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Tourism funding by international financial institutions. A critical analysis

Abstract

International financial institutions finance the implementation of tourism projects with the aim of contributing to economic development in less developed countries, and in this way, achieving their goals of reducing poverty and improving the quality of life of their population. This research has a twofold objective: first, to identify the main features of these organizations and those aspects related to their channeling of financing into tourism development projects; and second, to obtain the opinion of a group of experts about these financing operations. It starts from the premise that these institutions are wrong regarding their management of tourism as far as its financing is concerned.

Keywords: international financial institution, tourism, economic development, development cooperation, financing.

JEL Classification: F35, L83, O19, Q01.

Introduction

International financial institutions (IFIs) seem to have assumed that tourism is a positive option for economic development, provided that minimum conditions regarding the potential of the tourism destination are met, and that the process suits its particular circumstances and situation. Thus, they have incorporated tourism among their main priorities. Based on this statement, the hypothesis behind this research is that tourism financing by IFIs presents serious weaknesses in accomplishing their goals of economic development and poverty reduction, and does not respond to a strategic approach for boosting tourism as a development tool.

The aim of this research is to evaluate the effectiveness of the actions of IFIs in financing tourism, based on the qualified opinion of a group of experts. This requires identifying the main features of the IFIs and those aspects related to their channeling of financing into tourism development projects, as well as ascertaining the opinion of a group of experts that will allow us to validate the proposed hypothesis.

The methodological approach that has guided the research has been structured in three phases: (1) a literature review; (2) identification, analysis and study of tourism-related projects funded by IFIs; (3) interviews with experts (see the survey in Appendix).

In summary, this research seeks to demonstrate the ineffectiveness of the policies of these organizations in achieving their objectives of economic development and poverty reduction through the financing of tourism.

1. Tourism as a development tool

Since the second half of the twentieth century, governments, politicians, institutions and international organizations, non-governmental organiza-

tions (NGO), experts and researchers have frequently focused on tourism, given that it has become one of the most important activities in the world economy, assuming its role as an effective tool for promoting economic growth and development.

According to historical data, this activity has become increasingly important, achieving spectacular figures in recent years. Proof of this can be found in the fact that tourism revenues have increased more than 400-fold since 1950, when 2,1 billion dollars were generated, reaching 919 billion dollars in 2010 (UNWTO, 2011). International arrivals also reflected this increasing importance of tourism in the world economy, starting from 25 million in 1950 to 980 million in 2011 (UNWTO, 2012). In addition, a recent long-term forecast, carried out by the UNWTO (2011b), establishes that in 2030, arrivals are expected to reach 1,8 billion. This figure shows the importance of tourism in the next decades.

Due to its volume and importance, many countries consider tourism as a good tool for carrying out an economic and social development strategy. It is not just a social phenomenon, but a powerful global economic activity. The main reason to consider tourism as a development strategy is based on its positive contribution to national or local economy.

The role of tourism as a development tool has been officially confirmed by the UNWTO in the Manila Declaration on World Tourism, which establishes that world tourism can contribute to a new economic order that will help to eliminate the growing gap between developed and developing countries, and to ensure that economic and social development and progress continue growing steadily, mainly in developing countries (UNWTO, 1980). Furthermore, the concept of tourism development was reinforced at the Earth Summit (Rio de Janeiro, 1992), when the signatories to the declaration formally adopted Agenda 21.

A World Bank study, through the ODI (Overseas Development Institute), identifies three main pathways through which tourism affects economic development (Ashley, De Brine, Lehr and Wilde, 2007): direct effects of tourism, which includes wages and benefits of those agents directly involved in the sector, such as workers or entrepreneurs; indirect effects that occur through the value chain; and finally, the dynamic effects that tourism generates in the economy and society in general. The extension of these effects will be affected by the conditions and the economic situation of the host country, the production factors offered in the region, the government policies, the kind of tourist and, of course, by the business practices of tourism companies.

But when carrying out a development strategy based on tourism, the opportunities that this sector offers must be taken into account, as well as the associated risks and threats, which can result in not achieving the set objectives (Pulido, Flores, Vargas-Machuca, 2008; Sharpley and Telfer, 2002). However, the way in which tourism activity is managed will influence its net effect on the economic development of the host countries.

Hawkins and Mann (2006) performed a chronological analysis of the literature, starting from the late 70's, when after a decade of advocating the economic value of tourism through the financing of development projects, Kadt, in 1979, published a paper that was followed by several theoretical studies, well documented and discussed by Shapley and Telfer (2002), which analyze the impacts of tourism on development. Among the most prominent is Britton's (1982) "dependency model", which states that tourism can increase inequalities between North and South. Clancy (1999) uses also dependency and modernization paradigms to clarify the contrast of economic theories that, during the 70's and 80's, led tourism economic policy. Britton (1982) highlights the degenerative nature of tourism due to its uncontrolled growth and/or the over-exploitation of natural resources.

Jafari (2001) identified four conceptual platforms to describe the progress of the works and the perspectives developed in recent years about tourism as a development tool, which have been appearing in chronological order, but never to replace the former ones: advocacy (the good of tourism), cautionary (the problem of tourism), adaptancy (how) and knowledge-based (why). Macbeth (2005) added two platforms: sustainability and ethics.

In this context, the economic literature definitely seems to have assumed that tourism is a positive option for economic development, provided that the

host country meets certain conditions, and the development process corresponds to a model adapted to its particular circumstances.

2. International financial institutions

The existence of international organizations and agreements is a legal manifestation of the relations generated by the globalization that characterizes economy, politics, trade, etc.

As previously discussed, tourism is seen as a tool for development, economic growth and poverty alleviation. This justifies why different agencies, entities, governments, NGOs, etc. finance, through various instruments, projects that seek to achieve these objectives through tourism, influencing in a direct or indirect way on the development of this activity.

The adoption of policies by developed countries in order to promote economic and social development in developing countries to respond to either economic, political, or ethical interests, has resulted in what has become known as the International System for Development Cooperation (SICD).

According to the actors involved in the channeling of development aid, Gonsebatt (2009) notes that international cooperation can take different forms: multilateral, bilateral, decentralized (governmental), nongovernmental and business-related.

"Multilateral" cooperation is provided by international organizations or institutions. The "bilateral" one takes place between two countries within the framework of an agreement between the parties.

"Decentralized" cooperation is carried out by public regional and local administrations. Apart from government cooperation, there are two types of "non-governmental" cooperation, which correspond to that conducted by non-profit social organizations, and "business" cooperation.

In principle, multilateral programs are better suited to solve the vast majority of the development problems than the bilateral ones, especially when they cannot be solved within the boundaries of a country and are rooted in processes that involve different states.

Development, as a priority objective to achieve an international peaceful coexistence, was incorporated in the Charter of the United Nations, which included a commitment to set in motion the international machinery to promote the economic and social improvement of all nations, resulting in the implementation of multilateral instruments (Dubois, 2009).

Therefore, multilateral entities activity is focused on global development finance, financial stability, fi-

financial cooperation and regional development. These aspects form a network that can influence, positively or negatively, the development of the economies (Enriquez, 2009).

The necessity of establishing international organizations for cooperation and development arises, especially, at the end of the World War II. In fact, it was at the Bretton Woods Conference (1944) when it was established that different international organizations and institutions should deal with global problems. The role of development finance was entrusted to the World Bank (WB), which represented one of the pillars of this new economic and political order (Calvo, 2000).

The World Bank is not a bank in the ordinary meaning of the term. This international organization is owned by its member countries, and is made up of two unique development institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). Its mission has evolved since the International Bank for Reconstruction and Development (IBRD) promoted the post-war reconstruction and development until the present. Now it focuses on achieving the Millennium Development Goals, which seek poverty alleviation and the achievement of sustainable development, for which financing, consultancy and information activities are carried

out. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are affiliated with the World Bank Group to coordinate and complement their activities with the other institutions of the WB.

The evolution and dynamism of the international economy and the countries led to the emergence of new regional or sub-regional organizations, with specific functions. In this sense, the Regional Development Banks, among others, arose. They are non-profit institutions, with structure and functions similar to those of the BM, but on a regional basis. The first was the Interamerican Development Bank (IDB) (Latin America and the Caribbean), and later, it was followed by the African Development Bank (AfDB) (Africa), the Asian Development Bank (AsDB) (Asia Pacific) and the European Bank for Reconstruction and Development (EBRD) democratic countries of Europe and Central Asia (Calvo, 2000).

It also includes the analysis of the Organization of American States (OAS), which arises under the United Nations to achieve common goals of development and poverty reduction. This institution does not share the same legal form as the previous ones, because it is a regional organization that aims to be a political forum, which finances development projects through a variety of funds.

Table 1. Main characteristics of the international financial institutions

	Year and headquarters	No. members	Mission and objectives	Activities	Financial instruments
WB*	1944 Washington	186	Reduce poverty and support development	Financing Technical assistance	Loans for investment projects and development policies Grants
IFC*	1956 Washington	182	Reduce global poverty and improve quality of life, encouraging private investment	Financing Technical assistance and consultancy	Loans Capital investments Guarantees and risk management
MIGA*	1988 Washington	175	Support economic growth, reduce poverty, and improve people's lives	Financing Technical assistance Research	Guarantees against political and non-commercial risks
IDB	1959 Washington	48	Sustainable development and reducing poverty and inequality	Financing Technical assistance Research	Loans Equity investments Grants Guarantees
AfDB	1964 Abidjan	53	Promote sustainable economic growth and reduce poverty	Financing Technical assistance	Loans Equity investments Subsidies Guarantees and risk management
AsDB	1966 Metro Manila	67	Economic development, poverty eradication and regional cooperation	Financing Technical assistance and consultancy Research	Loans Equity investments Grants Guarantees
EBRD	1990 London	61 + EU + EIB	Promote the transition to market economies and private initiative	Financing Technical assistance Consultancy to the public sector	Loans, credits and leasing Equity investments Guarantees
OAS	1948 Washington	35	Strengthen peace and security, democracy, promoting human rights and sustainable development	Financing (FEMCIDI) Political dialogue and cooperation Monitoring Legal heritage	Grants

Source: The author, based on WB (2012), IFC (2012), MIGA (2010 y 2012), IDB (2012), AfDB (2010 and 2012), AsDB (2012), EBRD (2011) and OAS (2012).

Notes: * Organizations affiliated with the World Bank Group.

Table 1 summarizes the basic characteristics of the IFIs studied, with the purpose of knowing their main features, their activities and the financial instruments used for financing development.

The objectives of the international financial institutions have evolved over time. Since the early eighties they have expanded their goals, gradually assuming commitments related to solving balance of payments problems and expediting the transfer of resources (Calvo, 2001). In the nineties, new problems arose that led to the emergence of new priorities: supporting the private sector, the environment, fighting poverty and disease, and reducing economic imbalances. In the twenty-first century, issues such as regional integration, gender equality, empowerment of women, and post-conflict support to those considered “fragile states” have become part of the objectives of the international financial institutions. It is noteworthy that the successive crises of recent years (food, fuel and financial) have dramatically affected developing countries, and IFIs are exploring new ways to create social protection nets in these nations through a strategy of response to crises.

Tourism is one of the activities that the IFIs foster in order to achieve their objectives. It is considered a tool with great economic potential, which has been greatly expanded since the middle of last century. This activity has encouraged the participation of developing countries in the global marketplace, and its development allows achieving the priorities that these agencies have been setting throughout their history. The IFIs are aware of this, so projects with direct or indirect influence on tourism development have been funded. In addition, they recognize the importance of supporting countries in the effective use of tourism as a tool sustainable development. It is, therefore, important to consider the role that the IFIs have played in the international financing of tourism, both quantitatively and qualitatively.

3. Tourism financing by international financial institutions: experts' opinion

After analyzing the IFIs, an overview of the main characteristics of these organizations and, above all, the type of operations they perform, can be obtained. But what is really important is the evaluation of the effectiveness of the IFIs in accomplishing their objectives through the financing of tourism, which is a very complex issue due to the difficult access to information on the results obtained from each of the projects funded, the heterogeneity of the criteria used to evaluate them, etc. Despite these difficulties, there is great interest in this issue and, as it is impossible to carry out an exhaustive quantitative analysis, the qualified opinion of a group of

experts has been taken into account to evaluate qualitatively the role of IFIs in the financing of tourism as a tool for economic development and poverty reduction, basing this assessment on the wide knowledge and experience of respondents.

Table 2. Questionnaire's fact sheet

Universe	National and international professionals and experts in international tourism financing ¹
Sample size	42
Degree of response	18 (42.86 %)
Fieldwork period	Start: December 17, 2010 End: March 2, 2011
Study type	Structured questionnaire sent by email and monitored individually

Source: The author.

The main features of the questionnaire are summarized in its fact sheet (Table 2). It is divided according to the following structure: (1) consideration of tourism by the IFIs; (2) forms and criteria for the allocation of tourism financing by the IFIs; (3) recipients of tourism financing from the IFIs; (4) geographic distribution of tourism financing from the IFIs; (5) conditions and financial instruments used by the IFIs in tourism financing; (6) determining factors of the IFIs' performance in tourism financing; (7) effectiveness in achieving IFIs' objectives through tourism financing. Before we conduct the survey, its logic and content were discussed with experts from UNWTO, OAS and IDB.

This section contains the main conclusions reached after a comparative analysis of the different IFIs, focusing on tourism financing, being these completed with the results obtained after consultation with experts.

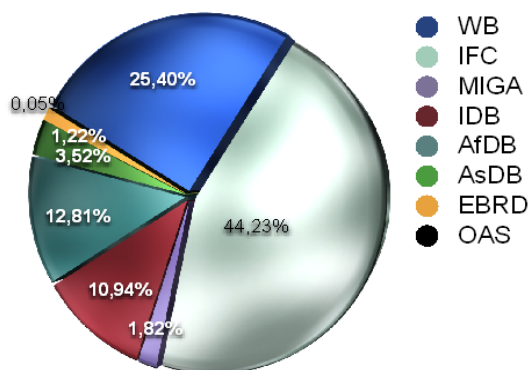
Most IFIs are institutions of financial nature. However, the OAS, which is the only exception, is defined as a political forum, though it has within its structure different departments that finance social and economic development projects.

All these organizations have a multilateral character. They are countries associations which join forces and organize themselves sharing a common goal. The only one that includes any other institution among its members is the EBRD, which, in addition to its member countries, includes the European Union (EU) and the European Investment Bank (EIB) as well.

Regarding their mission and objectives, they all agree to pursue the reduction of poverty, sustainable development, the improvement of the quality of life

¹ The selection was carried out taking into account the literature included in this work and the professional contacts of one of the co-authors of this research study. Different contacts made at the International Tourism Trade Fair (FITUR 2011), whose opinion was considered important to this research, were also included.

of the population, and regional integration of the areas in which they operate, with the exception of the EBRD, which promotes the transition to market economies and private initiative. They finance tourism, therefore, because they believe that its development generates opportunities and benefits for the economy, contributing, with the appropriate management, to the achievement of their objectives.



Source: WB (2012), IFC (2012), MIGA (2012), IDB (2012), AfDB (2012), AsDB (2012), EBRD (2012) and OAS (2012).

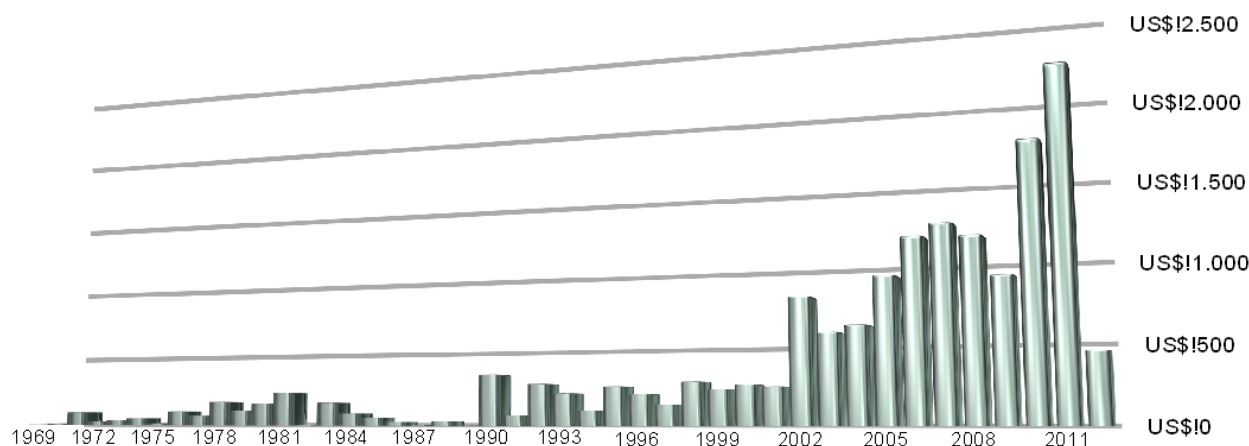
Fig. 1. Financing of tourism related projects, distribution by IFI

Since 1969, the IFIs have invested \$12.5 million in tourism. 71.45% of tourism financing has been granted by global IFIs, but it should be noted that, as

pioneers in the financing of this activity, they have been providing financial support to tourism for a longer period of time than other organizations. Among the regional IFIs, AfDB (12.81%) is the one which has invested the most in tourism, especially since 2005 (Figure 1).

According to the IFIs themselves, the actions they develop around the financing of tourism are headed in the same direction. However, in the opinion of the experts interviewed, in this sense, there isn't enough coordination between the IFIs, so they value this coordination with a score of 1.85 out of 5. A better coordination between them would generate benefits, which would contribute in turn to a higher and a better achievement of their goals.

Since 1956, when IFC began to focus on tourism financing projects to achieve its objectives, the quantitative evolution of this financing has changed over time. Figure 2 shows an increasing trend; however, a common general behavior cannot be established as it depends on when the organization was created, the existence of specific departments of tourism, its chances of obtaining funds, and even the influence of trends in the temporal distribution of capital. Global organizations have followed a constant rate, but the regional ones are characterized by their intermittent financing of this activity.



Source: WB (2012), IFC (2012), MIGA (2012), IDB (2012), AfDB (2012), AsDB (2012), EBRD (2012) and OAS (2012).
Note: Data in million dollars.

Fig. 2. IFI's investment in tourism related projects (1969-2011)

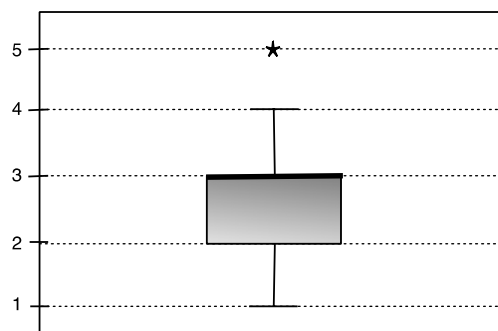
70% of the experts agree, either completely or partially, with the claim that the emergence of the concept of sustainable tourism in the 90's became a milestone in increasing tourism financing by IFIs, which is confirmed by the data shown in Figure 2. This behavior can be observed, especially, in the regional IFIs, which began to focus on tourism mainly in this decade. The current economic and financial crisis is reflected in the

amounts approved to finance tourism since 2007, whose growth has been much reduced in most organizations, leading to a stabilization of the amounts allocated to this sector. For some, such as IFC, AfDB and AsDB, 2009, 2010 and 2011 have allowed to recover the reduction of financing for tourism. This recovery trend seems to persist in 2012, according to the data handled so far, especially by global IFIs.

It should be noted that concerning tourism financing, some IFIs (WB, AfDB and AsDB) do not consider tourism as an independent sector in which to take action to achieve their objectives, but it does not mean that they do not take it into account, since they do invest in projects which implementation involves a direct and positive influence on tourism development, while corresponding to other sectors such as environment, infrastructure, transportation, etc., as they value it as an important tool to be considered.

The rest of the organizations support tourism as a specific sector in which to take action. Assuming the importance of tourism in the global economy and its benefits on the local economy, IFIs finance tourism development of those projects that allow them to carry out their strategy regarding this sector.

Figure 3 presents the experts' opinion about whether the IFIs consider tourism between the main sectors of activity, for which they have rated the importance that the IFIs give to tourism on a scale from 1 to 5.

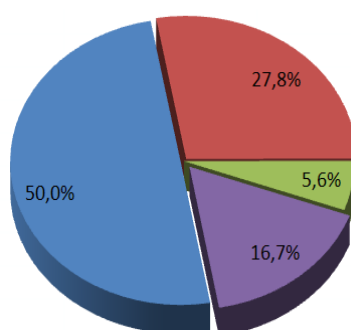


Source: The author.

Fig. 3. Consideration of tourism among the main sectors of activity of international financial organizations

The majority of experts (38.9%) take a neutral position, considering that tourism is neither taken into account as a major sector, nor as an ancillary activity. But, it should be underlined that 47% of respondents have given a value lower than 3 (mean of 2.53), which implies a general tendency to consider that tourism has little importance with respect to the main sectors of activity of the IFIs.

- Tourism is fundamental to the project in terms of investment and results
- Tourism is not the main focus of investment, but the project results are significant for tourism
- Tourism is an indirect beneficiary in the project
- Missing values



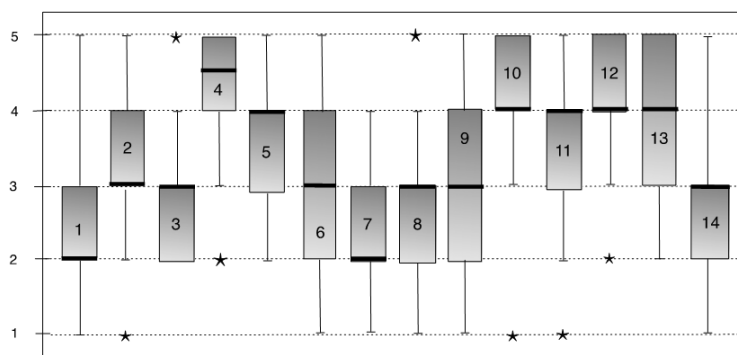
Source: The author.

Fig. 4. Role of tourism in projects and programs financed by IFIs

Tourism has been playing different roles in projects and programs financed by international financial institutions, which can be summarized into three main categories as shown in Figure 4 (Markandya, Taylor and Pedroso, 2003). The general opinion of the experts consulted indicates that tourism has a secondary role, considering 50% of them (Figure 4) that it is not the main focus of investment, although the results are significant for this sector. Only 17% considered that tourism is crucial, both in terms of investment and outcomes, for the project.

Financing projects that are framed within other sectors, different from tourism, exercises influence over

the development of this activity, which varies depending on the sector involved. The sectors that have been studied to determine the influence they have on tourism are (Figure 5): (1) industry; (2) trade; (3) agriculture, fishing and forestry; (4) transportation; (5) urban development; (6) social and human development; (7) law and administration; (8) institutional development; (9) energy, electricity and mining; (10) environment; (11) ICT; (12) infrastructure; (13) water sanitation and supply; (14) finance. Experts consider that the investments that exercise more influence over tourism are those made in transportation, infrastructure and environment, with a mode of 5.

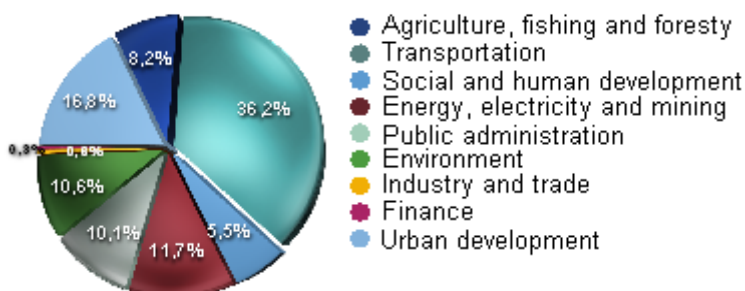


Source: The author.

Fig. 5. Degree of influence of investments in other sectors over tourism development

Figure 6 shows the real distribution of financing among sectors influencing tourism by those organizations that do not consider tourism within their main priorities (WB, AfDB and AsDB). The sectors that are most regularly financed by these organizations, which have an influence on tourism development, are: transportation (36.2%), focusing on improving land and air communication systems; and urban development (16.8%), which includes, in addition to the physical adaptation of cities and in-

frastructure improvement, works on water sanitation, which, according to the experts, have a great influence on tourism (mean and mode of 4). However, the environmental sector is not the most frequently financed by these agencies (10.6%), despite having a high influence on tourism development, according to experts; while it is true that, since the concept of sustainable development exists, the financed projects must meet minimum standards of environmental protection.

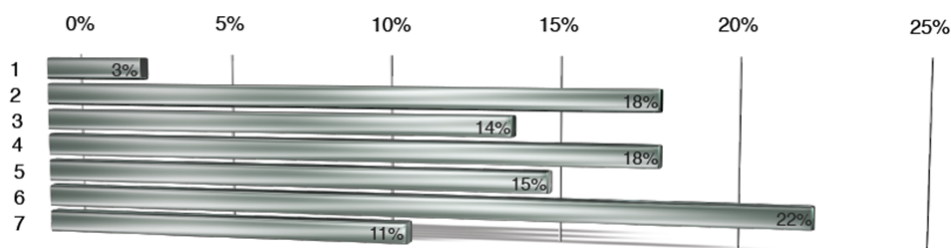


Source: WB (2012), AfDB (2012) and AsDB (2012).

Fig. 6. Distribution of financing between sectors with an influence on tourism

When allocating financing, each IFI establishes its project selection criteria, which must have a reasonable and fair costs and sharing of risks and rewards, and prospects of contributing to the local economy, being profitable and sustainable. Sometimes, the background, competence and suitability of the sponsors and project managers are also assessed. These conditions are linked to the strategy and policy performance of each IFI.

Figure 7 shows the experts' opinion about the criteria that should guide the process of allocation of financing for tourism development projects carried out by the IFIs. The criteria evaluated are: (1) lower cost to the borrower; (2) technical quality of the proposal; (3) stability and quality of the employment that it may create; (4) national resources used; (5) environmental quality; (6) technical, financial and economic viability; (7) others.



Source: The author.

Fig. 7. Criteria that should guide the process of allocation of financing for tourism development projects

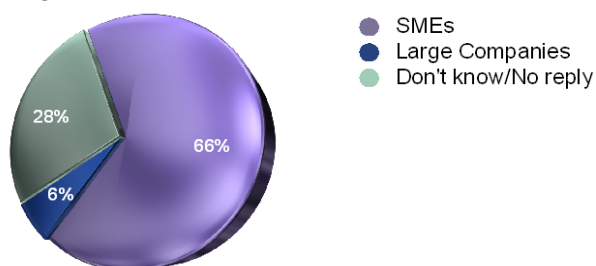
It can be observed that the technical, financial and economic viability (22%) is the criterion that the experts consider most appropriate, followed by the technical quality of the proposal and the national resources used (18%).

Public bidding is another way of providing finance for tourism development projects, which is used by the WB. In this case, the criterion most commonly used and recommended by the IFIs is choosing according to the most economical option (criterion endorsed by only 3% of the experts), though, occasionally, other criteria may be used. But the cost of the project is the choice criterion regarded as the least advisable by experts, as shown in Figure 7.

In addition, 72% said that public bidding itself is a good way of finance allocation, because they understand that a public and open system is better. They add that the public announcement stimulates the human and institutional development of those who apply for financing, although it is possible that small businesses in developing countries are not able to compete effectively, and have certain disadvantages with this form of allocation. The other 28% considered that this is not the most appropriate way of allocating financing for tourism projects, as it is important to know the recipient of the funds, although they highlight its validity as a mechanism of outsourcing.

The recipients of financing for tourism development projects are both public and private. Some IFIs are focused exclusively on supporting and encouraging private sector investment (IFC and MIGA), while others tend to provide more financing to the public sector.

Analyzing the behavior of the IFIs when financing tourism development projects of private companies, most experts agree that these are foreign multinationals. They also consider that large companies aim to achieve the profitability of the enterprise and/or project, but not the development of the area, and consequently, the main beneficiary is not the poor population. They emphasize that, as large companies benefit from the lower transaction costs, the probability of being allocated financing through public bidding can be high and the default risks are lower.



Source: The author.

Fig. 8. What kind of company should IFIs finance to achieve their objectives?

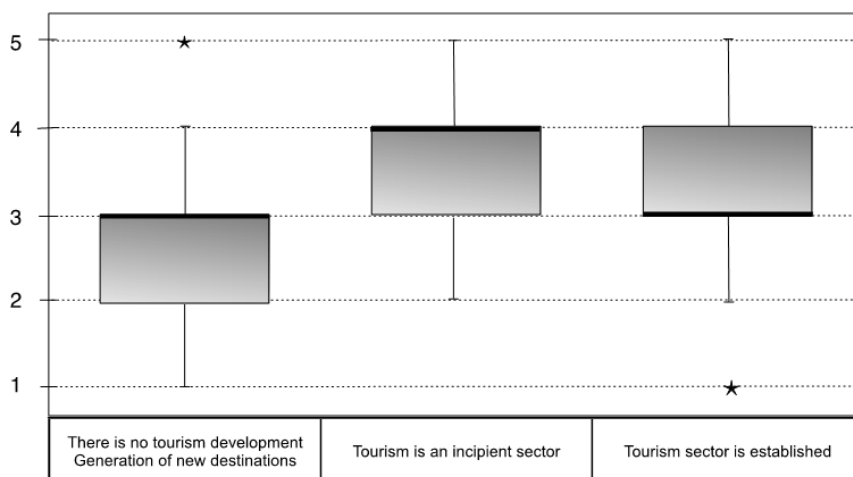
66% of surveyed experts (Figure 8) think that it is more appropriate that the IFIs provide more financing to tourism SMEs (local) rather than to large companies, as this will thus lead to greater achievement of their objectives. Only 6% consider that the recipients selected should be large companies. Those respondents who do not know or do not answer highlight that it depends on the project and the country being considered, as well as on the competitiveness of the company. In addition, in some occasions, it could be the case that SMEs and large companies need financing and work together.

The reasons, according to the surveyed experts, that may justify the fact that IFIs finance public or private institutions are diverse. They emphasize that financing for tourism projects managed by both sectors promote cultural and economic development and poverty reduction, provided that there is a good strategic approach. It is noteworthy that, in answering to this question, the majority of experts show a tendency to prefer those projects that are carried out by public institutions, as long as there is a good level of quality in governance and there is no corruption.

Financing tourism projects implemented by the private sector is justified, according to the experts surveyed, when certain professionalism, specific technical capacity, or technological innovations that the public sector lacks are needed. Furthermore, bureaucracy, administrative restrictions, and even the risk of corruption are reduced, because there is no political influence in the decision-making process, provided that the private recipients offer sufficient guarantees, work in coordination with the state, and fulfill some of the criteria listed in Figure 7.

The benefits generated by tourism on the territory attract the attention of the public sector. The public sector has in its favor an extensive knowledge of the region, its ability to offer guarantees and maintain social commitment. The experts surveyed recommend financing tourism projects implemented by public institutions based on the improvement of infrastructure, related to policies and regulations that allow the creation of the preconditions necessary to encourage private investment, and to work within the framework of credit agreements and international collaboration.

The geographic location of the projects financed by IFIs is very important, given that it can influence the achievement of their goals. Not only is it important to have a good knowledge of the political, environmental, geographic, economic and social conditions of the region, but also of the level of tourism development of the area.



Source: The author.

Fig. 9. Adequacy, for the achievement of the IFIs’ goals, of the investment in tourism development projects according to the different degree of development of this sector within the territories

Figure 9 shows the experts’ opinion regarding the adequacy of the investment in tourism development projects according to the different degree of development of this sector within the territories. The most valued option is financing projects in areas where tourism is an incipient sector (with a median and mode of 4, reaching a maximum of 5), followed by investing in places where the sector is fully established (mean of 3.22 and mode of 4). Emerging tourist destinations need a strong financial support, on condition that the development is approached in a systematic way with appropriate strategies or plans, trying to strengthen ties with local economy.

By investing in established tourist destinations, other international goals that go beyond the reduction of poverty arise. This option is advisable to improve

the situation of the sector and enhance the practices used, which allow creating solutions for the tourism industry in general.

Those who support the option of financing tourism in places where there is no development of this sector (being this the least valued option) added the need for the existence of some tourism development potential, since they do not consider appropriate to create tourist destinations in the middle of nowhere.

The geographical distribution (Table 3), in the case of regional organizations, is clearly defined in their regulations. However, within the region in which they operate, generally, they focus on developing countries where there is a tourism potential that can be enhanced.

Table 3. Distribution of the financing aimed at tourism-related projects (by IFI and region)

	Sub-Saharan Africa	Middle East and North Africa	Latin America and the Caribbean	Asia and Pacific	Central Asia and Europe	Global	Total
WB	758.05	528.43	445.75	510.8	1,115.46		3,358.49
IFC	591.85	1,686.3	1,698.22	827.03	400.49	54.30	5,258.19
MIGA	14.28	27.8	236.77		2.5		281.35
IDB			1,162.11				1,162.11
AfDB	706.70	944.15					1,650.85
AsDB				500.09			500.09
EBRD					271.3		271.30
OAS			7.18				7.18
Total	2,070.88	3,186.68	3,550.03	1,837.92	1,789.75	54.30	12,489.56
%	16.58	25.51	28.42	14.72	14.33	0.43	100.00

Source: WB (2012), IFC (2012), MIGA (2012), IDB (2012), AfDB (2012), AsDB (2012), EBRD (2012) and OAS (2012).

Note: Data in million dollars.

The members of the World Bank Group invest in tourism development projects worldwide. Yet, the WB has concentrated on Central Asia and Europe, and Africa. They have financed tourism in countries where this sector was incipient or already established, avoiding investing for the development of new destinations. The

financing allocated by the IFC and MIGA for tourism development projects has been distributed geographically in a more homogenous way. Notwithstanding that, Latin America and the Caribbean region has received most of the financing, being this allocated to areas with an established or growing tourism industry.

The different criteria of the IFIs for the allocation of financing for projects in certain areas and not in others, is mainly based on their regulations and/or on the contribution of these projects to the achievement of their objectives. But, 83% of surveyed experts believe that there are other reasons different from those specified. Respondents believe that IFIs can be influenced by political views and/or economic or strategic interests. Occasionally, particular issues of these organizations, or their relationship with certain countries, explain this kind of behavior. Furthermore, the fight against climate change is also considered by some respondents as an additional reason that leads IFIs to allocate funds to certain areas and projects. But they do not forget that the geographic distribution of the funds depends also on the capacity and funds restrictions, the institutional capacity, and the preconditions of the potential recipients.

Having analyzed the form of allocation, recipients and geographical distribution of tourism financing, it is important to determine what kind of tourism development projects are financed, through which instruments, and the origin of the funds used.

Financing sources are diverse and change according to the organization. Bond issues in international capital markets, and subscriptions and periodical contributions paid by member countries supply most of the funds. Their high credit rating (AAA and/or AA+) allows them to collect funds at highly profitable rates. In addition, some agencies have their own capital reserves, and sometimes they also obtain resources from co-financing and private investments channeled directly to the projects.

IFIs use these funds to finance different kinds of projects with impact on tourism. The type of program financed, both the quantity and the object, will depend on the organization being considered.

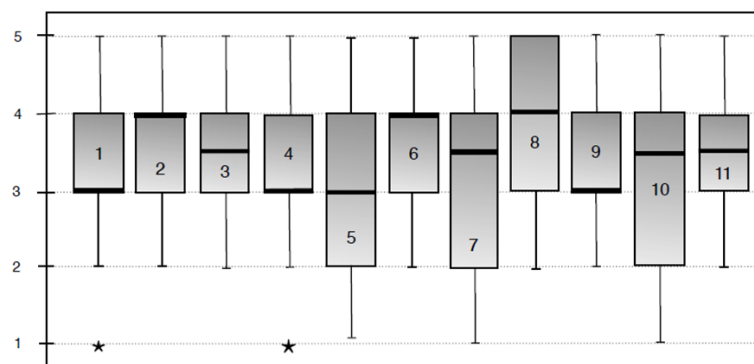
Quantitatively, mainly high-cost projects have been financed (between \$1 million and \$300 million), which have been implemented by public organizations, and economically and financially solvent com-

panies, and are centered primarily on the hospitality industry. Other organizations (AsDB and AfDB), however, have financed large amounts per project that have been focused on improving the infrastructure and the physical adaptation of the tourist destination, institutional adjustment, regional cooperation and the improvement of the tourism capacity of the area.

OAS and IDB have financed smaller projects, in economic terms (from \$15,000 to \$1 million). The main characteristic of these projects is that they are focused on the development of different forms of sustainable tourism, building small hotels, the improvement of the tourism strategy or human resource training.

Therefore, tourism projects financed by IFIs are aimed at different types of actions and are oriented towards different tourism sub-sectors. Respondents were asked to rate the efficiency of a number of actions in achieving objectives of poverty reduction and economic development (Figure 10), giving scores from 1 to 5 (from inefficient to very efficient). The actions evaluated have been: (1) hotel and accommodation; (2) infrastructure and destination physical adaptation; (3) tourist institutional adjustment; (4) regional cooperation; (5) improving the tourist carrying capacity of the area; (6) sustainable tourism; (7) tutoring; (8) human resource education and training; (9) governance; (10) strategic planning; (11) marketing.

The actions regarded as more efficient are those carried out in education and training of human resources (with mean of 4 and mode of 5) and those performed to improve sustainability and infrastructure, and destination physical adaptation (both with a mean of 4). The average rate of all actions is above the neutral position (3), although in the cases of tourist carrying capacity, tutoring and strategic planning the results show some dispersion. It is worth mentioning that the actions carried out in hotels and other accommodation do not stand out for the positive result of their assessment, with mode and mean of 3, which contrasts with the importance that IFIs attach to these actions in the tourism development projects which they finance.



Source: The author.

Fig. 10. Efficiency of the IFIs' actions carried out within the tourism sector to achieve their development objectives

The funds are employed in different kinds of tourism projects through diverse financial instruments, not too complex. In order to simplify, we find four types of financing: loans, investments, grants and guarantees.

Table 4. Financial instruments used for tourism financing

	Loans and reimbursable financing	Equity investments	Grants and non-reimbursable financing	Guarantees	Total
WB	3,200.05		158.84		3,358.89
IFC	4,968.56	289.63			5,258.19
MIGA				281.35	281.35
IDB	1,096.80	10.00	55.31		1,162.11
AfDB	1,650.85				1,650.85
AsDB	464.84		35.25		500.09
EBRD	271.30				271.30
OAS			7.18		7.18
Total	11,652.40	299.63	256.58	281.35	12,489.96
%	93.29	2.40	2.05	2.25	100.00

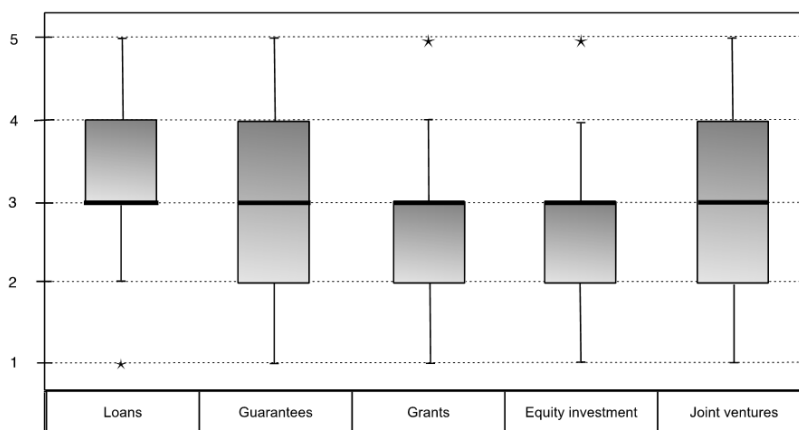
Source: WB (2012), IFC (2012), MIGA (2012), IDB (2012), AfDB (2012), AsDB (2012), EBRD (2012) and OAS (2012).
 Note: Data in million dollars.

Table 4 shows the distribution of the IFIs' financing allocated to tourism related projects, according to the instrument used.

As it can be observed (Table 4), loans, in their various forms, are the most commonly used. The vast majority (93.29%) of the funds used to finance tourism have been transferred through this financial instrument. The conditions differ according to the agency concerned. Different types of loans such as co-financing, convertible, subordinated or senior loans, etc., have been included within this category. The rest of the financing is allocated almost equally through non-reimbursable financing, guarantees and equity investments.

This is the general classification in which the different financing instruments used by agencies can be framed. But each IFI has a wide range of products adapted to the financial needs that they can satisfy, and to the variety of development projects that they can finance.

Figure 11 shows the assessment, made by the experts surveyed, of the various financial instruments used by the IFIs to finance tourism. Experts have not opted for one specific instrument. All of them have received a score between 1 and 5, which reflects some dispersion and disagreement in the responses.



Source: The author.

Fig. 11. Adequacy of financial instruments used by the IFIs to finance tourism development projects

Furthermore, the means and modes average is 3, reflecting the neutral position of the experts, who do not opt for any instrument in particular and indicate that all depends on the kind of project and the region considered. They note that, for large investments, venture capital could be the most useful, but if they try to intensify SMEs access to financial services, a combination of instruments would be required.

According to experts, the use of loans is the best financial tool. Thus, it receives the highest average rating (3.22), being the most of the scores between 3 and 4.

As a general rule, IFIs provide financing to tourism in better conditions than those offered by the general market, such as lower interest rates, grace periods, longer maturity, etc., but sometimes they do it under the general market conditions.

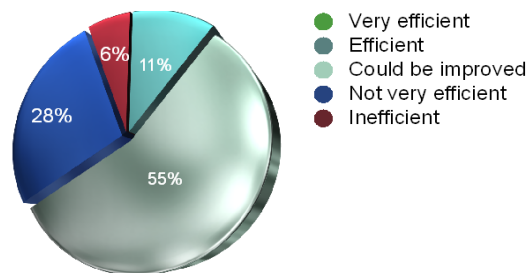
The most advantageous financial condition, according to respondents, for the development of tourism projects in developing countries is the provision of low interest rates (38.9%) and grace periods (33.3%), followed by risks coverage. Although they point at the usefulness of all of them, long-term financing and the possibility of getting loan renewal (5.6%) have been less outstanding.

Sometimes, IFIs provide financing to tourism projects under general market conditions. Experts argue that the main reason is the investment risk, because they do not convey the necessary trust and there is a possibility of no recovery. Tourism is perceived as a risky sector because of the low level of access to strategic and short-term information about the financial performance of the sector, becoming this sector unknown and, therefore, a risky.

Another reason why projects are financed at market prices, rather than at more advantageous rates, may have to do with the financing institution policies, market trends or the economic history of the country.

Also, when financing is directed to multinationals or developed countries, IFIs maintain general market conditions in order to make profits, and thus increase funds available for other investments, or to avoid unfair competition. This could be also due to the fact that the market does not work properly and, therefore, more advantageous loans are not available.

Finally, to have an overview about the efficiency and the results obtained by the IFIs in their mission of financing tourism development projects, a number of questions were made to the experts surveyed that lead to the following deductions in this sense.



Source: The author.

Fig. 12. Assessment of IFIs' performance in achieving its objectives

When assessing the results obtained by the IFIs in achieving their goals of sustainable development and poverty reduction (Figure 12), most experts (55%) agree that their performance could be better, and 28% have pointed out that IFIs have been inefficient. It is necessary to emphasize the fact that none of the respondents considers it very efficient.

Furthermore, 44% of respondents consider the possibility that the real problem is that IFIs lack the necessary training and knowledge about the potential of the mechanisms of tourism to generate employment and reduce poverty, leaving them unable to have adequate criteria to analyze the finance allocated, and therefore, to meet their goals. Some respondents indicate that although IFIs may know these mechanisms, for various reasons, they do not apply them.

The more information an organization has on tourism, the better decisions it will make, which will generate known and unchanging results. Thus, ignoring the potential of tourism can lead to inappropriate decisions about financing.

Table 5. Aspects for improvement in the financing of tourism development projects by IFIs

Organizations	Financing and projects
<ul style="list-style-type: none"> ◆ Synergy between agencies and the public and private sectors. ◆ Working closely with tourism schools, the UNWTO and the United Nations Program for Development. ◆ More active participation of the private sector, through advisory groups. ◆ Independence of the political group. ◆ Replacement of the charges that have been/are related to contracting with transnational companies of the sector. ◆ Increased role of social organizations in their advisory bodies. ◆ Elimination of the neoliberal paradigm. ◆ Human capital trained in tourism. 	<ul style="list-style-type: none"> ◆ Financing linked to compensations. ◆ More flexible programs managed by experts, working in the field and have been trained in tourism. ◆ Evaluating projects, during and after their implementation. ◆ Monitoring projects since their inception. ◆ More flexible proposals. ◆ More realistic projects. ◆ Strengthening specific lines of financing. ◆ Financing linked to specific objectives. ◆ Alignment with the national priorities of the destination. ◆ Wider publication of objective assessments and systematization of good practices. ◆ Projects of longer duration to consolidate projects. ◆ Raising awareness among Tourism Foreign Investors. ◆ Experts staying more time at the destination.
Tourism sector	Tourist destinations
<ul style="list-style-type: none"> ◆ Do not underestimate tourism economy and its ability to generate wealth. ◆ More work on "pro-poor tourism". ◆ Better knowledge of the tourism activity, to give appropriate responses to possible financing. ◆ Improved theoretical conceptualization of the processes triggering direct and indirect impacts and the critical factors that make tourism a powerful force for poverty reduction. 	<ul style="list-style-type: none"> ◆ Being aware of the social problems of the area. ◆ Choosing good leaders. ◆ A fair system that goes in the same direction as the financing, so that destinations are not trapped by high debt and forced to implement policies that may be detrimental to the destination. ◆ Involving local communities in project implementation.

Source: The author.

After the assessment of the performance of the IFIs, it seemed interesting to determine those aspects to be improved on the work that is being done in tourism financing. It should be noted that the vast majority of respondents emphasize that it is necessary to improve the coordination among agencies and training. They also consider tourism as an influential economic activity for the sustainable development of a country, and highlight the need for evaluating projects before, during and after their implementation.

The following table (Table 5) summarizes those aspects identified by the experts surveyed that need to be improved by IFIs regarding the financing of tourism development projects, which affect four main areas: the organizations themselves, the financing they offer and the projects in which they invest, the importance given to tourism and the tourist destinations.

It is extremely necessary to know tourism in depth and not to underestimate its potential, which is essential. This can be achieved through continuous training in the sector, starting from a knowledge base.

Finally it could be said that if every IFI works in the same direction and under the same assumptions, a more efficient achievement of their goals will be allowed.

The financing and the financed projects must arise from a strategic planning process, both global and local. This will allow the full adequacy of the financing to the project, and of the latter to the region where it is implemented. This would lead to a real tourism development in the area, and therefore, to the achievement of the objectives of economic development and poverty reduction.

Conclusions

Once the research has been completed, the initial hypothesis has been validated. Indeed, it has been proven that IFIs incorporate tourism within their financing objectives, but with heterogeneity regarding its treatment. Besides, the second part of the hypothesis has also been confirmed. IFIs are channeling funds towards tourism focusing more intensely on the hotel sector, which does not reflect any strategic approach to boost tourism as a development tool.

The actions carried out in the hotel subsector are not exactly the most efficient in achieving the objectives of sustainable development and poverty reduction. It is more appropriate to finance the training of the human capital of this sector, which would lead to more and better knowledge of tourism by the workers, and better decision-making, leading to a higher efficiency in achieving objectives.

It is also important to finance projects that have a direct effect on the achievement of sustainable development and, besides, those that allow the improvement of the infrastructure and the adequacy of the destination for tourism development. In this sense, IFIs have financed important actions, this being the second group of projects, after the hoteliers, which have been financed to a greater extent.

The project location is also very important, thus, this research has highlighted the absence of a comprehensive strategic approach aimed at achieving sustainable development through tourism. IFIs allocate financing to tourism projects according to their internal regulations and the contribution of the projects to the achievement of their goals, on the basis of other reasons, which are not strictly technical (individual economic, political and geostrategic interests). The allocation systems generally employed lead to the financing of projects according to the specific demands of those who implement them, which further supports the fact that there is not a strategic planning prior to the promotion of a destination.

In addition, the majority of financed tourism projects are often implemented in destinations where tourism is an established sector, when it would be more interesting to invest in places where tourism is an emerging sector, as it will need more financial support. Moreover, financing projects located in areas where there is no tourism development allows them to diversify into tourism-dependent economies, but this requires the existence of some tourism potential for further development.

The financing granted is usually allocated to the governments of the recipient countries or to public institutions. In case that it is allocated to the private sector, most of the recipients are large multinational companies seeking the profitability of their company and/or project, so that the poor are not the main beneficiaries. Supporting local SMEs, which are those that have more financial needs and ensure direct benefit to local people, would be the best option to encourage the development of the area.

The financial instrument most commonly used for channeling this financing is the loan, in its many variants, followed by grants, but with a wide difference. Indeed, providing reimbursable financing under general market conditions is an instrument that enables the success of an economically and financially viable project.

The provision of guarantees is an invaluable tool for supporting the implementation of development projects, and the financial effort required of IFIs is not very high. Therefore, it should be an instrument more frequently used in the financing of tourism.

It can be stated, therefore, that financing and the projects financed must result from a both global and local strategic planning process, developed in different phases. This would improve the adequacy of the financing to the project and region where it is intended, and would also involve a real tourism development process in the area, achieving therefore the objectives of economic development and poverty reduction.

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Appendix. Survey to experts

1. Give a number between 1 (less importance) and 5 (more importance), to what extent the international financial organisms consider tourism among the main sectors of action to the achievement of the objectives.

1	2	3	4	5
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2. Mark the role you think tourism has in projects funded by the international financial institutions (single answer).
 - Tourism is essential for the project, both in terms of investment and the results.
 - Tourism is not the main focus of the investment, but the results of the project are relevant for tourism.
 - Tourism is a less important auxiliary beneficiary in the project.

3. Apart from tourism, international financing institutions finance projects, which are in these sectors. First, identify if you consider it is direct (D) or indirect (I) influence that investments have in the following sectors about the tourist development of the region where they take place. Secondly, value the intensity of this influence from 1 (no influence) to 5 (maximum influence)

Sectors	If you think the influence is direct (write a X)	If you think the influence is indirect (write a X)	Value (from 1 to 5)
Industry			
Tarde			
Agriculture, fishing and forestry			
Transport			
Urban development			
Health and social services			
Law and administration			
Institutional development			
Energy			
Environment			
Technologies of information and communication			
Infrastructure			
Reorganization and water supply			
Finances			
Others			

4. In the field of tourism, the projects funded by international financing institutions, are directed to different types of interventions. Value, according to your own experience, from 1 (the lowest) to 5 (the highest), the efficiency of the types of intervention enumerated below to the achievement of the objectives of the economic development and the reduction of poverty.

	1	2	3	4	5
Catering trade and hospitality					
Infrastructure and physical adaptation of the destination					
Tourist institutional adaptation					
Regional cooperation					
Improvement of the capacity of receiving tourism in the region					
Tourism sustainability					
Tutorization (technical service, advice and follow-up)					
Training of the human factor of the sector					
Governance					
Strategic planning					
Promotion and tourism marketing					

5. There are international financed institutions, which grant funding projects of tourism development through public tendering. In accordance with this procedure, they approve the project to finance, and then decide who develops it through a public and competitive call. Could you tell us your stance on the appropriateness of this form of lease? Do you consider adequate this form of award of this type of financing?

- Yes.
- No (indicate the reason).

6. Mark the criterion or criteria, which should govern award process of tourism development projects from such organisms (multiple answer)

- Lower cost to the borrower.
- Technical quality of the proposal.
- Stability and quality of employment that involves.
- National resources (physical and human) employed.
- Environmental quality
- Technical, economic and financial viability.
- Others: _____ .

7. The geographical distribution of tourist projects differs according to the international financial institutions, which finance them and also differ in time. Do you believe that there are other reasons that go beyond legislation and the

contribution of the project adopted to poverty reduction and improvement of the economic development of the benefit territories, to finance projects in certain areas and not others?

- No.
- Yes. What other reasons?

8. Identify up to five reasons that can justify international financial institutions to finance tourist projects carried out by public institutions.

9. Identify up to five reasons pointing to international financial institutions to finance tourist projects implemented by private entities.

10. When recipients of funding granted by an international financial institutions to tourist development projects are large companies. Do you think that ...? (multiple answer).

- They achieve greater development in the area than with small SMEs.
- They look for the profitability of the company and/or the project, but not the area's development.
- They are usually foreign multinationals.
- Give rise to capital flight.
- They are, generally, inclusive business that benefit the population of the tourist destination in an indirect way.
- Generate more stable and higher quality employment.
- Those who benefit most are the poorest.
- Others _____ .

Secondly, point if you consider more appropriate that for the achievement of its objectives, international financial institutions have to grant more funding to tourist SMEs or to large enterprises in the tourism sector.

- SMEs.
- Large enterprises.

11. Assess from 1 (completely disagree) to 5 (completely of agreement) the following statement: *“The main benefit that tourism SMEs obtain from investments in the sector by the international financial institutions, do indirectly, through the tourism value chain, due to that the main funding of these organizations goes to large private companies or public institutions”*.

1	2	3	4	5
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12. What do you think about the fact of international financial institutions invest in tourism development projects in territories where there is a development of this sector, therefore, committed to the generation of new destinations? Do you believe that this contributes to the achievement of its objectives? Assess from 1 (nothing appropriate) to 5 (very appropriate). Explain your answer.

1	2	3	4	5
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13. What do you think about the fact of international financial institutions invest in tourism development projects in territories where tourism is an emerging sector? Do you believe that this contributes to the achievement of its objectives? Assess from 1 (nothing appropriate) to 5 (very appropriate). Explain your answer.

1	2	3	4	5
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14. What do you think about the fact of international financial institutions invest in tourism development projects in territories where tourism is a fully seated sector? Do you believe that this contributes to the achievement of its objectives? Assess from 1 (nothing appropriate) to 5 (very appropriate). Explain your answer.

1	2	3	4	5
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15. Evaluate the following financial instruments as considered more or less appropriate for the financing of tourism development projects from international financial institutions. To this end, values from 1 (the least appropriate) to 5 (the most appropriate).

- Loans ____ .
- Guarantee _____ .
- Grants__ .
- Venture capital _____ .
- Joint ventures.
- Another: _____ .

16. At least identifies five reasons that explain why, sometimes, international financial institutions, rather than finance tourism development projects under more advantageous conditions than normal market, do so under market conditions.
17. In your opinion, what financial condition is more beneficial for the development of tourism projects in developing countries or least developed? (single answer).
- Grace period.
 - Low interest rate.
 - Possibility of renewal funding at maturity.
 - Long-term maturity.
 - Insured risks.

18. Assess from 1 (completely disagree) to 5 (completely of agreement) the following statement: *“The international financial institutions should provide more guarantees among the instruments employed in funding tourism projects, because they allow the execution of projects without any significant pay out from these organisms”.*

1	2	3	4	5
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19. Assess from 1 (completely uncoordinated) to 5 (completely coordinated) the degree of coordination between the different international financial institutions, which carry out its functions funding tourism, responding to a preset by this common-mode strategy.

1	2	3	4	5
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20. Identify up to five benefits that might have the coordination among the different international financial institutions, which fund tourism as an economic development path.

21. Identify up to five main causes which led to a cyclical and absolutely heterogeneous evolution in the time of the investments made by the different international financial institutions in funding tourism as a tool for economic development.

22. Assess from 1 (completely disagree) to 5 (completely of agreement) the following statement: *“The emergence of the concept *sustainable tourism* was a milestone in the increase of tourism funding from international financial institutions”.*

1	2	3	4	5
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23. Show your level of agreement or not (between 1 – completely disagree, and 5 – agree) with the following statement: *“One of the bigger problems is that international financial institutions don’t known in depth which are the mechanisms to generate employment and reduction of poverty through tourism, which prevents them from having sufficient criterion for analyzing the financing granted”.*

24. According to your own declaration of intentions, the international financial institutions finance tourism, the vast majority, to achieve sustainable development and poverty reduction in the less-developed and developing countries. In your opinion, according to the results obtained so far, would you rate the action of these organisms as: (single answer).

- Very efficient.
- Efficient.
- Could be improved.
- Little efficient.
- No efficient.

25. Point out five aspects that need to be improved of the work carried out by the international financial institutions in which tourism funding refers, for the achievement of its objectives.

THANK YOU FOR YOUR RESPONSE