to accommodation, but to a number of profitable activities outside the sector. This will augur well for the expansion of the services areas of tourism - areas which have traditionally attracted a large proportion of local involvement.

The Commonwealth Development Corporation, lends to the public and private sectors. Based on data only for its OECS activities, CDC is not directly involved in the development of the Caribbean tourism sector. Of the L29.1m disbursed by the CDC in 1988, allocations were made to the tourism sector. However the CDC tends to other financial institutions such as the CFSC and the CPDF. It is interesting to note that CDC is becoming involved in the provision of venture capital - a move that will have implications for the finance of tourism and indeed on the sectors of the economy.

The Caribbean Project Development Facility and the Caribbean Financial Services Corporation are lenders to the private sector. They complement one another in that the CPDF grants loans in excess of US\$500m while the CFSC handles loans below that amount. Both CPDF and CFSC are affiliates of the International Financial Corporation, the World Bank private sector development. Both of these financial institutions are currently playing a major role in the finance of Caribbean tourism.

CPDF facilitated investment of nearly US\$20m in the Caribbean tourist industry between 1982-88; the CFSC on the other hand, invested a total of 157m over the period 1983-December 1988 a, figure representing 59% of their total disbursements.

Two important trends are worthy of note in the finance of Caribbean tourism: the first is the increasing provision of technical assistance, financial management and consultancy services, and not just finance. This is a very important development and a step in



the right direction. the second important development is the emergence of young, aggressive and dynamic private sector institutions such as the CPDF and the CFSC. They will they will fill an important gap in the financial market place. It is interesting to note that CPDF offers technical/marketing partners as part of its financial service and CFSC grants loans not only on pure financial terms, but on an assessment of the long term economic viability of the project, and perhaps more importantly, on the calibre and quality of the implementers. This will serve not only to unleash the investment potential of managers, but of entrepreneurs as well.

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**Section 7**

**FINANCING TOURISM - A CASE STUDY OF BARBADOS**

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## Introduction

This section examines the special case of Barbados. It attempts to explain how the Barbados hotel sector is financed, the forms of finance for the sector; the special case of small establishments; and the views of hoteliers as to the problems and prospects for hotel finance.

### (1) Recent Performance and Development of the Barbados Tourist Sector

Barbados recorded another good year in 1988. Stayover tourist arrivals in 1988 reached 451,500 which represented a 7 percent increase over 1987. This growth was primarily due to large increases (+32.1 percent) from Europe, which accounted for 29.9 percent of all tourists. Tourists from the United Kingdom increased by 27.9 percent to 101,231 (more than double the number in 1984), while those from the other European countries increased by 46.6 percent to 33,735. On the other hand, tourist arrivals from the United States (37.8 percent of the total) fell by 2.5 percent. Tourists from Trinidad and Tobago also declined, by 14.1 percent to 22,372 in 1988 (see table 19).

**TABLE 19: TOURIST ARRIVALS TO BARBADOS BY COUNTRY OF RESIDENCE (1984-1988)**

Country of Residence	1984	1985	1986	1987	1988	% of 88 Tot.
U.S.A.	140203	148093	166250	175093	170773	37.8
Canada	67307	70573	60285	64349	65667	14.5
United Kingdom	46274	38822	47590	79152	101231	22.4
Other Europe	16497	16327	18699	23019	33735	7.5
Trinidad & Tobago	43023	32526	21866	25303	22372	5.0
Other Caricom	41137	39240	40367	39053	41927	9.3
Rest of World	13211	13554	14713	15890	15780	3.5
<b>TOTAL</b>	<b>367652</b>	<b>359135</b>	<b>369770</b>	<b>421859</b>	<b>451485</b>	<b>100.0</b>

Source: CTO, Annual Statistical Report.

Cruise passenger arrivals reached 290,300 in 1988, a 29.1 percent increase over 1987. The monthly breakdown of cruise arrivals is given in table 19 Barbados captures 6.5% of the US\$473.85m of US\$7.29 billion total visitor expenditure in the region. These visitor expenditure contribute about 30% to the Barbados Gross Domestic Product. From tables 19 and 20 the performance of tourist (stay over) and cruise passenger arrivals for the period 1984-1988 can be observed.

**TABLE 20: MONTHLY AND ANNUAL CRUISE PASSENGERS ARRIVALS TO BARBADOS (1984 - 1988)**

Months	1984	1985	1986	1987	1988	% Change 1988/87
January	14569	13755	17442	22039	40092	81.9
February	11912	11095	14368	17116	27228	59.1
March	10525	13000	17748	23427	33129	41.4
April	10282	11487	14534	25061	28108	12.2
May	4861	4897	4767	16174	19266	19.1
June	5268	3956	5734	13663	16193	18.5
July	6470	6165	5897	14655	15016	2.5
August	5275	4227	5396	13669	17475	27.8
September	5240	3722	3829	7825	16002	104.5
October	3886	8331	11834	20348	21056	3.5
November	5987	13526	19602	21526	26615	23.6
December	14891	18061	24184	29275	30093	2.8
<b>TOTAL</b>	<b>99166</b>	<b>112222</b>	<b>145335</b>	<b>224778</b>	<b>290273</b>	<b>29.1</b>

Source: CTO, Annual Statistical Report.

(ii) **Structure of Barbados Tourist Accommodation Sector**

From the tourist accommodation listing provided by the Barbados Board of Tourism, the structure of the Barbados tourist accommodation sector can be analysed both by category (hotel, apartment, guest house) and by size.

Barbados has a total of 129 tourist accommodation units with a total of 5,382 rooms. Of these, 11 units with 72 rooms are in

guest houses; 54 units with 1069 rooms are in apartments; and 64 units with 4,241 rooms are in hotels. Hotels constitute the largest category of tourism accommodation, representing 49.6% of total units and 78.8% of all rooms.

In terms of the size structure of the Barbados tourist accommodation sector, it is important to note that 73.6% of total tourist accommodation units in Barbados have less than 50 rooms. Hotels with less than 50 rooms account for 32.1% of the total tourist accommodation rooms in Barbados. Hotels with between 51 and 100 rooms account for 17.0% of all units and 28.9% of total rooms. Hotels with over 200 rooms represent 1.6% of total tourist accommodation units and 10.4% of total rooms.

### (iii) **Financing the Tourist Accommodation Sector**

Please refer to the methodological section for full details on sample selection method and coverage of the sample. Suffice is to note here that 50% of all tourist accommodation establishments in Barbados were drawn into the sample. The sample was randomly drawn, using a random number generator. A large measure of success was achieved in directly administering the questionnaire - with a 77.4% response rate being achieved.

Finance is a critical ingredient in the growth and development of the hotel sector. Investment or capital resources serves as the activator of other factors of production - land, labour, entrepreneurship and information, and serves as a development force in its own right.

We have identified in section 4 a number of problems associated with the financing of the hotel sector, ranging from high costs and low profitability of the sector to attitudes to investment. This section of the report attempts to examine empirically how the hotel sector is financed, where the investment funds come from and the peculiar problems of finance, especially from the point of view of small hotels, apartments and guest houses.

### iv) **Guest Houses**

The three guest houses surveyed had between 4 and 7 rooms; were between 16 and 60 years old; had fairly stable management, with one exception; and were all 100% locally owned and managed.

Sources of initial finance for two of the guest houses were from private sources (one actually starting off as a private home). The third case was unknown.

In terms of refurbishment, two of the guest houses had recently

been refurbished. Funds were obtained in one case from the Barbados Development Bank and in the other case from a commercial bank. One of the three guest houses had future plans for expansion and the other two had no plans. These data for guest houses are summarised in table 21 below.

**TABLE 21: SOURCES OF FINANCE FOR INITIAL INVESTMENT AND REFURBISHMENT OF GUEST HOUSES (PERCENTAGE OF UNITS)**

Sources of Initial Investment	Percentage		Sources of For Refurbishment	Percentage	
	Rms	Units%		Rms	Units%
Private Funds	10	66.7	BDB	7	33.3
Unknown*	7	33.3	Commercial Banks	6	33.4
			No Refurbishment	4	33.3
<b>Total</b>	<b>17</b>	<b>100.0</b>	<b>Total</b>	<b>17</b>	<b>100.0</b>

\* This percentage refers to those owners who did not know of the sources of finance.

In terms of the major constraints and opportunities facing guest houses, responders felt that:

- \* There should be refurbishment of existing properties, rather than the construction of new ones.
- \* The sector needs more concessions. "If there is tax free and duty free concessions, refurbishment will be much easier. The opportunity of refurbishment will lead to more facilities which in a few years, will pay for themselves and generate profit which could lead to an opportunity for further refurbishment without borrowing from banks".
- \* Found interest rates too high.

### Summary

Guest houses tend to be both locally owned and managed; they rely mainly on private funds for startup investment and draw both upon the Barbados Development Bank and the Commercial Banks to finance their refurbishments.

a) Apartments

\* **Characteristics**

The characteristics of the Barbados apartment sector is indicated in table 22. Of the 22 units sampled, 20 of them had less than 50 rooms, with an average age of 20 years and an average age of 12 years under current management. Local ownership and management of these under 50 room properties is to the extent of 90% with 10% being foreign owned and managed.

The two apartment units which had over 50 rooms had an average age of 14 years with an average age of 7 years under current management. Of these two properties, one was 25% locally owned and 75% foreign owned with 50% local and 50% foreign management.

\* **Sources of Finance**

In terms of the sources of funds for initial investment, a very large proportion (43.2%) of the funding come from private funds; 4.5% from Commerical Banks and 6.8% from the Barbados Development Bank. These figures are deceptive in so far as the highest proportion (45.5%) of the cases were unknown. If this category of non-responders is omitted, this would increase the private funding of aprtments initial investmens to 88.1% of the total.

In terms of the sources of refurbishment finance, commercial banks and private funds each provided 18.2% of total funding; external sources provided 9.1% of the finance; and 4.5% was financed from profits. A total of 18.2% of the units did not refurbish and 31.8% did not know the source of funding for refurbishment.

\* **Problems of Finance**

The question was asked: "Do you have any comments on the sources and availability of finance for hotel and tourism investments in Barbados?" Nine of the 22 properties (40.9% had no comment on this question. Seven of the 22 respondents (31.8%) had no problems in securing finance from commercial banks; one felt that it was easier to get a loan now (1989) compared with 3-4 years ago.

Three of the respondents found that it was not easy to secure loans from banks; and another three felt that the problem of securing finance was related to their small size.

\* **Constraints**

The question was posed to hoteliers, "What do you consider to be the major opportunities and constraints facing the Barbados hotel

**TABLE 22: CHARACTERISTICS OF THE BARBADOS TOURIST ACCOMMODATION SECTOR - APARTMENTS**

Room Size	Frequency Units (Actual)	Avg Age*	Avg age Under Current Mngt	Ownership		Management	
				Local	Foreign	Local	Foreign
Less than 50%	20	20	12	90%	10%	90%	10%
51 - 100	2	14	7	25%	50%	50%	50%
Total	22	34	19				

**TABLE 23: SOURCES OF FINANCE FOR INITIAL INVESTMENT AND REFURBISHMENT - APARTMENTS**

Sources of Initial Investment		%	Sources of Finance For Refurbishment		%
	Rms			Rms	
BDB	37	6.8	Commercial Banks	74	18.2
Commercial Banks	48	4.5	Private funds	46	18.2
Private funds	110	43.2	Profits	10	4.5
Unknown*	334	45.5	External foreign sources	88	9.1
			Refurbishment	39	18.2
			Unknown*	234	31.8
Total		100	Total		100



## APARTMENTS

Constraints	Percentage	Opportunities	Percentage
Small hotels are ignored	4.6	Prospects favourable of social/economic climate is maintained	13.6
High utilities cost	2.3		
Import Restriction	2.3		
Lack of finance for marketing/refurbishment etc	18.1		
Heavy taxes	18.1	If no natural disaster	4.6
		No comments	81.8
Lack of duty-free concessions	13.6		
Crime	9.0		
Jet skis	4.6		
Beach harassment	4.6		
High airfares	4.6		
High labour costs	4.6		
No comments	13.6		
	100.0		100.0

sector in the next 10 years?" In response to this question, the largest category of constraints identified by apartments was lack of finance and heavy taxes. A total of 18.1% of all respondents indicated that lack of financing was a constraint on their operation and another 18.1% indicated that heavy taxes were a constraint on their operations. In other government-related areas, 13.6% of respondents felt that lack of duty free concessions were a problem; 2.3% blamed high utility costs and another 2.3% blamed import restrictions. Total government-related factors accounted for 36.3% of problem perceived by respondents.

Social factors such as jet skis, beach harrassment and crime constituted 17.2% of total concerns; high air fares 4.6%; and high labour costs; 4.6%. Finally, 4.6% of total respondents indicated that small hotels are ignored. A total of 13.6% of all respondents had no comments.

#### **\* Opportunities**

In terms of opportunities, 18.2% of all respondents believed that prospects for the industry will be favourable if the social and economic climate is maintained and if no natural disasters occur. A total of 81.8% of all respondents had no comments.

(c) **Hotels**

**\* Characteristics**

Of the 30 hotels which constituted the actual sample (ie. actually interviewed), 15 had less than fifty rooms; 9 hotels (30%) had between 51 and 100 rooms; 43 hotels (13.3) had between 101 and 200 rooms and two had 200 and over rooms. In summary, 50% of all sampled units had less than 50 rooms; and 80% of had less than 100 rooms.

The average age of the under 50 room category of hotels was 30 years and the average age under current management. In the 101-200 room category, the average age was 17 years with 10 years under current management; and in the 200 and over category, average age was 80 years, with an average age of 8 years under current management. In summary, it would seem as though the hotel size category 51-100 rooms had the most stable management with an average age of 19 years and 15 years under current management.

In terms of the ownership and management characteristics of the sample hotels, 86.7% of the under 50 room hotels were locally owned and 73.3% locally managed; and 13.3% foreign owned and 26.7% foreign managed.

For the properties with between 51 and 100 rooms 77.8% were locally owned and 88.9% locally managed, the remainder were accounted for by foreign ownership and management.

In the category of hotels between 101-200 rooms ownership was 10% local and 66.7% locally managed. Hotels over 200 rooms were 50% government owned and 30% foreign owned; while management is 70% foreign and 30% local.

**\* Sources of Finance**

A total of 50% of respondees did not know where the sources of initial investment was financed. Foreign investment and private funds were the two major sources of funding, followed by shareholders, loans from the commercial banks and long term mortgages. The government, the Barbados Development Bank and National Public shares play a relatively small role in the setup finance of the hotel sector.

In terms of the sources of refurbishment finance; commercial banks supply 22% of total funding; the Barbados Development Bank supplies 16.7% of the total and profits supply another 16.7% of refurbishment finance. Private funds, the CDB and credit from suppliers each provided 3.3% of total funding. In some cases rooms (condominiums) were sold to finance refurbishments and the IFC in Washington provided financing (before the establishment of the regional CPDF office).

TABLE 24

CHARACTERISTICS OF THE BARBADOS TOURIST  
ACCOMMODATION SECTOR - HOTELS

Room Size	Frequency Units (Actual)	Avg Age*	Avg Age Under Current Mngt %	Ownership		Management	
				Local	Foreign	Local	Foreign
Less than 50	15	30	7	86.7	13.3%	73.3%	26.7%
51-100	9	19	15	77.8	22.2%	89.9%	11.1%
101-200	4	17	10	100	-	66.7%	33.3%
200 and over	2	80	8	50	50	30%	70%

TABLE 25

SOURCES OF FINANCE FOR INITIAL INVESTMENT  
AND REFURBISHMENT

Sources of Initial Investment		%	Sources of Finance For Refurbishment		%
	Rms			Rms	
BDB	76	3.3	BDB	346	16.7
Commercial Banks	63	6.7	Private funds	20	3.3
Private funds	338	10	Profits	315	16.7
Unknown*	915	50	Commercial Banks	605	22
Shareholders	163	8.5	No Refurbishment	15	3.3
Long term Mortgage	88	1.6	Unknown*	349	13.4
External Foreign Sources	312	13.3	Cash	169	6.7
Public Shares	37	3.3	CDB	30	3.3
Government Owned	185	3.3	IFC Washington	133	1.6
			CLB Colonial Life	133	1.6
			Rooms sold to refurbish (Condos)	122	4.8
			Credit from suppliers	76	3.3
Total		100	Total	100	

**TABLE 26: CONSTRAINTS AND OPPORTUNITIES FACING HOTELS**

Constraints	Percentage	Opportunities	Percentage
Duty too high	6.7	Japanese and South American Markets	
Lack of Duty Free concessions	33.7		
Taxation too high	36.7		
Lack of Finance	6.7		3.3
High Labour Cost	10		
Lack of all year tourism season	3.3		
Stamp Duties	3.3	1992 has propects	3.3
Import Duties	3.3	No opportunities cited	93.4
High Prices	10		
Beach Harassment	3.3		
No Comments	16.7		
Total	133.3*		

\* The total number of percentages do not add up to 100 because each hotel expressed more than one opinion.

It can be seen that a variety of sources are drawn upon to refurbish Barbadian hotel properties, with the majority being supplied by commercial banks, profits, and the Barbados Development Bank.

#### **\* Problems of Finance**

The main problems identified were the lack of long term money and high rates of interest (6 of the 30 represents, or 20% of the cases).

A number of individual cases (4 in total found the lack of collateral funding to be a problem; too much red tape at development bank; Banks were not as co-operative as they should be, were cautious and did not lend because of the record of low profitability).

Another 10% of the cases found the BDB to be "helpful", "co-operative" and "very good". The majority of the cases (7 out of 30) financing the sector.

#### **\* Constraints**

The major constraints faced by the hotel sector is listed in table 26. By far, high duty, high taxes and lack of duty free concessions constitutes the largest category of constraints identified by the hotel sector. Other categories identified include high labour cost, high prices, and lack of finance (see table 26 for details).

#### **\* Opportunities**

Opportunities cited for the hotel sector included the prospects in the Japanese, South America and the unexploited segments of the North American markets (Mid West and West), as well as the opportunities provided by 1992.

## \* Summary

One of the major findings of this research is that the problems of high operating costs, exacerbated by the public sector through high taxes and duty are an all-pervasive problem in the Barbados hotel sectors. From the smallest guest house to the largest hotel; from down market to the up-market properties, hotels were almost unanimous in their identification of taxes and duty as a constraint to their operations. This point was poignantly made by one hotelier, as it was stated that the current strategy of the hotel is more one of tax avoidance, rather than, as it should be, one of investment.

This view is generally confirmed when it is additionally considered that when asked the major constraints and opportunities facing the Barbados hotel industry in the next 10 years, all hoteliers, with only one exception could not outline opportunities for the sector. Invariably, hoteliers seemed to be too burdened with short term considerations of costs, duties and taxes to look beyond the horizon. So instead of building and foreign competitive strategies and investment plans, too much focus seems to be on the immediate problem of high costs. This is a very sad state of affairs which must be addressed as a matter of urgency.

More specific, findings are as follows

Guest Houses relied mainly on private sources for initial investment funding and on the Barbados Development Bank and commercial banks for refurbishment finance.

Apartments were also funded mainly from private funds for their initial investment, but also depended upon the commercial banks and the Barbados Development bank for funding.

Hotels were funded mainly from foreign and local private sources for 46.6% of initial investment (excluding non-responders). There was, some reliance on shareholders, loans from commercial banks, long term mortgages. Government direct participation, the BDB and public shares together play an important role in initial finance (19.8%).

The major sources of refurbishment finance was commercial banks, the BDB, and profits, each providing 22%, 17% and 17% of total refurbishment finance respectively.

## \* Other

The BDB is not very active in the current (1988-89) financing of the new construction tourist accommodation sector, but seems to be more important for refurbishment finance.



It should be re-emphasised in closing, that the problematique of Caribbean tourism finance is a complex and multi-faceted one. Likewise, solutions are multi-faceted. A simple reduction in tax and duties would not solve these problems. Perhaps more critically, the issues of finance, profitability, and high costs, hit at the very heart of developing strategy and policy. Its use of tourism dependence, government involvement, externalities, production for export versus production for the domestic market are all of critical significance. It is the unlocking of this broader development paradigm that holds the key to the competitiveness and survival of its various subsectors, including that of tourism.

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## METHODOLOGY

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## Methodology

This study draws upon two distinct yet complementary surveys. One survey was aimed at Multinational corporations operating in the Caribbean, and the other survey was aimed at the Barbados tourist accommodation sector. Its latter survey attempted to examine how the tourism sector is financed and the problems which face the sector, using Barbados as a case study.

The survey of multinational corporations to determine the nature, pattern and volume of multinational corporations involvement in the Caribbean tourist accommodation sector (see survey questionnaire No. 1 in the next section). Although this survey is still largely in the field, the majority of information on type of involvement was obtained by telephone interviews with headquarter personnel of the major multinational corporation. This data was complemented by a similar questionnaire which was despatched to the executive directors of all the hotel associations in the Caribbean.

The second survey of of the Barbados tourist accommodation sector attempted to examine the pattern of tourism finance in the Caribbean using Barbados as a case study. The survey focused on examining empirically how the tourism sector is financed; the problem of tourism finance; the extent and level of refurbishment and how it is financed; the future plans for the hotel properties and the constraints and opportunities which face the sector (see survey questionnaire No.2 in next section). In addition, a number of statistics such as size, age, ownership and management of the property were collected. This was done with a view to determining whether the problems and constraints with regard to finance were general to the sector, or specific to certain accommodation sizes and topologies.

In what follows an attempt is made to describe the sample selection methodology, as well as the representativeness of the sample and its coverage.

### (i) Sample Techniques

The Barbados tourist accommodation sector was stratified according to the size and type of accommodation units, and a random sample chosen, using a random number generator.

Barbados' accommodation sector was divided into hotels, apartments and guest houses. These three sectors were further stratified by size with, on the average, higher frequencies for smaller units.

### (ii) Coverage of the Sample

It was decided to select a sample which represented about 50 percent of Barbados' total accommodation capacity (measured by

number of units). This was felt to be a good base which would take non-responses into account. At worst, it was felt that the sample would be a good indicator if it achieved representation of at least 40 percent of the population. It was decided that this sample size of 50 percent should be equally representative of the three distinct categories of tourist accommodation, as well as their relative room sizes. The result was that 65 of the 129 units were selected to form the sample. These 65 units represented 32 (or 50%) of the hotel population of 64 units; 28 (or 50% of the apartment population of 54 and 5 (46%) of the guest house population of 11. These units were all randomly chosen, using a random number generator on a population database that was stratified by room size and accommodation type.

(iii) Coverage of the Actual Sample

It is useful to draw a distinction between the theoretical sample and the actual sample. The theoretical sample is the sample theoretically derived from the random sampling techniques that are described above. The actual sample refers to the coverage of units at the actual field level. In the following section, the actual sample is compared with the theoretical sample and with the population. This comparative examination is undertaken by numbers of rooms and by numbers of units as well as by room size classifications.

a) By Rooms

As can be seen from Tables M1-M3, a high level of success was achieved in coverage of the sample when measured by the number of rooms assessed. Actual coverage of guest house was 50%; for apartments it was 77%; and for hotels it was 94%. (Refer to tables for details of coverage in each room category).

It can be seen further that the actual sample covered 23.6% of the guest room population, 54.1% of the hotel population and 46.7% of the apartment population (measured by numbers of rooms).

b) By Units

As can be seen from M4-M6, a high level of success was achieved in coverage of the tourist accommodation units which formed the sample. Actual coverage of guest houses was 60%; actual coverage of hotels was 93.8%; and actual coverage of apartments was 78.5%. Refer to tables for details of coverage in each unit category.

It can be seen further that the actual sample covered 27.2% of the guest room population, 46.9% of the hotel population and 40.7% of the apartment population (measured by units).

TABLE M1

## SAMPLE SIZE AND COVERAGE - BARBADOS GUEST HOUSES, (rooms)

Apartment Size	Population	Sample	Sample Pop. %	Actual Sample	Actual Pop. %	Actual %
1-5	16	8	50	4	50	25
6-10	43	13	30.2	13	100	30.2
11-20	13	13	100	-	-	-
TOTAL	72	34%	47.2	17	50%	23.6

TABLE M2

## SAMPLE SIZE AND COVERAGE - BARBADOS HOTEL SECTOR (rooms)

Room Size	Population	Sample	Sample Pop. %	Actual	Actual Sample %	Actual Pop. %
1-50	894	450	50.3	421	93.5	47.0
51-75	543	322	59.3	322	100	59.3
76-100	703	388	48.0	388	100	48.0
101-200	1,539	719	46.7	601	83.6	39.0
201-300	256	256	100	256	100	100
300+	306	306	100	306	100	100
TOTAL	4,241	2,441	57.5	2,294	94%	54%

TABLE M3

## SAMPLE SIZE AND COVERAGE - BARBADOS APARTMENTS (rooms)

Room Size	Population	Sample	Sample Pop. %	Actual	Actual Sample %	Actual Pop. %
1-15	311	148	47.6	133	89.9	42.8
16-25	248	162	65.3	123	76.0	50.0
26-50	201	102	50.7	72	70.6	35.8
51-75	210	137	65.2	72	52.6	34.3
76-100	99	99	100.0	99	100.0	100.0
TOTAL	1069	648	60.6	499	770	46.7



TABLE M4

## SAMPLE SIZE AND COVERAGE BARBADOS GUEST HOUSES, (UNITS)

Room Size	Population	Sample	Sample Pop. %	Actual	Actual Sample %	Actual Pop. %
1 - 5	4	2	50	1	50	25
6 -10	6	2	33.3	2	100	40
11-20	1	1	100	-	-	0
TOTAL	11	5	45.5	3	60	27.2

TABLE M5

## SAMPLE SIZE AND COVERAGE -BARBADOS HOTEL SECTOR (UNITS)

Room Size	Population	Sample	Sample Pop. %	Actual	Actual Sample %	Actual Pop. %
1- 50	34	16	47	15	93.8	44.1
51- 75	10	5	50	5	100	50
76-100	8	4	50	4	100	50
101-200	10	5	50	4	80	40
201-300	1	1	100	1	100	100
300+	1	1	100	1	100	100
TOTAL	64	32	50	30	93.8	46.9

TABLE M6

## SAMPLE SIZE AND COVERAGE - BARBADOS APARTMENTS (UNITS)

Apartment Size	Population	Sample	Sample Pop. %	Actual Sample	Actual Pop. %	Actual %
1- 15	32	15	48.5	13	81.2	48.5
16- 25	12	7	54.5	5	83.3	45.5
26- 50	6	3	50	2	66.7	33.3
51- 75	3	2	66	1	50	33.3
76-100	1	1	100	1	100	100
TOTAL	54	28	51.8	22	78.5	40.7

### Summary

In summary a total of 65 or 50.4% of total tourist accommodation units in Barbados was drawn into the random sample which was designed using a random number generator.

On the field, a total of 55 units were covered, representing 42.6% of the total tourist accommodation population.

The survey was therefore very successful, achieving an 84.6% response rate. The sample as can be seen from room and unit categories in tables M1 - M6 is also very representative of the population.

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**SURVEY QUESTIONNAIRES**

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SURVEY OF THE BARBADOS TOURIST ACCOMMODATION SECTOR  
"FINANCING TOURISM"

NAME OF HOTEL: ..... SIZE: .....  
MANAGER: .....  
TEL NO.: .....

1. What is the age of the property?
2. How long under current management?
3. Has the property been recently refurbished?

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4. What is the value of the refurbishment?

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5. How was it financed?

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6. How was initial Hotel Investment financed?

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7. Who owns the property?

Local \_\_\_\_\_ Foreign \_\_\_\_\_ Other \_\_\_\_\_

8. Who manages the property?

Local \_\_\_\_\_ Foreign \_\_\_\_\_ Other \_\_\_\_\_

9. Any comments on the sources and availability of finance for hotel and tourism investments in Barbados?

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10. What do you consider to be the major constraints and opportunities facing the Barbados Hotel Industry in the next ten years?

Opportunities:

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Constraints:

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**APPENDICES**

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**TABLE 1**  
**International Tourism Forecasts to 1999**

	Trips (millions)				Nights Abroad (millions)				Expenditures (\$US billions) <sup>1</sup>			
	1986	1991	1995	1999	1986	1991	1995	1999	1986	1991	1995	1999
West Germany	120.1	187.9	229.8	268.3	551	782	900	1,013	16.6	23.1	26.1	28.9
United States	61.6	54.2	51.5	51.2	273	233	216	234	17.3	15.2	14.4	15.8
Netherlands	26.2	27.4	28.6	27.8	100	108	116	116	3.6	3.9	4.2	4.3
Switzerland	25.6	35.2	39.5	40.3	89	128	148	155	2.8	4.3	5.2	5.6
United Kingdom	25.2	47.3	60.3	77.9	312	577	698	863	7.3	13.9	17.1	21.6
Austria	23.0	29.5	31.5	33.9	72	89	90	91	2.6	3.3	3.4	3.5
Belgium-Luxembourg	15.9	19.8	21.5	24.8	66	80	87	98	2.4	2.9	3.2	3.7
France	14.7	17.2	20.0	23.2	192	215	241	271	4.9	5.8	6.8	8.0
Canada	13.0	16.7	18.5	21.3	131	161	172	194	4.1	5.4	6.1	7.3
Italy	9.4	14.3	17.3	19.4	78	118	142	160	2.5	3.8	4.6	5.2
Spain	7.5	12.0	17.3	21.1	50	74	101	116	1.3	2.0	2.8	3.3
Denmark	7.3	9.2	12.1	14.9	48	59	77	96	1.8	2.2	3.0	3.8
Japan	7.1	11.4	15.0	19.6	62	107	149	206	6.8	10.2	12.5	15.5
Sweden	5.4	9.7	15.6	22.9	45	83	136	210	2.4	4.2	6.8	10.3
Norway	4.8	5.5	7.8	11.8	39	45	64	96	2.1	2.4	3.5	5.4
Malaysia	4.7	3.7	6.5	9.2	31	25	43	61	1.0	0.9	1.7	2.6
Mexico	3.8	3.5	7.5	9.5	22	19	37	44	2.0	1.8	3.7	4.5
Saudi Arabia	2.3	1.3	1.2	2.1	24	14	13	21	2.5	1.4	1.2	1.5
Kuwait	1.5	0.9	1.0	1.1	19	12	14	16	1.4	0.9	0.9	1.0
Australia	1.4	1.3	1.4	1.5	42	44	50	58	1.7	1.7	1.8	2.0
<b>Total—20 Main Countries</b>	<b>380.8</b>	<b>508.0</b>	<b>603.9</b>	<b>702.2</b>	<b>2,247</b>	<b>2,975</b>	<b>3,496</b>	<b>4,125</b>	<b>37.1</b>	<b>109.3</b>	<b>129.0</b>	<b>154.1</b>
<b>WORLD TOTAL</b>	<b>497.8</b>	<b>655.3</b>	<b>779.5</b>	<b>909.7</b>	<b>2,808</b>	<b>3,720</b>	<b>4,414</b>	<b>5,251</b>	<b>108.9</b>	<b>136.7</b>	<b>162.9</b>	<b>196.1</b>

<sup>1</sup> Excluding fares, at constant realtive prices, expressed in 1985 dollars and exchange rates.  
 Source: "International Tourism Forecasts to 1999" by Anthony Edwards, The Economist Intelligence Unit, July 1988, and Travel & Leisure's World Travel Overview

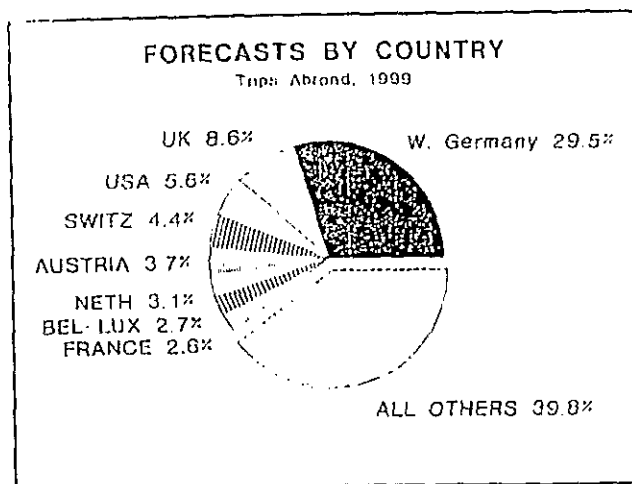
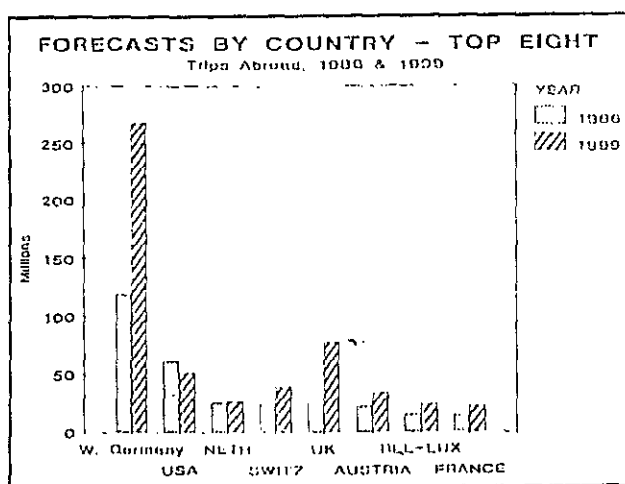


TABLE 2

## INTERNATIONAL TOURIST ARRIVALS IN THE WORLD AND CARIBBEAN 1970-87

All Countries			Caribbean		
Year	Million	% Change	Year	Million	% Change
1970	159.7		1970	4.24	
1971	172.2	7.8	1971	4.62	9.0
1972	181.9	5.6	1972	5.05	9.3
1973	190.6	4.8	1973	5.41	7.1
1974	197.1	3.4	1974	5.65	4.4
1975	214.4	8.8	1975	5.48	-3.0
1976	220.7	3.0	1976	5.77	5.3
1977	239.1	8.3	1977	6.22	7.8
1978	257.4	7.6	1978	6.57	5.6
1979	274.0	6.5	1979	6.79	3.3
1980	284.8	4.0	1980	6.88	1.3
1981	288.8	1.4	1981	6.67	-3.1
1982	286.8	-0.7	1982	6.93	3.9
1983	284.4	-0.8	1983	7.25	4.6
1984	311.2	9.4	1984	7.59	4.7
1985	325.7 (R)	4.7	1985	7.98	5.1
1986	332.9 (R)	2.2	1986	8.46	6.0
1987	358.7 (R)	7.7	1987	9.61 (R)	13.8
1988	390.0 (P)	8.7	1988	10.25 (P)	6.7

**Increases**

1978 - 1988	51.5	1978 - 1988	52.2
1980 - 1988	36.9	1980 - 1988	45.3

(R) Revised estimate

(P) = Preliminary estimate

Source: World Tourism Organization and CTO.



TABLE 3

## STAYOVER TOURIST ARRIVALS IN THE CARIBBEAN (Thousands)

	1984	1985	1986	1987	1988	% Change 1988/77
<b>BAHAMAS</b>	1278.5	1368.3	1375.2	1479.9	1475.0	-0.3
<b>BERMUDA</b>	417.5	405.8	459.0	476.8	425.0	-10.9
<b>OECS COUNTRIES</b>	387.5	428.7	472.6	500.3	548.3	9.6
Antigua and Barbuda	145.4	156.0	166.2	177.0	195.0*	10.2
Dominica	22.2	21.5	24.4	26.7	31.8	19.1
Grenada	39.5	52.0	57.3	57.4	61.8	7.6
Montserrat	15.9	16.5	15.6	17.0	17.9	4.9
St. Kitts and Nevis	39.8	46.1	55.1	64.6	69.6	4.9
St. Lucia	86.2	94.5	111.7	111.6**	125.3	12.2
St. Vincent & Gren.	38.5	42.1	42.1	46.0	47.0	2.3
<b>OTHER COMMONWEALTH</b>	1596.4	1577.3	1728.8	1960.8	1968.7**	0.4
Anguilla	10.8	15.4	16.7	21.0	25.7**	22.6
Barbados	367.7	359.1	369.8	421.9	451.5*	7.0
Belize	88.4	93.4	93.8	99.3	142.0*	43.1
British Virgin Is.	121.5	129.9	145.7	172.7	176.0	1.9
Cayman Islands	148.5	145.1	166.1	209.0	218.7	4.6
Guyana	47.3	46.4	46.8	59.8	71.1	18.8
Jamaica	603.4	571.7	663.6	738.8	648.9	-12.2
Trinidad and Tobago	191.5	187.1	191.3	201.7	187.7	-6.9
Turks and Caicos Is.	17.3	29.2	35.0	36.6	47.1	28.5
<b>DUTCH WEST INDIES</b>	690.6	724.8	747.7	863.4	962.8	11.5
Aruba	210.2	206.7	181.2	231.6	278.0	20.0
Bonaire	19.8	24.0**	27.1	30.4	34.0	11.7
Curacao	130.0	126.0	128.2	134.8	155.2	14.3
Saba	8.4	7.0	9.0	8.7	9.6	21.3
St. Eustatius (1)	4.6	4.6	6.0	6.4	6.3	-1.6
St. Maarten	317.6	356.5	396.2	451.5	479.7	6.2
<b>FRENCH WEST INDIES</b>	410.9	409.9	429.6	526.5	608.7	15.6
Guadeloupe (2)	227.1	216.4	246.3	292.6	328.7	12.3
Martinique	183.8	193.5	183.3	233.9**	280.0	19.7
<b>U.S. TERRITORIES</b>	1865.9	1966.4	2042.4	2451.7	2676.2	9.2
Puerto Rico (3)	1496.4	1544.9	1572.6	1871.7	2077.0	11.0
U.S. Virgin Is. (4)	369.5	411.5	469.8	580.0	599.2	3.4
<b>OTHER COUNTRIES</b>	946.1	1082.0	1207.3	1353.5	1587.6	17.3
Cuba	206.6	240.5	281.9	293.4	309.2	5.4
Dominican Republic	562.3	660.2	785.0*	911.3	1116.4	22.5
Haiti	141.4	149.7	111.7	121.8	122.0*	-
Suriname	35.8	31.6	28.7	27.0	40.0	48.0
<b>TOTAL</b>	7593.4	7963.2	8462.6	9612.9	10252.4	6.7

(1) Excluding Antilleans (2) At hotels  
(3) Fiscal Year (July to June) (4) Air only

\* Estimate  
\*\* New series

Source: CTO Annual Statistics Report, 1988

## CRUISE PASSENGER ARRIVALS

	1984	1985	1986	1987	1988	% Chan 88/87
Antigua and Barbuda	66.8	100.8	122.4	153.3	198.6	29.6
Aruba	30.2	72.2	73.3	80.6	81.1	-5.7
Bahamas (1)	907.8	1136.5	1495.6	1434.2	1505.1	4.9
Barbados	99.2	112.2	145.3	228.8	290.3	29.1
Bermuda (2)	111.4	142.8	132.2	153.4	158.3	3.1
Bonaire	2.9	2.7	2.5	3.4	7.8	26.6
British Virgin Is.	24.8	22.1	15.7	n.a.		
Cayman Islands	203.6	258.7	270.9	271.7	315.6	16.1
Curacao	122.5	108.8	125.9	107.0	124.2	16.0
Dominica	3.2	6.6	11.5	12.1	n.a.	
Dom. Republic (3)	96.0	92.8	n.a.	166.7	n.a.	
Grenada	34.2	90.7	113.9	127.2	136.0	6.9
Guadeloupe (4)	64.5	n.a.	64.1	68.7	56.8	-17.3
Haiti	n.a.	n.a.	40.0	n.a.	n.a.	
Jamaica	231.0	261.5	277.8	291.9	367.7	26.0
Martinique	135.5	153.0	214.2	296.7	385.5	29.9
Montserrat (3)	4.3	7.4	9.3	10.1	10.8	6.9
Puerto Rico (5)	436.0	419.3	449.0	584.4	723.7	23.8
St. Kitts and Nevis	34.1	31.5	27.0	31.4	53.6	70.7
St. Lucia	37.2	55.0	58.8	83.8	79.5	-4.5
St. Maarten	n.a.	n.a.	313.9	389.1	450.9	15.9
St. Vincent and Gren	64.0	34.0	38.1	65.7	62.7	-4.5
Trinidad and Tobago	4.6	9.6	19.1	15.5	11.1	-28.5
U.S. Virgin Is.(1)	657.5	678.9	827.2	955.9	1062.1	1
TOTAL (6)	3570	4150	5000	5600	6320	12.

(1) At first port of entry only

(2) Excludes sea/air arrivals

(3) All sea arrivals

(4) Port of Guadeloupe only (excludes arrivals at St. Barthelemy)

(5) Fiscal year (July to June)

(6) Includes estimates for missing data

Source: CTO Annual Statistics Report, 1988

Note: It should be noted that, because most Caribbean cruises stop at more than one destination, the total number of cruiseship passengers is considerably less than the sum of cruiseship passenger arrivals in the various destinations. The actual number of cruiseship passengers taking a cruise in the Caribbean is estimated at about 2.8 million in 1988. Of these, about one million were on cruises calling only at ports in The Bahamas.

TABLE 5 VISITOR EXPENDITURE AS A PERCENTAGE  
OF GROSS DOMESTIC PRODUCT, 1980-1987

	1980	1982	1984	1986	1987
Aruba	...	...	...	35.0	39.7
Anguilla	...	...	61.2	96.1	106.8
Antigua & Barbuda	44.6	51.2	75.4	78.5	80.7
Bahamas	40.4	39.6	39.7	48.9	...
Barbados	32.4	27.9	27.1	28.2	30.0
Belize	4.5	5.0	6.0	22.7	...
Br Virgin Is.	96.3	118.0	108.9	138.6	137.9
Cayman Is.	...	...	24.8	26.6	29.2
Cuba	0.2	0.2	0.3	0.5	...
Dominica	3.9	6.6	11.5	11.9	12.5
Domin.Republic	2.5	3.4	3.0	8.3	...
Grenada	23.5	21.5	25.3	38.3	37.7
Guyana	...	...	...	4.5	8.2
Haiti	4.3	5.5	6.5	...	...
Jamaica	...	13.0	26.7	23.4	...
Montserrat	20.1	22.1	21.7	20.0	20.7
Neth. Antilles	45.6	39.3	29.3	...	...
Puerto Rico	5.4	5.5	4.9	4.7	5.3
St Kitts & Nevis	35.0	33.7	41.0	59.0	72.9
St Lucia	33.6	28.0	32.4	46.5	47.5
St Vincent & Gren.	27.4	22.8	22.2	28.1	30.5
Suriname	2.4	3.6	1.5	...	...
Trinidad & Tobago	...	14.3	19.3	13.6	15.4
Turks & Caicos	...	...	25.9	57.0	58.1

Source: derived from CTO estimates and table .

NOTE: The estimates of Visitor Expenditure are an indication of gross tourist expenditure in the country and do not take into account leakages. On the other hand the GDP is a sum of the value added contribution of each good and service produced in the economy. In some cases where the ratio displays an erratic movement the result may due to a new series for the Visitor Expenditure estimate.

TABLE 6

GOVERNMENT-OWNED HOTELS IN THE CARIBBEAN (1)

COUNTRY	NAME OF PROPERTY	ROOMS
Antigua and Barbuda	Halcyon Cove	135
	Royal Antiguan	300
The Bahamas	Cable Beach Hotel	693
	Ambassador Beach	400
	The Royal Bahamian Hotel	170
	Holiday Inn (Grand Bahama)	505
	Lucayan Beach Resort (")	247(50%)
Barbados	Heywoods	306
	Hilton International	185
Belize	Belmopan Convention Hotel	20
Bermuda	Stonington Beach Hotel	64
Bonaire	Bonaire Beach Hotel	145
Curacao	Curacao Plaza	254
	Las Palmas	274
	Princess Beach	204
	Trupial Inn	74
Grenada	Ramada Renaissance	186
	Capitol Inn	9
	Horse Shoe Beach Hotel	18
	Hibiscus Inn	10
	Sea Scape Inn	9
Jamaica	Club Americana (Ocho Rios)	325
	Eden II ( " )	265
	Fantasy Resort (Montego Bay)	119
	Holiday Inn ( " )	516
	Inn on the Beach (Ocho Rios)	45
	Jamaica Jamaica (Runaway Bay)	152
	Jack Tar Village ( " )	52
	Mallards Beach (Ocho Rios)	370
	Oceana (Kingston)	250
	Trelawny Beach (Falmouth)	350
	Wyndham Hotel (New Kingston)	400
Wyndham Rose Hall (Mo' Bay)	500	
Puerto Rico	Caribe Hilton International	636
	Condado Beach	245
	Hilton International Mayaguez	141
	La Concha	233
St. Kitts-Nevis	Fort Thomas	64
St. Vincent & G'dines	The Cobblestone Inn	9
Trinidad & Tobago	Hilton International	418
	Farrell House	51
	Crown Reef (Tobago)	113

(1) Excluding Cuba

Figure 1

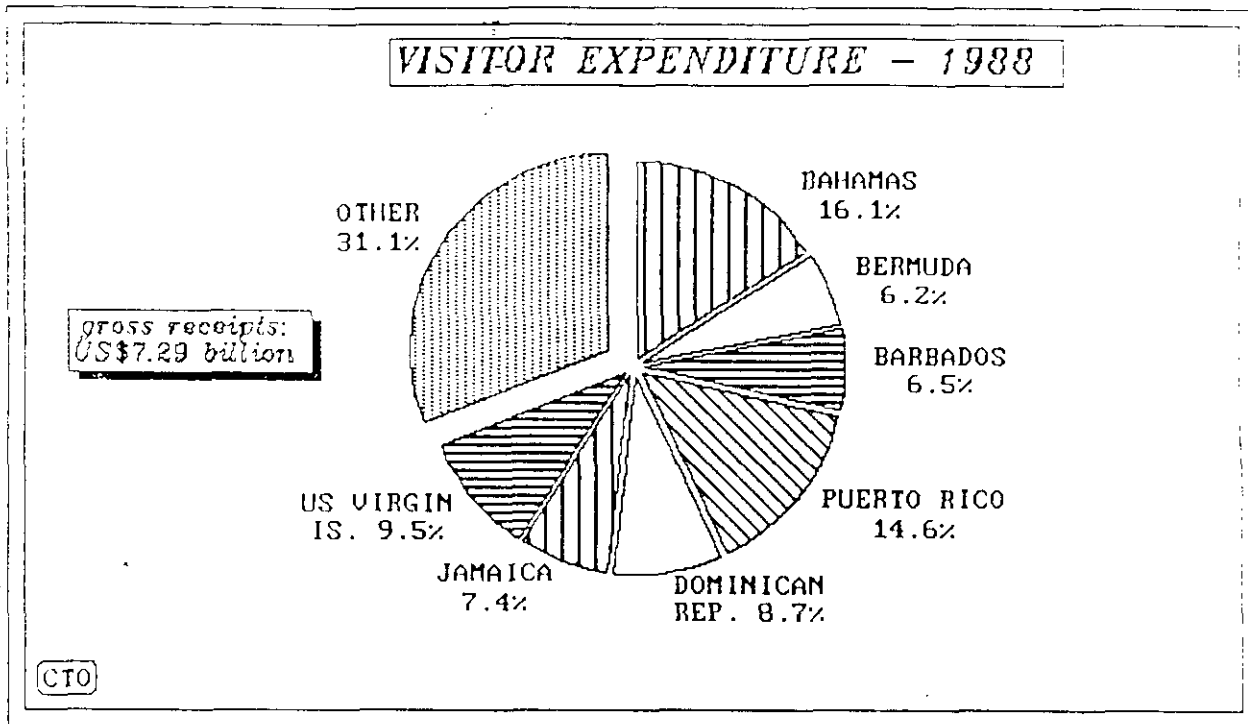


Figure 2

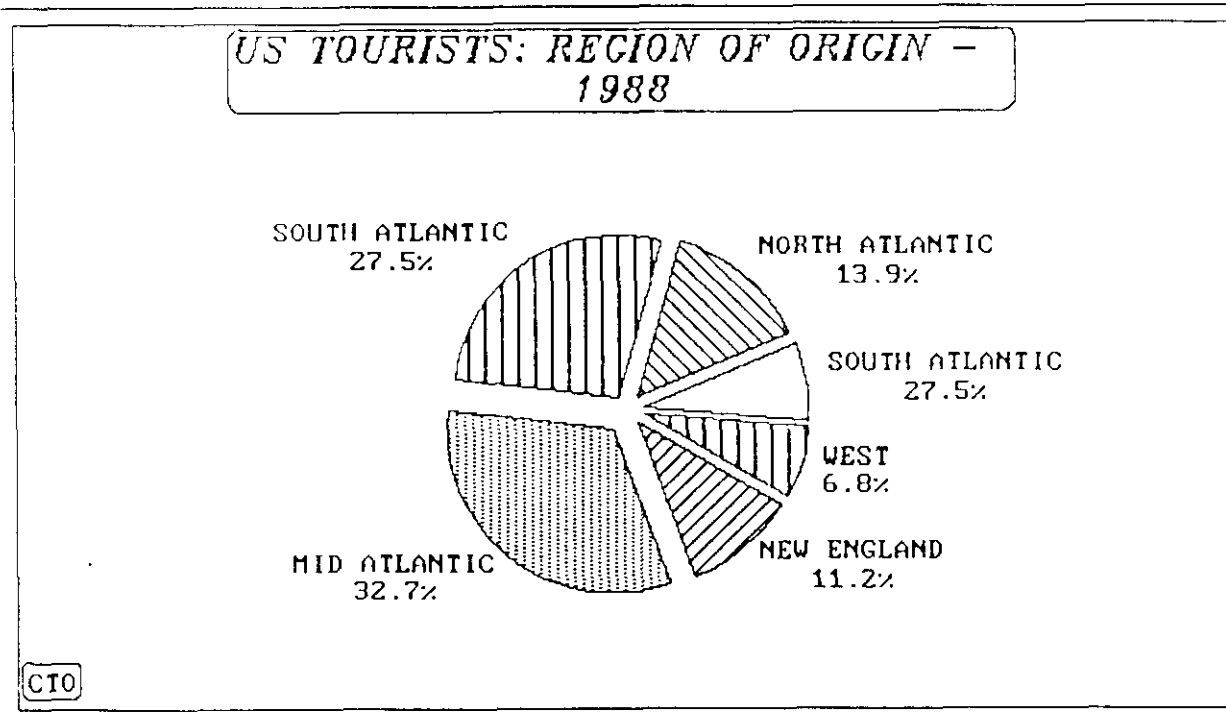


Table 7

## HOTEL MARKETING GROUPS

Name of group	Headquarters country	Approx. no. of rooms	Approx. no. of hotels
Best Western Intl	USA	254000	3302
Loews Corp	USA	90000	358
Logis et Auberges	France	76000	4581
British Airways Associate	UK	71000	199
Golden Tulip Worldwide	Holland	69000	351
Supranational	UK	60000	305
Leading Hotels of the World	USA	57000	210
Jarvinen & Assoc Worldwide	USA	54000	396
SRS Hotels	W Germany	46000	185
Nikko Hotels	Japan	38000	108
Robert F Warner	USA	24000	109
Flag Inns	Australia	23000	483
Minotels Europe	Switzerland	20000	520
Preferred Hotels Worldwide	USA	20000	73
Top International Hotels	W Germany	12000	106
Inter-Hotel	France	12000	234
Relais et Chateau	France	11000	360
Consort Hotels	UK	11000	195
Budget Host Inns	USA	8000	193
Relais du Silence	France	8000	265
Ambassador Swiss Hotels	Switzerland	8000	104
European Hotels Club	Italy	5000	42
Swiss International Hotels	Switzerland	5000	34
Space Hotels	Italy	5000	47
Prohotel of Switzerland	Switzerland	5000	25
Romantik Hotels & Restaurants	W Germany	5000	156
Inter Hotel (GB & N Ireland)	UK	4000	117
Inter Nor Hotels	Norway	4000	29
Welcome Chic Hotels	Switzerland	4000	65
Arghotels	Argentina	4000	74
Italhotels	Italy	4000	36
ExecHotels	UK	3000	166
Inter-Europe Hotels	Switzerland	3000	21
Eurotel International	Switzerland	3000	21
Hotel Service Paris-France	France	3000	36
Dansk Kroferie	Denmark	2000	65
Guestaccom	UK	2000	276
Nids de France	France	2000	52
Great Inns of America	USA	2000	75
Prestige Hotels	UK	2000	36

TABLE 8

MAJOR HOTEL CHAINS OPERATING IN THE CARIBBEAN (excluding Mexico and the Bahamas)

WORLD RANK	HOTEL CHAIN	WORLDWIDE 1987 COUNTRY PROPERTIES	ROOMS	COUNTRY	CARIBBEAN OPERATIONS LOCATION	NAME OF HOTEL	ROOMS	TYPE OF INVOLVEMENT
1.	HOLIDAY CORPORATION HOLIDAY INNS INTERNATIONAL (see BASS HOTELS DIVISION under No. 13 below)	USA 1032	353000	NONE				
2.	SHERATON CORPORATION	USA 479	136500	THE BAHAMAS DOM REPUBLIC ST. MARTEN TURKS/CAICOS	PARADISE ISLAND SANTO DOMINGO PROVIDENCIALES	SHERATON GRAND HOTEL SHERATON SANTO DOMINGO opening 1991 opening 1990	360 260 c. 550 248	H F H F
3.	RAMADA INC.	USA 742	124000	BR. VIRGIN IS. CAYMAN IS. GRENADA PUERTO RICO	TORTOLA GRAND CAYMAN GRAND ANSE SAN JUAN	RAMADA MANNY CAY RESORT RAMADA TREASURE ISLAND RAMADA RENAISSANCE RAMADA EL COMYENTO RAMADA SAN JUAN	41 290 186 100 96	H H H F F
				US VIRGIN IS. ARUBA BELIZE TURKS/CAICOS	ST. THOMAS BELIZE CITY PROVIDENCIALES	RAMADA YACHT HAVEN RAMADA RENAISSANCE (1990) RAMADA ROYAL REEF (1989) RAMADA TORQUOISE REEF	150 220 120 235	H H H H
4.	MARRIOTT CORPORATION	USA 361	103000	BARBADOS BERMUDA	ST. PHILIP	SAN JOHN'S CASTLE CASTLE HARBOUR	256 415	O O
6.	HILTON HOTELS CORP. HILTON INTERNATIONAL (see Ludbrooke Group under No. 17 below)	USA 272	97000	ST. MARTIN		LA BELLE CHEQUE	156	H
8.	ACCOR	FRANCE 713	85000	MARTINIQUE GUADELOUPE ST. MARTIN	POINTE DU BOUF DIAMANT BAS DU FORT MARIGOI	BAKOJA BEACH NOVOTEL DU DIAMANT MARINOTEL (1989) NOVOTEL FIEUR D'EEPEE LE ROYALE LOUISIANA SIMPSON BEACH	140 186 120 173 75 176	O PO (611) PO (231) PO (611) H H
9.	TRUSTHOUSE FORTÉ	UK 809	84000	BAHAMAS BARBADOS BERMUDA	MASSAU ST. JAMES PENROCK PAGET MARKICK	MASSAU BEACH SANDY LANE BERMUDAIA MARRIOTT CLUB WELMONT HOTEL GOLF AND COUNTRY CLUB THE PEGASUS (GUY) LTD. JAMAICA PEGASUS HOTEL	425 112 234 71 151 107 350	O O O closed O O O H
				GUYANA JAMAICA	GEORGETOWN KINGSTON	JAMAICA PEGASUS HOTEL	350	H
10.	PAINE MOTOR INNS	USA 586	74000	PUERTO RICO	SAN JUAN	HOWARD JOHNSON HOTEL	150	F
12.	CLUB MEDITERRANÉE	FRANCE 213	55000	THE BAHAMAS DOM. REPUBLIC GUADELOUPE HAITI MARTINIQUE ST. LUCIA TURKS/CAICOS	PARADISE ISLAND ELEUTHERA PUNTA CANA SAINT ANNE MONTRUIS POINT MARIN - VIEUX FORT PROVIDENCIALES	CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED CLUB MED	300 300 132 275 350 300 256 256	O O H H O closed H O O
13.	BASS HOTELS DIVISION of which HOLIDAY INNS INTL.	BELGIUM 293 1832	52436 253000	ARUBA THE BAHAMAS CAYMAN IS. HAITI JAMAICA PUERTO RICO TRINIDAD US VIRGIN IS.	PAJA BEACH GRAND BAHAMA PARADISE ISLAND GRAND CAYMAN PORT-AU-PRINCE MONTEGO BAY PONCE ISLA VERDE PORT OF SPAIN ST. THOMAS	HOLIDAY INN HOLIDAY INN - LUCAYA BEACH PIRATE'S COVE HOLIDAY INN HOLIDAY INN GRAND CAYMAN LE PLAZA HOLIDAY INN HOLIDAY INN HOLIDAY INN OF PONCE under construction HOLIDAY INN TRINIDAD FRENCHMAN'S REEF	600 505 525 215 80 516 120 250 235 512	LH H F F LH LH O F F
15.	HYATT HOTELS CORP.	USA 89	40427	NONE				
14.	HYATT INTL. CORP.	USA 43	15195	CAYMAN IS. PUERTO RICO ARUBA	GRAND CAYMAN DORADO "	HYATT REGENCY HYATT DORADO BEACH HYATT REGENCY CORKUMAR BEACH HYATT opening May 1990	236 300 504 350	H O O H
17.	LAOBROKE GROUP of which HILTON INTERNATIONAL	UK 145 90	44127 36574	BARBADOS PUERTO RICO TRIN. & TOB.	SAN JUAN MAYAGUEZ PORT OF SPAIN	HILTON INTERNATIONAL CARIBE HILTON INTERN'L HILTON INTERNATIONAL HILTON INTERNATIONAL	185 636 311 418	H H H H
19.	RADISSON HOTEL CORP.	USA 160	37500	DOM. REPUBLIC PUERTO RICO CAYMAN IS.	PUERTO PLATA SAN JUAN GRAND CAYMAN	RADISSON PUERTO PLATA RADISSON MONTEGO RADISSON (opening 1990)	336 180 ?	F F F
24.	PULLMAN INTL. HOTELS of which PLM AZUR CARIBBEAN	FRANCE 212	27564	GUADELOUPE "	GOSIER "	AUBERGE DE LA VIEILLE TOUR CALLINAGO BEACH MARRISOL VILLAGE SOLEIL LOS SANTIOS HOTEL CARAYOU HOTEL LA PAGETTE JEAN BAPT CAPTAIN OLIVIER ROYAL BEACH ST. TROPEZ BEACH temporarily closed	80 155 200 95 54 200 98 50 25 80	H H H H O H H H H temporarily closed
				ST. BARTHELEMY ST. MARTIN				
27.	GRUPO HOTELES UNIDOS (OCCIDENTAL HOTELS)	SPAIN 120	20500	DOM. REPUBLIC "	PUERTO PLATA "	VILLA DORADES HOTEL MONTEMAR MAHENCO (1990) EL ENUAJADOR METRO BEACH RESORT CONDADO BEACH	207 60 7 314 100 245	H H H H H H

KEY: O = FULL OWNERSHIP H = MANAGEMENT CONTRACT F = FRANCHISE  
PO = PART OWNERSHIP TS = TIMESHARE L = LEASED

REPORT RANK	HOTEL CHAIN	COUNTRY	NUMBER OF PROPERTIES	ROOMS	CARIBBEAN OPERATIONS			ROOMS	TYPE OF EXCLUSIVENESS
					COUNTRY	LOCATION	NAME OF HOTEL		
37.	MERIDIEN RESORTS	FRANCE	14	10000	THE BAHAMAS	CABLE BEACH	LE MERIDIEN HOTEL BAHAMIAN	170	H
					GUADELOUPE MARTINIQUE	ST. FRANCOIS POINTE DU BOUET	HOTEL MERIDIEN MERIDIEN MARTINIQUE	25 271 277	25 0 0
					ST. MARTIN	HARCEL COYE	L'HABITATION DE LOUYILLIERS	250	0
33.	SOCIETE DU LOUVRE	FRANCE	106	17264	ST. MARTIN	HARCEL COYE	L'HABITATION DE LOUYILLIERS	250	0
41.	STOUFFER HOTELS	USA	31	12139	US VIRGIN IS.	ST. THOMAS	STOUFFER GRAND BEACH RESORT	290	0
66.	FOUR SEASONS HOTELS	CANADA	23	7270	ST. KITTS-NEVIS	NEVIS	opening 1989/90	150	H
72.	LOEWS HOTELS	USA	13	6539	THE BAHAMAS	PARADISE ISLAND	LOEWS HARBOR COVE HOTEL	250	H
76.	WYNDHAM HOTELS	USA	19	6500	THE BAHAMAS	CABLE BEACH	AMBASSADOR BEACH HOTEL	400	H
					BARBADOS	ST. PETER	HEYMOS	105	H
					JAMAICA	KINGSTON MONTEGO BAY	WYNDHAM HOTEL NEW KINGSTON WYNDHAM ROSE HALL BEACH HOTEL AND COUNTRY CLUB	400 400 400	H H H
80.	LOHRHO PRINCESS HOTELS	UK	14	6115	THE BAHAMAS	GRAND BAHAMA	PRINCESS RESORT & CASINO	955	0
					BERMUDA	SOUTHAMPTON	SOUTHAMPTON PRINCESS HOTEL	600	0
124.	SONESTA INTL.	USA	11	3423	ARUBA BERMUDA	SOUTHAMPTON	SONESTA BEACH CLUB & CASINO SONESTA BEACH HOTEL	7 400 units	H H
139.	YORK-HANOVER HOTELS	CANADA	9	1076	BERMUDA	ST. GEORGE'S	ST. GEORGE'S CLUB	94	H
162.	GOLDEN TULIP (KLM)	NETHERLANDS	14	2350	ARUBA	PALM BEACH	GOLDEN TULIP ARUBA CARIBBEAN RESORT AND CASINO	400	H
175.	RESORTS INTL.	USA	4	2000	THE BAHAMAS	PARADISE ISLAND	PARADISE ISLAND RESORT	1200	0
					"	"	PARADISE PARADISE RESORT	100	0
					"	"	OCEAN CLUB	15	0

B. OTHER MAJOR CHAINS OPERATING MAINLY OR WHOLLY IN THE CARIBBEAN (not listed above)

1.	INTUR	CUBA	45	6547	CUBA	VARIOUS				
2.	NATIONAL HOTELS AND PROPERTIES	JAMAICA	14	4111	JAMAICA	FALMOUTH	TRELAWNY BEACH HOTEL	331	0	
						KINGSTON	JAMAICA PEGASUS HOTEL	350	0	
						"	OCEANA HOTEL	200	0	
						"	WYNDHAM HOTEL NEW KINGSTON	400	0	
						MONTEGO BAY	FANTASY RESORT	129	0	
						"	HOLIDAY INN	516	0	
						"	JACK TAR VILLAGE	128	0	
						"	WYNDHAM ROSE HALL	480	0	
						NEGRIL	HEMOSH II	280	0	
						OCHO RIOS	CLUB AMERICANA	350	0	
						"	EDEM II	263	0	
						"	INN ON THE BEACH	45	0	
						"	MALLAROS BEACH HOTEL	400	0	
						RUNAWAY BAY	JAMAICA JAMAICA	238	0	
3.	DIVI RESORTS	USA	15	2573	ANTIGUA	DICKENSON BAY	DIVI BEACH RESORT	100	0	
					ARUBA	ORUIF BEACH	DIVI DIVI BEACH RESORT	202	0	
					"	"	DIVI TAMARIN BEACH RESORT	210	0	
					"	"	DIVI VILLAGE (opening 1990)	116	0	
					"	"	DIVI VILLAGE LUXURY APTS.	97	0	
					THE BAHAMAS	HASSAU	DIVI BAHAMAS BEACH RESORT AND COUNTRY CLUB	250 30	0	
					"	"	"	30	0	
					BARBADOS	NEW PROVIDENCE	DIVI RESORT (opening 1991?)	200	0	
					"	ST. LAWRENCE	DIVI SOUTHWINDS RESORT	168	0	
					"	"	"	54	0	
					"	"	ST. JAMES	DIVI ST. JAMES BEACH RESORT	130	0
					"	"	"	DIVI HERITAGE	28	0
					BOHAIRE	KRALENDIJK	DIVI FLAMINGO BEACH RESORT	120	0	
					"	"	"	25	0	
CAYMAN ISLANDS	CAYMAN BRAC	DIVI TIARA BEACH RESORT	72	0						
"	"	"	120	0						
"	"	ST. KITTS-NEVIS	DIVI RESORT (opening 1991?)	200	0					
"	"	ST. MARTIN	DIVI LITTLE BAY RESORT	290	0					
"	"	US VIRGIN IS.	DIVI ST. CROIX BEACH RESORT	131	0					
"	"	"	"	30	0					
4.	CARNIVAL CRUISE LINES	USA	2	1565	THE BAHAMAS	CABLE BEACH	CABLE BEACH HOTEL & CASINO	693	0	
					"	"	CRYSTAL PALACE RESORT AND CASINO	872	0	
5.	HOTEL CORPORATION OF THE BAHAMAS	THE BAHAMAS	4	1322	THE BAHAMAS	CABLE BEACH	LE MERIDIEN ROYAL BAHAMIAN	170	0	
					"	"	WYNDHAM AMBASSADOR BEACH	400	0	
					GRAND BAHAMA	"	HOLIDAY INN - LUCAYA BEACH LUCAYA BEACH RESORT	505 247	0 0	
6.	SUPERCLUBS	JAMAICA	6	1170	JAMAICA	NEGRIL	HEMOSH II	280	LH	
						"	"	GRAND LIDO	200	LH
						"	"	COUPLES RESORT	152	0
						"	"	ROSCOBEL BEACH HOTEL	200	H
						RUNAWAY BAY	JAMAICA JAMAICA	238	LH	
						ST. LUCIA	CASTRIES	COUPLES	100	F
7.	JACK TAR HOTELS AND RESORTS (excluding Mexico)	USA	4	1042	THE BAHAMAS	GRAND BAHAMA	JACK TAR VILLAGE	424	H	
					DOM. REPUBLIC	PUERTO PLATA	JACK TAR VILLAGE	240	H	
					JAMAICA	MONTEGO BAY	JACK TAR VILLAGE	128	H	
					ST. KITTS	"	JACK TAR VILLAGE	250	H	
8.	SAVOY HOTELS AND RESORTS	USA	4	931	ANTIGUA	DEEP BAY	THE ROYAL ANTIGUAN	282	H	
					THE BAHAMAS	ELEPHERA	WINDING BAY BEACH RESORT	36	H	
					JAMAICA	OCHO RIOS	CLUB AMERICANA	350	H	
					"	"	EDEM II	263	H	
9.	SANDALS RESORTS	JAMAICA	5	907	JAMAICA	MONTEGO BAY	CARLIE ON THE BAY	50	0	
					"	"	SANDALS MONTEGO BAY	250	0	
					"	"	SANDALS ROYAL CARIBBEAN	170	0	
					NEGRIL	SANDALS NEGRIL	199	0		
					OCHO RIOS	SANDALS OCHO RIOS	238	0		
10.	CUMARO HOTELS AND RESORTS	UK	2	410	BARBADOS	BLACK ROCK	PARADISE VILLAGE RESORT	172	0	
					ST. LUCIA	LA TOC	CUMARO HOTEL LA TOC	246	0	



TABLE 9

**MEMBERS OF CTO**

ANGUILLA  
ANTIGUA AND BARBUDA  
ARUBA  
BAHAMAS  
BARBADOS  
BELIZE  
BONAIRE  
BRITISH VIRGIN ISLANDS  
CAYMAN ISLANDS  
CURACAO  
DOMINICA  
GRENADA  
GUADELOUPE  
GUYANA  
HAITI  
JAMAICA  
MARTINIQUE  
MONTSERRAT  
PUERTO RICO  
SABA  
ST. EUSTATIUS  
ST. KITTS AND NEVIS  
ST. LUCIA  
ST. VINCENT AND THE GRENADINES  
SURINAME  
TRINIDAD AND TOBAGO  
TURKS AND CAICOS ISLANDS  
U.S. VIRGIN ISLANDS

CARIBBEAN HOTEL ASSOCIATION (CHA)  
CARIBBEAN TOURISM ASSOCIATION (CTA)

Table 1

## Size of the world timeshare industry, end 1987

Region	Owners		Timeshare developments	
	Number ( '000)	%	Number	%
North America	850	63.0	1,400	66.4
Mexico	40	3.0	120	5.7
Europe	320	23.7	400	19.0
Japan/SE Asia	60	4.4	50	2.4
South Africa	40	3.0	50	2.4
Australasia	30	2.2	70	3.3
Other	10	0.7	20	0.9
<b>Total</b>	<b>1,350</b>	<b>100.0</b>	<b>2,110</b>	<b>100.0</b>

Sources: Resort Condominiums, International (RCI);  
Interval International (II).

Table 2

## Growth of world timeshare industry, 1980-87

	Number of owners ( '000)	Number of developments
1980	190	690
1981	310	970
1982	440	1,160
1983	500	1,260
1984	780	1,510
1985	960	1,720
1986	1,112	1,900
1987	1,350	2,100
Average annual growth rate 1980-87 (%)	32.5	17.5

Source: Timeshare Developers Association; RCI; II.

The main points to note from these figures are the dominance of North America and Europe so far in the timeshare business (together accounting for 87 per cent of owners and 85 per cent of developments in 1987) and the rapid growth in the industry worldwide in the 1980s. Though growth rates have slowed recently, this infant industry is still developing fast, at over 30 per cent per annum in terms of new owners in the period 1980-87 (though this rate slowed to around 18-20 per cent per annum after 1985). In the following sections, brief details are given of the characteristics of the regional markets.

### North America

The USA is by far the largest market area for timeshare with over 800,000 owners and around

CARIBBEAN TOURISM ORGANIZATION  
SURVEY OF MULTINATIONAL TOURISM CORPORATIONS OPERATING IN THE CARIBBEAN

NAME OF PROPERTY	COUNTRY	START UP DATE	ROOMS	Types of Involvement :- (Please tick)						PRESENT VALUE OF INVESTMENT SUS
				a) FULL OWNERSHIP	b) PART OWNERSHIP	c) LEASE	d) MANAGEMENT CONTRACT	e) FRANCHISE	f) OTHER (Please Specify)	
A. EXISTING PROPERTIES										
B. PLANNED (with dates)										