



Investment promotion agencies – catalysts for tourism investment

Over the last decade, tourism, spurred by foreign direct investment, has evolved into a key economic driver for many destinations, promoting income growth and job creation in local economies. While global tourism has grown rapidly, there is tremendous future potential: international tourist arrivals worldwide are projected to increase about 70% between 2013 and 2030, reaching 1.8 billion.⁶³ Tourism currently accounts for nearly 9.5% of the worldwide GDP and is projected to increase to 10.3% by 2024.⁶⁴ The hospitality and tourism sectors have emerged as key value drivers and differentiators in a competitive economy, including in emerging economies, where growth has shifted away from goods and products toward services, with tourism and hospitality accounting for a significant portion.

Competitive destinations across the globe have recognized the value in tourism and developed new, or enhanced existing, destination management organizations (DMOs) to include investment promotion agencies (IPAs) or divisions. This is a strategic shift that aims to drive local and foreign investment into the destination to improve both the product offering and visitor experience. The most effective IPAs act as an “investment concierge” – entities that help foreign investors navigate local rules and regulations, traverse bureaucracy, access market data and research and assist with investment opportunity identification. Whether a hotel development, golf course or tourism infrastructure, the IPA takes a multi-dimensional view on the best channels for increasing tourism – matching the most suitable investors with tourism needs. For investors unfamiliar with specific destinations, IPAs effectively reduce due diligence costs, which broaden the pool of potential investors, while creating a competitive and transparent investment process.

DMOs and IPAs are generally organized as public entities, often as a division within the tourism or economic development ministry

or department. Recently, however, a more public-private trend has emerged – yielding more nimble organizations that use a business model similar to that of a private business, which is producing the most effective results. The public-private structure has proven to add technical investment expertise, efficiencies and flexibility to dealmaking, while reducing political whims in the process. This structure also enhances their ability to attract and retain highly qualified real estate and hospitality professionals with track records in finance, development and acquisitions.

Effective DMOs often include leadership, such as chief investment officers and investment managers, both supported by teams of analysts. By reducing uncertainty, and consequently spurring investment and development, these teams create the foundation for the rest of the DMO to promote and market the destination. The investment division of the DMO, the IPA, in addition to identifying potential investment trends and tourism investment opportunities, is responsible for developing and maintaining strong working relationships with current and prospective capital partners. Additional responsibilities

63. “Tourism highlights: 2014 edition,” UN World Tourism Organization, <http://mkt.unwto.org/publication/unwto-tourism-highlights-2014-edition>, accessed November 2014.

64. “Travel & Tourism Economic Impact 2014: World,” World Travel & Tourism Council, www.wttc.org/-/media/files/reports/economic%20impact%20research/regional%20reports/world2014.ashx, accessed November 2014.



include evaluating risk and return metrics for competing investment opportunities, coordinating with government entities to increase access to investment opportunities within the destination and developing and implementing the overall investment strategy to increase the attractiveness of the destination from an investment and tourism perspective.

The role of government as a partner is critical to the success of an IPA. Leading IPAs work with governments to draft incentive and concession legislation to induce capital investment. With the cooperation and support of public offices, IPAs have the ability to incentivize investors through a variety of channels. Government involvement – via debt, equity contributions or guarantees – serves as an indication of confidence in local investments and its commitment to the success of the tourism value chain, while reducing investor risk. Moreover, government-sponsored investment programs, such as commercial immigration (e.g., the US EB-5 program), are prime examples of aligned public and private interest with positive economic benefit. Currently, much-needed development is taking place on new hotels and mixed-use resort projects in the Caribbean using commercial immigration to attract investors. Profit repatriation benefits and residence work permits for key investors and development staff are among some of the incentives used. Governments with investment arms that can provide transparency and one-stop facilitation and that can deploy public capital have increased confidence among private investors, which in turn leads to economic development and job opportunities.

IPAs have recognized that reliable business intelligence and local data are crucial for attracting foreign investors. The most effective IPAs have the proper systems and people in place to collect qualitative and quantitative data needed for foreign direct investment. This data includes hotel performance metrics by chain segment, room supply pipeline, macroeconomic data, construction costs, zoning and permitting information and an overview of available investment opportunities. The data should be accessible and accurate to provide real added value for investors, with responsive IPA staff filling requests for it as needed.

Key performance indicators are essential for IPA teams tracking the effectiveness and success of the investment plan. IPAs measure their performance by assessing the changes in three key metrics, including international and domestic visitation, tourism expenditure and tourism sentiment over time. IPAs can benchmark their progress in other areas by setting strategic goals such as the amount of capital funds raised, investor sentiment, marketing promotions and tourism job creation.

For a destination, it is not enough to just show promise – to capitalize on the global expansion of hospitality and tourism markets and attract investors, well-structured IPAs have proven to be crucial. Thanks to their transparency and responsiveness, they have reduced hesitation in the capital markets and shown that tourism is an important economic differentiator.