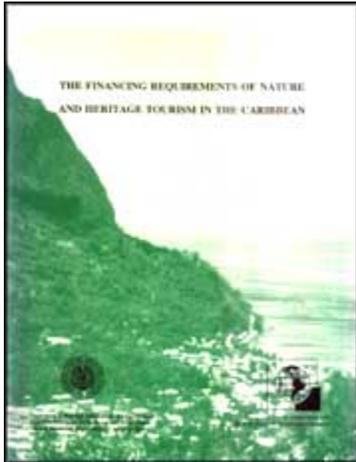


The Financing Requirements of Nature and Heritage Tourism in the Caribbean



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Department of Regional Development and Environment
Executive Secretariat for Economic and Social Affairs
General Secretariat, Organization of American States

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in collaboration with the Inter-American Investment Corporation

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PREFACE

The island nations of the Caribbean have long known about the income to be derived from tourism. Recently, they have become aware that they have not only tropical beaches to exploit but also natural, cultural, and historical attractions that are being visited by more and more tourists even before they are developed. When development does occur, if it is done with proper care and effective marketing, these sites can earn millions of tourist dollars for a Caribbean nation.

Sustainable tourism development requires that projects be financially independent and profitable. The profits should feed back into local economies. However, as national governments, site and service owners, borrowers, and lenders all recognize, there has been a lack of specific policies to guide the growth of nature and heritage tourism-and in particular, its financing. This is one of the areas singled out for consideration by the Caribbean Development Bank, which is coordinating efforts to examine the issues concerning tourism in the region in general. Since this kind of tourism has long been of interest to the Organization of American States, for its double potential of contributing to national economic development and to environmental protection, the OAS was happy to respond to a request to undertake this part of the overall study and commissioned the Inter-American Investment Corporation to collaborate. As the private-sector financing arm of the Inter-American Development Bank, the IIC provided valuable input from the perspective of entrepreneurs.

The best prospects for financing nature and heritage tourism in the Caribbean lie in arrangements for cooperation among international lending agencies, governments, and the private sector, including non-profit conservation organizations. With this study, the OAS and the IIC present practical recommendations and useful insights that may help to propel the development of this important new industry.

Kirk P. Rodgers
Director
Department of Regional Development
and Environment





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The study was carried out by Jorge Roldán, Senior Economist of the Inter-American Investment Corporation, under a memorandum of understanding between the Director of the OAS/DRDE and the General Manager of the IIC.

The IIC contracted David Simmons, a consultant in Barbados, who assisted in the field research. David Dacosta, Managing Director of the Caribbean Financial Services Corporation, and Philip James, Investment Officer of Business Advisory Services/Enterprise Development, Limited, provided inputs from the experience of their corporations. Juan A. Proaño, Senior Staff Engineer of the IIC, assisted in the study. Maridale Jackson, IIC Translation Officer, and Betty Robinson of the OAS edited the final document.





EXECUTIVE SUMMARY

This study was carried out to learn about practical measures that might facilitate the financing of nature and heritage tourism in the Caribbean, which is broadly defined as tourism centered on a natural attraction, a historic site, or cultural event.

Nature and heritage tourism is a significant and rapidly growing segment of the tourism industry, seeking to capture a portion of the enormous global tourism market by attracting visitors to natural and historic areas. Exact statistics on the size of the market do not exist, as there is still disagreement on how to define it. However, the following statistics are revealing:

- U.S. tour operator surveys show that special interest travel is booming; the most popular of these tours are nature-oriented, outdoor activities.
- Tour operators report that each year from 4 million to 6 million people travel from the U.S. overseas for nature-related trips.
- Approximately 30 million people in the U.S. either belong to an environmental organization or have demonstrated an active interest in environmental protection.
- Reputedly, there were 500 operators specializing in the ecotourism market in 1990, and all indications are that the number has continued to grow.
- A 1991 study by the U.S. National Tour Association found that 94% of the mature adult population in North America is concerned about the environment.

For many Caribbean nations, tourism has become the most important source of business opportunities, jobs, and foreign exchange as the economic significance of such traditional products as sugar, bananas, bauxite, and oil wanes. Greater disposable income in the hands of consumers of international services also has been a contributing factor. The tourism product of the Caribbean is usually characterized by its sunny climate and white sandy beaches. However, in most of the islands the most significant attractions are the mountains, breathtaking landscapes, lush green forests, dramatic coastlines, and historic buildings. All of this combines to make nature and heritage tourism a promising new area for the region to explore. The key aspects of the market for this kind of tourism in the Caribbean island countries include the following:

- The Caribbean has a mature tourism industry; the area is generally regarded as a tropical beach, leisure vacation destination.
- The Caribbean land area, made up of relatively small islands, is a fraction of that of Central or South America, so that wild areas and natural attractions are smaller and fewer. What is not smaller is the sea itself, or the extensive coastlines and beaches of the Caribbean island nations.

- The tropical climate and geography favor the development of nature tourism, even on a small scale, and notable botanic and zoological gardens created by planned investment are attracting increasing numbers of visitors.
- Belize, Guyana, Suriname, and islands like Dominica, the Dominican Republic, Puerto Rico, Trinidad, and Grenada have relatively significant wild areas remaining.

The Caribbean also is the site of centuries-old colonial forts and naval stations. Although slowly decaying in the heat and humidity of the tropics, they can, even in ruins, kindle the imagination of visitors, given thoughtful interpretation and appropriate visitor amenities.

For now, and in the foreseeable future, only in a few Caribbean destinations will nature/heritage tourism account for a major segment of the market. The bulk of Caribbean tourism will continue to focus on tropical beach leisure vacations, with nature/heritage tourism added on, to an ever-increasing degree, to provide balance, variety, and relevance to the tourist's stay.

Special Investment Needs of Nature/Heritage Tourism

Optimism concerning the marketability of the region's natural and historical heritage is fueled by a growing worldwide interest in ecotourism and the environment. However, before the countries of the region can benefit significantly from this demand for nature and heritage tourism, the sites and attractions that would draw this type of tourism must be developed and marketed.

The development of these attractions has not kept pace with the overall development of tourism. Most new investments in tourism are still in the area of hotel development and other infrastructure to satisfy the traditional markets. The reasons for this are many, ranging from the lack of financial viability of some projects to a lack of awareness of the viability of nature tourism itself.

Investment in nature and heritage tourism development differs somewhat from investment in resorts because the needs are different:

- Access construction may be more costly, as nature/heritage sites may be more remote.
- The maintenance of the flora and/or fauna - parks, forests, wilderness - is usually a significant cost, both capital and recurrent.
- A visitors' center is often needed, as are amenity facilities for day and overnight visitors to the nature attractions. This may entail bringing water, power, and other utilities to the site. The requirements in both cases may be quite different from those for traditional tourism.
- Unless the project is adjacent to a national park or other natural feature, a significant component of the financing may have to be earmarked for the acquisition of land.

The development of a natural area may require purchasing not only the land in the immediate vicinity, but also the surrounding area that makes up the "view-scape," and, in the case of a unique fauna site, the area that defines the habitat.

Procedures and channels for financing are less well established in the case of nature and/or heritage tourism than in the tropical beach, leisure vacation tourism, although the former is estimated to be growing much more rapidly, at least in several countries.

Matching Borrower and Lender Needs

Potential borrowers for nature/heritage development proposals have complained about the lack of adequate financing. Potential lenders complain about the dearth of viable project proposals seeking financing. The factors involved in these competing contentions include the following:

- Lenders unfamiliar with nature/heritage tourism projects;
- Maximum loan terms set by lenders that are generally too short to ensure project success;
- Project proposals that are poorly presented or that do not match the potential lender's requirements;
- Lack of successful models of nature/heritage tourism attractions in most destinations;
- Competition for financing from all other potential investments;
- The need for public infrastructure and for public sector involvement in operations, as steward of state lands, their natural resources, and historic national sites;
- The requirement in most countries for an environmental impact statement, which is an additional regulatory process involving additional cost to developers or assistance to them;
- The investors' perception of a lack of/or limits on fiscal incentives and government backing of investment in nature/heritage tourism;
- The status and general direction of the economy as a whole, and the investment climate;
- The decreasing support governments receive from international development agencies.

Nature and heritage tourism projects in the Caribbean have been managed by governments, the private sector, or nongovernmental organizations (NGO's). All three have been constrained in developing nature/heritage tourism projects: governments by lack of competitive managerial capacity; private developers by lack of capital, the absence of title or lease to the site, and the need for training in the preparation and presentation of feasibility studies; and NGO's by the lack of capital and public support.

Financial intermediaries have also been constrained by concerns about risk, unfamiliarity with the sector, and the exigencies of the money market.

However, each of these players has certain strengths or assets: Governments usually own the site, have access to bilateral and multilateral funding, and have the power to enact policy. NGOs have a declared interest in conservation and preservation, have memberships dedicated to the

cause, and have information and networks of knowledgeable contacts. The private sector has entrepreneurial drive of profit and possesses managerial skills.

RECOMMENDATIONS FOR IMPROVING ACCESS TO FINANCING

The following recommendations are based on the review of various nature and heritage attractions and interviews with government officials and Caribbean and international financial intermediaries:

General Recommendation:

A commission or coordinating vehicle should be formed to draw on the contributions that each of the players described here can make uniquely, coordinating specific projects. Or, as an alternative to a fixed body, the formation of ad hoc joint ventures for individual projects is recommended.

Recommendations for specific participants:

A. Governments should:

1. Create environments more conducive to the development of nature and heritage attractions
2. Incorporate general objectives for the development of nature and heritage tourism into their national development plans
3. Apply the “user fee” principle to the full extent the market will allow, with the goal of enabling government-managed nature/heritage attractions to pay for themselves, and permit privately managed attractions to be financially profitable
4. Improve access to credit, and streamline regulatory procedures
5. Negotiate the operational control and business management of nature/heritage sites in return for the investment of management and technical capacity, under lease or other written, formal agreement
6. Award licenses for the reproduction of artifacts
7. Mount public education campaigns on respecting nature and heritage attractions, explaining how to protect the attractions and share them with visitors
8. Keep statistics on visitors to nature/heritage sites
9. Promote nature/heritage tourism to their countries.

B. The financial and banking community should:

1. Extend grace and repayment periods
2. Send specialized teams to target countries to give workshops on developing nature/heritage attractions to local financial institutions and entrepreneurs
3. Encourage corporations and large asset-holding institutions to invest in nature/heritage tourism development projects

C. Borrowers should:

1. Contribute enough equity up front to assure potential lenders of their commitment to the project and their ability to repay the loan
2. Prepare a thorough financial feasibility study, including a detailed demand analysis and cost estimates
3. Link small development projects for nature/heritage attractions with larger projects (e.g., beach hotels) or other small nature/heritage tourism projects into a cluster project that will be big enough to the investment minimum of development financing institutions
4. Give greater attention to marketing, and consider allying themselves with tour operators for marketing nature/heritage attractions
5. Emphasize the environmental aspects of the project
6. Incorporate the neighboring community into the design, implementation and operation of the project.

D. International assistance agencies should:

1. Provide special lending facilities for the development of nature/heritage attractions.
2. Participate in a fund to provide grant money to prepare feasibility studies for nature/heritage attractions.
3. Give greater emphasis to the economic rather than the financial rate of return in evaluating these projects.
4. Provide technical assistance and training for the preparation and presentation of feasibility studies.
5. Maintain a roster of tourism planning professionals, architects, economists, environmental planners and marketing specialists experienced in developing nature/heritage attractions, so that proposers of projects can seek professional assistance.

Although nature and heritage tourism as a concept is relatively new to the Caribbean, some of the region's natural and historic sites, as well as cultural events, already attract thousands of foreign and local visitors.

The successes achieved in the development of nature and heritage tourism projects by some NGOs and private sector companies at commercial bank rates confirm the viability of some of these ventures.

The financial community and the governments of Caribbean nations should join these initiatives in order to promote growth in this promising area of economic activity.





I. INTRODUCTION

Optimism about the marketability of the natural environment and cultural heritage is fueled by a growing worldwide interest in these things. Many tourists flocking to the Caribbean are interested in more than a tropical beach.

At the same time, decreasing transportation costs are making travel more accessible to more people. Caribbean countries are seeking to broaden the appeal of their tourism products to draw a greater share of the market. Virtually every island of the Organization of Eastern Caribbean States has a list of natural or heritage attractions for potential tourism development.

Until recently, the need for financing nature and heritage tourism projects has been limited. Caribbean member countries of the OAS are now increasingly eager to tap the economic potential of this kind of tourism as a source of revenue for economic development while addressing preservation of the local environment, i.e., sustainable development.

The development of these attractions has not kept pace with overall tourism development. Most new investments in tourism are still in hotels and other infrastructure projects to satisfy the traditional market. Investment in nature tourism is paltry for many reasons, ranging from perceived project risk to a lack of awareness of its viability.

Participants in ecotourism conferences have repeatedly reported difficulty in obtaining financing for nature and heritage tourism ventures. These meetings include four annual Caribbean Conferences on Ecotourism and three annual Ecotourism Society Funding Policy Committee Meetings. Several studies also have alluded to the lack of support from the development and financing community. Consequently, the Department of Regional Development and Environment of the OAS General Secretariat responded to a request from the Caribbean Group for Cooperation in Economic Development and undertook a study of nature and heritage tourism in the Caribbean. The study is intended to contribute to a wider assessment of tourism being coordinated by the Caribbean Development Bank (CDB). The OAS has focused its efforts on nature and heritage tourism, in particular on a) how this tourism can contribute to enhancing and maintaining the natural resource base, and b) the special financing needs of this type of tourism.

To analyze the adequacy of current sources, costs, terms, and procedures and to recommend measures to facilitate financing, the OAS engaged the Inter-American Investment Corporation (IIC). The analysis is largely based on a review of the operation of nature and heritage support facilities and attractions. A tourism master plan for St. Kitts and Nevis and documents from a number of the smaller Caribbean countries were examined, and field research in Jamaica, Barbados, and Trinidad and Tobago was conducted. The study incorporates observations of the Caribbean Financial Services Corporation and the Business Advisory Services/Enterprise Development Limited. Jorge Roldán, IIC Senior Economist, conducted the study.

This report analyzes the characteristics of the financial support provided for nature and heritage tourism projects in the Caribbean, and assesses the adequacy of financing flows. The study revealed certain patterns among the types of attraction, institutional management, source of investment financing, and the financing of operations and maintenance. These are explained further and displayed in three charts.

Finally, given the potential for growth of this sector of the tourism industry, recommendations are made to facilitate financing to develop public and private sector nature and heritage tourism projects in the Caribbean. Some of the measures are directed toward governments, others toward private operators, and others toward nongovernmental organizations. These recommendations do not represent a definitive analysis, nor do they provide a comprehensive solution to the problem.





II. CHARACTERISTICS OF NATURE AND HERITAGE TOURISM FINANCING

[A. Economic Rationale for Nature and Heritage Tourism](#)

[B. Potential Markets for Nature and Heritage Tourism](#)

[C. Infrastructure Requirements for Nature and Heritage Tourism](#)

Tourism, the largest sector in world economies, brings badly needed foreign exchange. It is lauded for its role in diversifying the economy, bolstering employment, spreading benefits to rural areas, encouraging the rational use of marginal lands, and promoting infrastructure projects that serve other sectors. But the traditional tropical-beach, leisure-vacation tourism has been criticized for fomenting visitation to enjoy natural resources inadequately defended from pollution, erosion, or overuse. Nature and heritage tourism differs from these typical “sun-sea-sand” offerings. It draws tourists who are interested in helping to preserve the natural beauty of the sites they visit and who are less likely to do damage. It provides resources for the conservation of important areas and the economic benefit of surrounding communities. It can even enhance local cultural integrity, since it can make an area a focus for fostering local knowledge, skills, and lifestyles to perpetuate traditional values among indigenous people and to educate outsiders about their culture.

Several sites in the Caribbean islands have been singled out as outstanding natural attractions (e.g., Pitons and Sulphur Springs in Saint Lucia, Brimstone Hill Fortress in St. Kitts). Although they have not been developed and marketed as nature and heritage sites, they attract thousands of visitors and locals alike. Still, critics claim that some travel to natural areas has contributed to the destruction of trails, the build-up of algae in water supplies because of improper waste disposal, the disruption of wild life migrations, and the depletion of natural resources from hunting and plant collection. Thus, nature and heritage attractions should be planned for both visitation and conservation.

A planned approach to nature and heritage tourism carefully assesses the impacts and benefits before the development of a project begins. The [Tourism Master Plan for St Kitts and Nevis](#) (1993), prepared by the Organization of American States in collaboration with the Ministry of Trade, Industry, and Tourism of St. Kitts and Nevis, is a systematic analysis of the nature and heritage tourism potential. Recommendations included in the Plan provide the grounds for the development of a competitive and stable tourism-oriented economy.

A. Economic Rationale for Nature and Heritage Tourism

The value of the nature and heritage tourism market in developing countries is estimated to be in the range of US\$5 to \$10 billion a year.

Evidence suggests that the number of nature and heritage tourists is growing by around 20 percent per year. It is estimated that they account for approximately 7 percent of all international travel expenditures.

Conservation is enhanced when private-sector investors and host governments are convinced that there is an economic rationale for establishing protected areas. It has been estimated that in a national park in Kenya, each lion is worth US\$27,000 per year and each elephant herd US\$610,000 in terms of visitor revenues per year. Also, each hectare of the park is estimated to yield US\$40 per year, which is 50 times more than the net profits expected from the land were it used agriculturally¹.

¹Elizabeth Boo, *Ecotourism; Potentials and Pitfalls*, Washington, D.C., World Wildlife Fund and the Conservation Foundation, 1990.

The economic rewards of conventional and nature tourism are also subject to debate. Tourism can no longer be separated from other man-made disruptions of the environment, such as mining and deforestation. Nevertheless, *it is not tourism, but poorly planned tourism, that can be blamed for negative effects*. Properly planned and administered nature and heritage tourism may make it possible to manage the tourism flow in order to maximize the benefits and limit the negative impacts.

B. Potential Markets for Nature and Heritage Tourism

While there are no exact statistics to indicate the size of the market or the numbers or expenditures of nature-based tourists, because of the lingering disagreement regarding the definition of the market, preliminary indications as to the size of the U.S. market can be made:

- Studies of U.S. tour operators and international tourists show that special-interest travel is booming and that the most popular special-interest tours are nature-oriented outdoor activities.
- Tour operators report that four to six million people from the United States travel overseas for nature-related trips each year.
- An environmental journal, Buzzworm, estimated in 1989 that more than three million people would pay several thousand dollars apiece in search of an exotic natural and cultural adventure. It has also been estimated that approximately seven million tourists are willing to pay between US\$2,000 and US\$3,000 for a nature-related tour.

- Approximately thirty million people in the United States either belong to an environmental organization or have demonstrated an active interest in environmental protection.
- A 1991 study of older adults conducted by the U.S. National Tour Association found that 94 percent of the population of North America over 50 years of age is concerned about the environment. Sixty percent would be more likely to take an escorted tour if it were environmentally safe, and one in three would pay an additional charge for such a tour. Among all the survey participants, escorted travelers were the most interested in environmentally safe tours (68 percent) and were willing to pay more for those tours (41 percent).

The specialized travel industry serving the ecotourism market is growing. Reportedly, there were 500 operators in 1990 (although this may be exaggerated; some operators may *claim* to be environmentally conscious because of the market's growing popularity).

Although the industry was expected to grow between 20 and 25 percent in the 1990s, several major nature tourism operators reported a decrease in bookings in 1993, citing general economic malaise as the reason for the drop. There has been some consolidation of the specialized travel industry, evidenced by several mergers and bankruptcies. Whether the ecotourism segment of the travel industry is recession-resilient is still to be determined.

C. Infrastructure Requirements for Nature and Heritage Tourism

The investment needs for nature and heritage tourism development differ from those of traditional tourism hotel development. There may be a greater need to improve access to the attraction site or facility, and for a mode of development that does not interfere with sensitive habitats or historic areas.

From the standpoint of financing, nature and heritage tourism projects also have very different needs. The development or, more often, the maintenance of the flora, fauna and other elements of purely biophysical environments such as nature (marine or terrestrial) parks, wildlife sanctuaries, or wetlands must be financed, as must physical structures to be used by day or stayover visitors. Nature tourism projects usually require the acquisition of more land than do other tourism projects - not only the immediate vicinity, but the surrounding area that makes up the "view scape" and, in the case of a unique fauna site, the area that defines the habitat. Unless the project is located on the border of a national park or other natural feature, land acquisition will be a significant component of the project's financing.

Heritage tourism projects usually consist of the restoration or conservation of man-made structures such as military forts or historic houses; cultural projects introduce the visitor to indigenous ways of life or special celebrations. Historic structures are often owned by national governments; restoring them can require significant investment. Where the government can entrust such projects to an NGO or entrepreneur, while overseeing the work, the interests of both parties can be balanced.

In addition to access, water supply, lodging, food services, and public restrooms, nature and heritage sites typically require distinctive visitor facilities. These can also be costly. Even though lodgings can be on a much smaller scale and less luxurious than traditional developments, since such attractions usually appeal to small parties or excursion groups, the lower cost of construction may be outweighed by the cost of more environmentally friendly power and sanitary equipment, building materials and techniques (plus the cost of transporting them to remote June 8, 1995 locations), and the premium paid for lower economies of scale.

While tourism attractions in national parks or in wilderness areas might not require the same level of infrastructure as a resort development, there is an irreducible amount.

For example, access to some remote jungle lodges may only be possible by plane, which would require some form of airport, terminal, navigational equipment, etc. The infrastructure required may lack supplementary justification from neighboring industrial or government welfare activities.

Caribbean governments may also need to evaluate their health-care offerings and disaster mitigation techniques: older tourists might avoid areas without sufficient medical care, and in the same vein, a single severe hurricane, volcano, or earthquake that endangers tourists' lives is very bad advertising.

As tourist traffic increases, the requirements for infrastructure directly related to tourism development also increase. Investment in infrastructure can take different forms. These may include:

- Integrated resort complexes, where the internal infrastructure - roads, water supply, sewage, drainage, electric power distribution, telecommunications, beach development, etc. - is built according to a master plan and connected where necessary with the general infrastructure of the region.
- Tourism zones, where the upgrading of the local infrastructure is regarded as a prerequisite for the private sector to invest in tourism projects.

Even without tourism, many areas are in need of investment in roads, ports, airports, electricity, water supply, sewage, telecommunications, and other services. The additional investment costs necessitated by the advent of the visitor trade must be identified, and it is important to ensure that implementation is done in a coordinated fashion.





III. TYPES OF MANAGEMENT FOR ECOTOURISM PROJECTS

A. National Governments

B. Non-governmental Organizational (NGOs)

C. Private Sector

All the players in the development of nature and heritage tourism are constrained: government by the lack of competitive managerial capacity; financial intermediaries by a concern for risk, unfamiliarity with the sector, and the exigencies of the money market; private developers by a lack of capital, the absence of title or lease rights to the site, and the need for training in the preparation and presentation of feasibility studies; and NGOs by a lack of capital and public support. However, with proper coordination, what each of these three groups lacks could be provided by the other two.

Caribbean governments have traditionally had access to grant and soft-loan funds, which are inaccessible to private sector investors. However, very often these governments do not have the technical skills or entrepreneurial drive of profit to fully utilize these funds. NGOs, on the other hand, often have the expertise required to develop nature and heritage tourism ventures, but lack the funding basis to become fully established. It seems, therefore, that governments and the private sector should consider some joint venture, thus allowing the country to optimize whatever benefits may accrue from that partnership.

A. National Governments

In the Caribbean, for historical reasons, the state has been a major landowner, particularly of unimproved lands. The state is also the traditional guardian of a nation's natural resources. Governments tend to fund the operation of their public sites and protected areas, particularly national parks. National governments offer financial support for nature and heritage tourism sites in most cases, either directly or via grants from donor agencies. Most of the areas of outstanding beauty, scientific interest, and historical significance are in the government's purview or have been bequeathed to parastatal bodies, like national trusts or NGOs.

Some Caribbean governments have awakened to the potential of nature and heritage development. In 1992, the Government of Dominica identified twelve sites for potential development as tourist attractions and secured a loan of up to US\$4 million from the Caribbean Development Bank (CDB) to undertake an independent evaluation of the sites and make

recommendations as to their development potential. Dominica, the most rugged of all the Caribbean islands, has earned the nickname "Nature Island" because of its lush, green mountains, its virgin forest, and its unique and enduring natural setting. The CDB is evaluating the report to assess the viability of funding a project.

The Barbados Ministry of Tourism recently contracted for an inventory of its nature-based tourist attractions as part of an overall tourism development plan. The inventory, paid for with an Inter-American Development Bank (IDB) grant, has identified more than sixty sites of natural beauty and historic interest. In addition, the study establishes the requirements for a feasibility study of developing a network of such attractions. The intent is to package the projects for development funding.

The Jamaica Conservation and Development Trust is involved in national park development, and has hosted seminars and workshops aimed at increasing awareness and knowledge of nature tourism. The Jamaican Ministry of Tourism shares the responsibility for the promotion and development of nature and heritage tourism with other public and private entities. The National Heritage Trust (NHT), created thirty years ago by an act of Parliament, has received assistance from the U.S. Agency for International Development (USAID) to carry out heritage and conservation initiatives. The trust has inventoried historic sites and monuments and can authorize changes to heritage resources; a US\$5 million project is under consideration to restore military barracks in Spanish Town, the former administrative capital.

Jamaican Government authorities are also working with an NGO to restore historic properties (see page 13). This is an initiative that could be successfully replicated in other nations, as national governments tend to be proprietary about the preservation of historic structures or areas. For several reasons - a fear that natural or historic areas will be damaged or destroyed, a lack of administrative capacity to oversee such work, or the lack of a legal framework to allow the transfer of ownership or operation of natural and historic areas-national governments are reluctant to entrust the private sector or NGOs with national treasures, even though they may wither from neglect as government dollars are spent on more pressing needs. Governments would benefit by allowing the private sector to become involved and NGOs to have greater leeway in such efforts, while overseeing the efforts through a rehabilitation or historic preservation office.

The Government of Trinidad and Tobago allocates responsibility for nature and heritage projects across several governmental bodies. Integrated regional development plans, such as the Eastern Northern Range Plan and tourism sector development plans, have identified sites of natural and historical interest.

The Ministry of Agriculture, Lands and Marine Resources has earmarked large sums of money for the development and maintenance of most of the undeveloped land. This includes three major forested areas of the northern, central, and southern ranges of Trinidad and the wetlands of both islands. The Ministry allocated US\$45 million in 1993 and US\$43 million in 1994 for the development and maintenance of these areas. Some of these funds were for maintenance of the flora, fauna, and other elements of the natural environment.

The Wildlife Section of Trinidad and Tobago's Forestry Division is concerned with practical management of wildlife habitat within wildlife sanctuaries and elsewhere, especially for species

requiring special protection measures, and to permit and encourage use on a sustainable basis. This includes issuing permits for hunting, the production of educational materials, opportunities for scientific studies, public education on wildlife conservation, and field tours. With the exception of hunting license and permit fees, all services are offered free of charge by the government. However, since the Wildlife Section does not conduct enough tours, private tour operators earn an estimated US\$84,650 annually. Wildlife Section representatives estimate it would bring in some US\$167,000 every year if it were allowed to charge fees for these services.

The legislative authority for Tobago, the Tobago House of Assembly (THA), has identified ecotourism as the foundation on which the island's tourism industry is to be developed. It has regulated access to the Main Ridge Forest Reserve and developed a recreational park at Fort Granby, the first phase of which was completed in 1992 at a cost of US\$50,000. Expansion plans call for incorporating wetland areas and building an interpretative center and additional facilities. Other activities were implemented at an approximate cost of US\$390,000. Future projects in Tobago include nature camps, the first of which is scheduled to be built at Bloody Bay for between US\$170,000 and US\$335,000. The authority also has plans to map and clear nature trails throughout the island, erecting signs and rest stations. These nature trails are intended to provide a cross-island network linking major sites and attractions. A final project being planned is the establishment of restricted marine parks under the Marine Preservation and Enhancement Act of 1970.

In 1987, the THA initiated the Tobago Heritage Festival to educate Tobagonians about their own past and to provide non-Tobagonians with an appreciation of the island's history and culture. Permanent heritage villages have been created at Studley Park and Mount St. George to reflect the social, cultural, religious, and economic lives of the people of Tobago. Funds for the festival come from the THA's central government subsidies and from the sponsorship of individual events by business organizations such as chambers of commerce. In 1992, the THA provided US\$280,000 for the festival; business sponsorship amounted to US\$30,000. The THA also plans to construct the island's first historic and cultural theme park on forty-nine acres of land adjacent to the best-preserved fortification-Fort King George. This project is expected to cost between US\$220,000 and US\$500,000.

Steelpan drums and calypso are born of Trinidad and Tobago, created by grassroots musicians. Carnival is Trinidad's major tourism season, when the air is suffused with the sounds that have been adopted throughout much of the Caribbean. The Trinidadian Carnival and steelpan and calypso music have been emulated throughout the Caribbean, and have spread to North America and Britain. The tradition warrants separate funding. One of the problems faced by steelpan players is that they must compete with electronic sound systems, which are often louder and more portable. Although no specific financing estimates are readily available, steelpan drums as a heritage tourism attraction will require significant financing in the future. At present, steel bands are sponsored by one or more business enterprises.

In a bold move to commit itself to tourism development as a national objective, Trinidad and Tobago announced recently that local investors (individuals and corporations) in tourism development projects will be allowed to claim 25 percent of their equity investment as tax-deductible expenses. In addition, the Tourism Development Authority (TDA) is planning to allocate US\$12.5 million to create a new organization that would merge the Tourism Development Agency and the Industrial Development Corporation. The Agency is currently

under the umbrella of the TDA, but its independence would place even greater emphasis on tourism in Trinidad and Tobago.

While the state is a major factor in the disposition or use of land in the Caribbean, tourism is a service industry that almost without exception has been managed most competitively and efficiently by the private sector. Government-operated nature and heritage sites are usually not profitable. In Barbados, the few significant areas of natural forest are under government control and managed by the National Conservation Commission. At Turner's Hall Woods, Folkstone Underwater Park and Museum, Gun Hill Signal Station, Farley Hill National Park, and Joe's River Tropical Rain Forest no cost recovery mechanisms are in place. A nominal admission fee is charged, but the fees barely cover the attendants' salaries. Nor do the attractions earn enough revenue to cover their operating costs.

At the famous Harrison Caves in Barbados, on the other hand, income from entrance fees, souvenir sales, and a restaurant is used to operate and maintain this natural attraction. This sensitively developed natural area includes a series of beautiful subterranean caverns complete with stalactites and stalagmites and underground streams and waterfalls. Annual operating costs amount to approximately US\$1 million. About 200,000 people a year visit the caves, resulting in revenues of US\$1.5 million. Charging admission can make the difference as to whether the attraction will be self-sufficient or dependent on governmental subsidies.

Governments have traditionally been successful in obtaining financing from international assistance agencies, though such assistance must always be directed towards a self-sustaining economy. They may also gain access to "soft fund" windows made available by international financing institutions such as the CDB and the Inter-American Development Bank (IDB). There are usually no a priori restrictions on access to these funds, and the only criterion is that beneficiary projects be economically and financially viable. However, some countries may have difficulty obtaining grant funding and gaining access to some of the traditional "soft fund" sources.

The IDB is providing funds for technical cooperation for the preparation of a tourism development plan for Trinidad and Tobago. The Government will hire consultants to produce a US\$30 million action plan. The goal is to develop a tourism program involving the installation of basic infrastructure. This would promote investment in tourism facilities and the establishment of nature and heritage tourism projects. The executing agency is the Ministry of Trade, Industry and Tourism. The IDB is also reviewing two requests from the Government of Barbados: a US\$40 million urban rehabilitation program and a US\$16 million nature and heritage tourism development project. Both projects are sponsored by the government through executing agencies - the Barbados National Trust, the Environment/National Conservation Commission, and the Ministry of Tourism.

On the Netherlands Antilles island of Saba, the Saba Marine Park is an ecotourism success story. The park was established in 1987 at a cost of approximately US\$300,000 with funds primarily from the WWF-Holland, the Prince Bernard Foundation, the local governments of the Netherlands Antilles, and the Dutch Government. Fund-raising has been focused on revenues from user fees, souvenir and guidebook sales, and donations. There is also a Friends of Saba Marine Park organization to solicit private donations. In 1988, approximately US\$10,000 was collected from 2,100 divers. Over the years, the number of divers using the park has increased

much faster than had been expected. In the first six months of 1992, a total of 2,300 divers made 9,200 dives. The dive fee was raised to US\$2 per dive, yielding direct-use revenues of approximately US\$17,500. Combined with another US\$2,500 from a recently introduced yachting fee, this has made the park entirely self-supporting.

A common complaint of private-sector investors concerns the lack of government incentives for nature and heritage tourism ventures. There needs to be more recognition on the part of government that such ventures are in the national interest. In Barbados, for example, the Hotel Aids Ordinance provides incentives for tourism developments, but no allowances for nature and heritage projects. The Barbados Wildlife Reserve was unable to get a waiver of the import duty on a water pump donated by the Canadian International Development Agency (CIDA). Its request for a waiver of the duty on importing recycled plastic lumber to build picnic furniture in the Grenade Hall Forest was also turned down.

A further problem with government incentives is that larger developments tend to receive preferential treatment, perhaps because they appear to be more beneficial. But smaller projects are often very important to local economies and should therefore be given equal consideration.

Private-sector entrepreneurs developing a project in Barbados that offers horseback rides, walking trails, and tram rides through the countryside received US\$15,000 in assistance and spent US\$175,000. Government incentives in the form of waiver of duties on materials were inconsequential, the developers said, as most of the materials used were obtained locally. This is likely to be true for most nature tourism developers, who try to use indigenous materials.

Governments

Strengths	Weaknesses
land ownership	lack drive for profit
access to international funds	competing interests for funds
environmental policy, employees, and funds to hire specialists	
ability to enact policy	

B. Non-governmental Organizational (NGOs)

A number of NGOs operate nature and heritage attractions, for which they receive donor assistance, membership dues, and user fees. They tend to have great difficulty with financing because they are reliant on membership fees and do not have access to government funds, and because the purpose of many NGOs is preservation and conservation, rather than profit.

Funding from international development banks is not always available to NGOs or private individuals. This limitation is often the result of inadequate incentives for private-sector development. Most of the funding received by NGOs comes from donor agencies and national governments, primarily for feasibility studies and research. NGOs are also somewhat dependent financially on membership dues and the local and regional private sector.

In Barbados, the Government has granted responsibility for the preservation of its heritage to the Barbados National Trust and the Barbados Museum and Historical Society, which restores historic buildings and other places of interest. As part of an IDB feasibility study to identify sites for nature and heritage tourism development, the National Trust, the Barbados Museum, and the private Garrison Committee devised a list of sites and historic properties they would like to restore. These include some historic forts, museum buildings, homes of historical figures (such as the residence of Barbados' first Prime Minister, Tyrol Cot), and the Sugar Machinery Museum². The estimated total cost of the projects is US\$7 million.

²The Sugar Museum was recently opened to the public. The Director of the National Trust indicated that funding for restoring the museum had come from corporate sponsors - US\$60,000 from Mount Gaye Distillers and US\$50,000 from other corporations. The museum reflects the history of sugar processing and features an old and a modern sugar factory. According to the executive director, the trust needs another US\$50,000 to complete repairs and refurbish the museum.

The Barbados National Trust owns Andromeda Gardens, Welchman Hall Gully, and the Barbados Primate Research Center and Wildlife Reserve. Although it receives some government subsidies, it is dependent on user fees at several of the properties, as well as membership dues, sales of publications, and grants from donor agencies and the local private sector. The total financing available to the Trust, either for specific activities (research, infrastructure repairs, renovations to properties) or for general institutional support, is inadequate. It has a long list of properties it would like to restore.

The Barbados Primate Research Center and Wildlife Reserve functions independently and successfully by charging user fees and exporting and selling monkeys for medical research and for producing the much-needed Sabin oral polio vaccine. In 1992, Research Center sales were US\$279,328, and income from entrance fees and restaurant operations totaled US\$327,786. The Reserve receives 75,000 to 100,000 visitors annually and is one of the first successful ecotourism efforts in Barbados. Barbados' flora and fauna are on view at several sites, including an animal sanctuary with a large collection of green monkeys (native to Barbados), as well as deer, otter, tortoises, caimans, and a wide assortment of exotic birds. Over the years, the Reserve has received funding from several donors to support its research work on monkeys, and particularly for its Monkey Crop Damage Control Program.

The Center was established in 1985 with seed money from CIDA. In 1992 the Reserve received a CIDA grant to purchase a water pump after a dam was built on one of the gullies on the property. Some 300,000 gallons are collected each year in a catchment area and pumped, using solar-powered photovoltaic cells, to a reservoir adjoining the facilities. The water is used to clean the cages and for irrigation purposes, thus supplying the reserve with most of the water it needs. Over the past ten years, the Reserve has received about US\$90,000 in grants from CIDA to support various research projects. Since its inception, it has received no direct government support either as subsidies or in the form of tax waivers. In fact, the Trust complained that duties were charged on the water pump when it arrived in Barbados.

The Wildlife Reserve has plans to expand further by constructing a large inland pond and rookery to reintroduce the brown pelican, which has been extinct in Barbados for over 50 years. These plans are on hold until the organization's funding base is expanded.

The Grenade Hall Signal Station and the Grenade Hall Forest are NGO ventures that were financed by a commercial bank and a financial agency. The Signal Station is the restored ruins of an 1819 structure that was part of a communication system unique in the Caribbean: a string of towers that could transmit line-of-sight messages across the island. Visitors enjoy an in-depth account of the historical records of signal stations in Barbados and England, and insight into communication before the invention of the telephone. From the top of the station there is a panoramic view of the entire island. The Grenade Hall Forest, an eight-acre forest with over fifty species of trees and other plants, offers visitors an informal adventure while learning about the environment. More than a kilometer of educational trails explain the delicate balance of the ecosystem. All benches, tables, roofs, doors, and cabinets are made of recycled plastic lumber, showing visitors that there is no need to destroy trees to develop a tourist attraction.

To restore the Signal Station and expand the Forest, the owners secured two loans totaling US\$425,000. The \$175,000 commercial bank loan was obtained at a rate of interest between 12 and 16.5 percent. The other loan was from a financial agency at a rate of 10 percent for up to US\$171,000 of the US\$250,000 total, and 13 percent on the remaining balance. The loans are secured by a US\$365,000 first mortgage on the property of one of the directors. The loan from the financing agency was made available under the Industrial Credit Fund established by the Central Bank of Barbados out of funds secured from the World Bank, and was earmarked to assist with infrastructure expenses for new projects. The loan is for ten years with a two-year grace period on the principal. The managers are confident that the newly opened Forest Reserve and the Signal Station can attract an increased number of visitors bringing in enough revenue to offset the cost of the borrowed funds.

NGOs in Trinidad and Tobago have also preserved historic buildings, such as the Stollmeyer Castle, located on the northwestern corner of the Queen's Park Savannah and one of the "Seven Sisters" of historical buildings. The Seven Sisters occupy one block and include the century-old Queen's Royal College, the country's first secondary school, and the residence of the Roman Catholic Archbishop of Trinidad and Tobago.

There are two significant non-governmental initiatives in Trinidad that have had an explicit environmental focus. These are the Asa Wright Nature Center (AWNC) in the Arima Valley of the Northern Range, and the Point-à-Pierre WildFowl Trust on the southwestern coast within the compound of the country's major oil refinery. The AWNC is a 191-acre former family estate that was sold in 1967 to protect part of the Arima Valley in its natural state so that it would be available for future generations. The AWNC derives its revenue from four main sources, chief among them are about 8,000 day visitors a year, who pay a fee of US\$6, generating revenues of approximately US\$48,000. Stayover visitors make up the second-largest group; 600 to 800 visit annually at a daily fee of US\$105, generating income of between US\$63,000 and US\$84,000 a year. Rent paid by the WildFowl Trust for a research station rental at the Center yields approximately US\$7,000 a year and the rest comes from grants and donations. The major recent contributor has been the U.S. oil company Amoco, which has been contributing US\$3,000 a year. A few domestic companies also contribute a few hundred dollars a year.

The main objectives of the Point-à-Pierre WildFowl Trust are research and education. The Trust has successfully bred endangered wildfowl species and reintroduced them to their natural habitat. Its most recent success was breeding the scarlet ibis, a small, rare bird indigenous to Trinidad and Tobago. This was a significant development since all evidence indicates that the

scarlet ibis is no longer breeding in its natural habitat, the Caroni wetlands. Educational efforts have been directed at school-age children, to teach the value of the environment and wetlands.

Although the Trust was not set up to support ecotourism, many foreign and even Trinidadian visitors are using its facilities for ecotourism purposes. The Trust is funded by US\$17,000 in membership dues from its 2,000 members, an annual grant of US\$6,000 from the Petrotrin Oil company (in whose compound the Trust is located), and entrance fees. The Trust has also received extraordinary grant funding from international institutions. The OAS provided a US\$15,000 grant and engaged consultants. The IDB provided US\$95,000. Both grants were earmarked for capital projects and educational/ research efforts, but will come to an end shortly. The Trust is therefore seeking funding from other international institutions. The oil company also provides water, electricity, and security, together with some engineering services, for a fee of TT\$1 a year. A number of other institutions and individuals also provide veterinary and engineering services. A small and variable income is also provided by entrance fees and the sale of souvenirs.

In Jamaica, as was said above, an NGO - The Tourism Action Plan (TAP) - is working with government officials to set up a Heritage Trade Company to restore historic sites throughout the island. TAP, which receives support from both the private and the public sectors, is soliciting contributions from national merchant banks, and its representatives expect approximately US\$500,000 in contributions.

Non-Governmental Organizations

Strengths	Weaknesses
main interest is often conservation	lack of continuous funding
have employees dedicated to cause	lack of drive for profit, seek to break even
have networks of knowledgeable contacts	

C. Private Sector

Privately owned nature and heritage sites tend to be dependent on owner equity, gate receipts, and commercial banks for their funding. Private-sector development projects receive minimal support from governments themselves. They must therefore seek loans. Many areas that have the potential to become major natural or heritage tourist attractions need substantial amounts of funds for restoration and other works, but private owners may not have the equity to undertake the required investments. High interest rates are one of the most significant barriers they encounter. They also may have difficulty meeting cash-flow requirements to service high-interest loans, given low initial returns and/or their dependence on entrance fees. In addition, the inability of banks and other lenders to perceive the future drawing power of natural and historic sites when appraising projects limits their valuation of collateral.

Debt-for-nature swaps, which have become popular in parts of Central America and Jamaica, are not practical in the eastern Caribbean since very few of these countries have any significant private-sector debts.

Most of the nature and heritage tourism ventures in Barbados are privately owned and receive little or no government subsidy. They include Flower Forest, Oughterson Zoo Park, and Freshwater Reef - Atlantis Submarines and the recently opened Highland Outdoor Tours. In all these projects, revenues fully cover the cost of operation.

Highland Outdoor Tours offers horseback rides, long walks, all-day hikes, and tractor drawn tram rides to enable tourists to experience the beauty of the hills, gullies, and farmlands of St. Thomas and St. James parishes. The developers have spent US\$175,000 on preparing trails, acquiring vehicles, constructing the Highland Tour Center, a restaurant, and several bamboo huts. Opened in February 1994, the project was funded entirely by individuals, with the help of US\$10,000 from the Barbados Tourism Authority and US\$5,000 from the Tourism Development Cooperation to assist with promotion and marketing.

One of the few privately owned and operated ecotourism hotel projects in Jamaica is the Maya Lodge, located on sixteen acres in the Blue Mountains. Its facilities can accommodate fifty people.

The project's sponsors have invested approximately US\$500,000 in land, equipment, and facilities. A project to build ten additional cabins to accommodate twenty more guests is under consideration. However, lack of financing from commercial or public sources has crippled the owners' progress.

Private Sector

Strengths	Weaknesses
Profit is crucial	lacks access to funding
	may lack commitment to long-term conservation; may sacrifice preservation for profit
	lacks ability to effect change in regulatory arena





IV. FUNDING SOURCES FOR NATURE AND HERITAGE TOURISM PROJECTS

[A. Development Banks \(Regional and National\)](#)

[B. Commercial Banks](#)

[C. Financial Agencies](#)

[D. International Assistance Agencies](#)

The research for this study, though limited in its scope, did not reveal a major shortage of funding for demonstrably viable nature and heritage tourism development projects, nor did we find that obtaining financing is more difficult for such projects. Indeed, failure to obtain financing may be more attributable to poorly formulated projects or generalized economic problems. For example, the Barbados Development Bank has indicated that it has not received any serious funding requests.

For nature and heritage projects to contribute to the overall health of a Caribbean nation's economy, they must be sustainable. Self-sufficiency is an essential component of sustainability. One specialist in the nature and heritage tourism industry even goes so far as to define the *eco* prefix in the word *ecotourism* as belonging to *economic* rather than *ecology*. One of the biggest constraints on the development of projects is the preparation of feasibility studies.

If an organization or business is unable to operate profitably, it will not long survive and will have little impact on preserving the world's natural and cultural resources.

- Mission statement of the Adventure Travel Society

In order to operate profitably, a government or NGO or entrepreneur must avoid a highly leveraged financial structure (i.e., indebtedness) for the project. For nature and heritage tourism to be sustainable, it must be accorded adequate financing alternatives. This may require some innovation and alternative remedies, but it is achievable.

The Caribbean island nations should seek alternative funding mechanisms to help defray the costs of needed infrastructure. This could be done via extra or increased airport user fees, an earmarked tax on project development, increased entrance fees for tourists (the excess of which would go into a fund), impact fees, or adequate facilities agreements with some cost-sharing provisions.

The attractions offered to nature and heritage tourists are a nation's natural and human resources. This usually means that government property is the profit center for nature and

heritage tourism projects. An NGO or entrepreneur can provide accommodations, trails, tour guides, water sports, and beach chairs, but these are all just amenities.

Those who profit should therefore pay for the upkeep of these natural treasures by sharing their earnings with the local government. This may create a funding source for countries that in the past could not afford a “luxury” like environmental preservation.

Because some lenders may not have much experience with evaluating nature and heritage projects, it is incumbent upon the borrower to present the most complete project proposal possible. This should include a market assessment with projected occupancy rates, and agreements with tour operators to include the project in package promotions. It should include an environmental impact statement to assure lenders that the attraction - which, after all, is the project’s principal asset - will not be damaged.

This is particularly important because the collateral offered to commercial banks and financial institutions is often limited to the land that will be developed. Although the land may have agricultural potential, its visitation potential as a tourism project should be assessed significantly higher. The lender should not be left with only the applicant’s subjective promise of a project’s potential: the borrower must establish that value.

A. Development Banks (Regional and National)

National and regional development banks have traditionally been very supportive of tourism projects, but have not provided much assistance for nature and heritage tourism. Although they report that they are eager to support such initiatives, they make no distinction between nature and heritage tourism and other tourism development projects. For example, they have not made any special concessions for such projects (such as longer grace or repayment periods). Caribbean countries could amend their policies on development banks to improve access by nature and heritage project developers, and thereby reduce dependence on international assistance agencies for site development. National development banks cater to both public- and private-sector projects. Their funds are usually made available in the form of loans at a percentage point or two below commercial bank rates.

The National Development Bank (NDB) of Jamaica is funding a US\$1.3 million and an approximately US\$333,000 ecotourism project on the southern coast of Jamaica. It also provides assistance for the preparation of feasibility studies. Authorities at NDB believe that current high interest rates (over 70 percent per year nominal market rates) are discouraging investment decisions, regardless of how well-designed an ecotourism project may be. The initial low returns, in addition to the relatively sizable investment required, make access to commercial lending difficult. Incentives provided by the government sometimes only apply to larger developments, not small-scale ecotourism projects.

The Caribbean Development Bank (CDB) provides both loan and grant funding for tourism-related activities. Most is channeled through governments, but some is provided to the private sector. CDB loans to the private sector carry the following requirements and terms:

- Debt-equity ratio requirement: maximum 50 percent
- Interest rate: 9.5 percent (approximately)

- Grace period on repayment of principal: up to 5 years
- Assessment fee: 1 percent of loan amount, up front
- Commitment fee: 1 percent per annum on the undisbursed balance
- Loan minimum: US\$750,000
- Loan maximum: US\$5 million
- Debt service coverage ratio: not less than 2:1

For projects developed by governments or by private individuals, the bank provides Contingent Recoverable Loans through its Special Development Fund (SDF), which was created to fund studies that might lead to projects that the CDB could finance. If no viable project results from the feasibility study, the loan reverts to a grant. To date, the fund has received two requests and funded one - a US\$4 million loan to the Government of Dominica. Preliminary assessments are currently being made to determine the economic and financial viability of other proposals.

To date, there have not been many requests for these loans, and CDB has not aggressively advertised them, as SDF funds are limited. Even when this facility is replenished, nature and heritage tourism projects will have to compete with other projects for funding.

Contingent Recoverable Loans made available from the Special Development Fund (SDF) have the following conditions:

- interest rate: 2-4 percent
- grace period: 10 years
- loan term maximum: 40 years
- loan maximum: no limit for government borrowing; depends on CDB's exposure in the country

For government nature and heritage tourism projects, a mixture of grants, soft funds, and hard funds can be used. Private-sector borrowers are subject to the usual funding requirements.

B. Commercial Banks

The commercial banking system does not make special provisions for tourism projects. All requests for loans are assessed according to their financial viability. The banks, like all commercial financial agencies, also require some collateral and owner equity. The interest charged depends on the prevailing rates, which currently vary from 8 to 16.5 percent a year. Both Barclays Bank PLC and the Royal Bank of Canada have provided loan financing for nature tourism projects in Barbados at prevailing interest rates. In Trinidad and Tobago, officials at Republic Bank, the country's largest commercial bank, could not identify a single project that it was financing in the area of either nature or heritage tourism.

In Jamaica, the Trafalgar Development Bank, a private banking institution, has expressed much interest in environmental issues. It is currently financing a sixteen-room ecotourism project, the Hotel Mocking Bird Hill, near Port Antonio, for which it has lent US\$150,000 of the total cost of US\$262,000. However, it is not well informed about the nature and heritage tourism market, and a lack of adequate feasibility studies, serious sponsors, appropriate security, or confirmed leases/concessions from the government, has kept it from further involvement in such ventures.

C. Financial Agencies

Financial agencies operate in the same way as commercial banks. Tourism is not treated more favorably than other sectors. One such agency in Barbados, Caribbean Financial Services Corporation (CFSC), has funded one nature tourism development, the Barbados Wildlife Reserve.

The CFSC reports that although an increasing number of eco-based projects have been submitted for funding in the recent past, most were turned down for the following reasons:

- The capital cost of development is usually too high, with most projects exceeding CFSC's maximum transaction size of US\$1 million.
- The equity base sometimes consists only of the piece of land to be developed; this is usually insufficient to give the project a feasible debt/equity structure.
- The cash flows and earning potential are usually too low to provide a reasonable return on equity as well as a comfortable debt service profile.
- CFSC's sources of funding allow for a maximum loan term of ten years, while many projects require at least fifteen-year financing in order to match the projected cash flows.

In Trinidad and Tobago as well, no distinction is made between nature and heritage tourism and conventional tourism projects. Representatives of Development Finance Ltd. indicated that there have been several inquiries about ecotourism. They have also been involved in discussions about a proposed ecotourism facility in Tobago, but it is still in the conceptual stage.

The Business Advisory Services/Enterprise Development Limited agency of Trinidad and Tobago has had extensive experience with small projects in the past, involving an important subsidy component. In the recent past, however, a change in its operating orientation - it is now required to be self-sustaining - has precluded it from financing projects of undemonstrated financial viability. Nevertheless, interest in the development of nature and heritage tourism projects still exists. It has been recommended that a fund be established for a given period of time to provide grants to sponsors willing to prepare feasibility studies and proposals for the development of such projects. Seed funds could also be considered as a mechanism to support potential sponsors.

As a rule, the loan criteria applied by the financial agencies are similar to those of commercial banks, but the rates may be just below theirs. However, grace periods (two years in the case of the Barbados Wildlife Reserve) may be granted.

D. International Assistance Agencies

In the absence of national government subsidies, international assistance agencies can provide financial and technical assistance to cover a wide range of needs, from support for research initiatives to feasibility studies and assistance with the provision of infrastructure (such as trails and interpretation centers).

Most of the international agency assistance has been in the form of grants and grant packages from donor agencies. The following agencies have been generous: the British Development Division in the Caribbean (BDDC), CIDA, the European Economic Community (EEC), the Food and Agricultural Organization (FAO) of the United Nations (UN), the OAS, and United States Agency for International Development (USAID).

The development of Pigeon Island in Saint Lucia illustrates how various organizations can cooperate for a shared purpose. Pigeon Island was a strategic naval station of the British colonial empire during the eighteenth century and is now under the control of the Saint Lucia National Trust. It has been renovated with assistance from the OAS, which provided technical assistance for institutional strengthening of the Trust and prepared a feasibility study on restoring and enhancing the island, and from CIDA, which donated US\$577,000 for the transformation of a historic building into a museum/interpretation center.

The CIDA grant is part of a US\$11.5 million fund being made available to the countries of the Organization of Eastern Caribbean States (OECS)³ over a five-year period. These funds were channeled through the Small Project Improvement Fund (SPIF), which identifies, designs, and delivers small-scale, high-priority projects. Its major objective is to promote sustainable economic and social development by increasing economic output and generating employment and income opportunities.

³Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts, Saint Lucia, and St. Vincent and the Grenadines.

Up to a maximum of US\$577,000 in grant funding can be requested from SPIF for nature and heritage tourism projects. The main criteria are that the projects be sustainable and that they contribute to job creation and foreign exchange earning. Governments are the main beneficiaries of this fund, and SPIF usually requires that projects designated for funding show a positive rate of return. It also usually requires that a statutory body be established to manage the project and that user fees be introduced to recover the investment cost. Among the projects funded to date are, in Grenada, a craft center, nature trails in Grande Etang (a volcanic crater lake), several restoration projects, and Fort Frederick; in Dominica, buildings in the Cabrits (a historic area containing Fort Shirley); in Saint Lucia, a museum and interpretation center and expansion of the central market; and in Saint Vincent, a waterfront market.

Current OAS technical assistance to member state governments for nature and heritage tourism is directed at institutional strengthening of the organization that has responsibilities in the area and at the preparation and evaluation of regional development plans and investment projects studies. Public education and awareness programs are also considered necessary.

The IDB is considering (August 1994) financing a US\$16 million nature and heritage tourism project in Barbados. In Trinidad and Tobago, it is providing technical cooperation and US\$30 million for consultants to prepare a tourism master plan. The plan calls for basic infrastructure to facilitate investment in tourism facilities.

Illustrative of USAID financing of nature and heritage tourism is its support of the Blue Mountain and John Crow Mountain National Parks in Jamaica. This assistance was given through various channels, including support of the PARC project of the Planning Institute, facilitation of a debt-for-nature swap, the financing of technical cooperation through the Nature Conservancy,

and direct support of projects in the parks. USAID also financed an inventory of historic sites and monuments through the Jamaican National Heritage Trust. The agency is reviewing a US\$5 million project to restore the military barracks in Spanish Town.

The OECS countries have been successful at obtaining technical assistance to undertake feasibility studies for nature and heritage tourism projects, but many of these proposals have not been carried to fruition. For example, in 1989, the OAS completed feasibility studies for the Pitons National Park in Saint Lucia, which estimated that the total investment required for the establishment of the park was US\$1.6 million. Annual operating costs of US\$250,000 would be offset by an estimated income of US\$395,000 in the first year from concession operations, entrance fees, and the sale of crafts and souvenirs. To date, no effort has been made to seek funding (either grant or loan) to finance the purchase of land and other capital works to develop the project⁴. There are many reasons why there have been so few follow-up requests. In the cases of Saint Lucia and Grenada, most of the properties in question were privately owned, which hindered the governments' ability to acquire them. Also, some of the areas were targeted for other uses - in St. Lucia, for example, for hotel construction. In other instances, countries faced financial constraints.

⁴The OAS conducted similar feasibility studies for the Tobago Cays in St. Vincent and the Grenadines and for Grande Etang National Park in Grenada, and another was done for Levera National Park in Grenada with funding from the EEC.

Most of the grant funding for nature and heritage tourism projects has been from bilateral funds and in support of government-owned projects; the OECS countries have been the largest beneficiaries. Most government-managed projects charge nominal or small user fees that are usually inadequate to cover their operating costs, which impedes their access to SPIF.

The traditional donors appear to be curtailing the amount of funds earmarked for the region. USAID, one of the largest contributors of grant funding, has begun scaling back. The Canadian Government has also indicated that its foreign aid to the region will be cut. The SPIF project will come to an end in 1996 after a nine-year period in which US\$17 million will have been injected into the region. However, development banking institutions like the CDB are making soft funding windows available as they realize the contribution nature and heritage tourism can make to economic and overall development. The only major constraint is the degree to which projects can satisfy institutional criteria. For example, several Caribbean nations (Barbados, Trinidad and Tobago) have "graduated" from the World Bank Group's category of relatively poorer countries and no longer enjoy access to its soft funds. The present study also indicates that soft-window financing will become more scarce over the next several years.

Major international NGOs have also assisted with financial resources and technical assistance to support nature and tourism initiatives in the Caribbean. They include the World Wildlife Fund (WWF), the World Conservation Union, the IUCN, and the Nature Conservancy.





V. MEASURES TO FACILITATE FINANCING THE DEVELOPMENT OF NATURE AND HERITAGE TOURISM

[Governments](#)

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Our research shows that although there are varied and adequate sources of funding for nature and heritage tourism in the Caribbean, these sources are not equally available. In some cases, there is a mistaken notion that private-sector financing is not available at all. The fact that both the domestic development banking sector and commercial lending agencies indicated that requests for funding such tourism ventures have been few is to some extent indicative of the low level of awareness of ecotourism possibilities and the lack of viable projects. It is therefore imperative that governments create an environment conducive to such projects. Moreover, financial institutions need to become more familiar with nature and heritage investment in order to better appraise funding requests. Finally, entrepreneurs need to formulate their projects so as to substantiate their financial viability.

As was mentioned earlier, the 1993 St. Kitts and Nevis Tourism Master Plan developed by the OAS includes several recommendations for a tourism-oriented economy in the Caribbean:

- Natural areas should be managed under financial schemes that will enable them to operate as independently as possible of government, with visitor fees and expenditures reinvested in each area.
- If the private sector is going to benefit from the natural attractions of the country, it should contribute to the protection of these attractions. Barbados has established a cooperative for tourism funding called the Tourism Development Corporation, which allows private-sector participants to voluntarily contribute a fixed percentage of before-tax profits.
- A bed tax has worked well in St. Croix and St. John, providing additional promotional dollars tied directly to growth in productivity.

- Governments can mobilize funding and define objectives via a national trust, which could pursue funding from international and non-governmental organizations. The trust could fund feasibility studies, and project management and design.
- Businesses ancillary to the travel industry (such as real estate and insurance companies, contractors, banking entities) should be solicited aggressively for funding.

Resources within the business community must be thoroughly assessed and harnessed against the background of excitement and credibility created by local media coverage.

In a paper presented at the 5th Annual Tourism Conference of the CTO in Caracas, Venezuela, the President of the CDB spoke on the importance of nature and heritage tourism to the region, but noted some of the difficulties these types of projects face in raising financial resources.

In addition to the conditions stated earlier in the discussion of regional and national development banks, he proposed several guidelines. They include the following:

- Emphasize the environmental aspects of a project. Many agencies may be prepared to provide concessionary funding for the environmental components of the project.
- Identify the likely environmental benefits of the proposed project, even when such benefits are not quantifiable.
- Ensure that the project recovers its costs by charging user fees that are appropriate to the attraction.
- Incorporate community participation in the design, implementation, and operation of the project. This will not only improve community support, but ensure that the project design is appropriate to the social and cultural environment.

Over the past few years there have been suggestions from various quarters for the establishment of a Caribbean Trust Fund to assist with the funding of various nature and heritage tourism projects. World Bank administration of the Global Environmental Facility (GEF), which was established to meet similar objectives, has been criticized as being unhelpful, given the particularly stringent criteria established for access to it.

More recently, the OECS countries have indicated their desire to impose an environmental tax on all cruise passengers visiting the respective countries. The rationale for such a tax is that user fees cannot be charged for the individual sites and attractions they visit, but that these attractions must be maintained and enhanced if the quality of the environment is to be sustained. If the tax can be successfully implemented, the funds it raises will make a significant contribution to the conservation and improvement of nature and heritage tourism sites and attractions in the OECS.

While grant funding from international assistance agencies is likely to diminish, the increasing awareness that nature and heritage tourism can contribute to a local and national economy will make governments more inclined to provide incentives for private-sector investment. Moreover, taking into account that the services sector has become the main source of economic activity for

the region, national and international development banking institutions should be encouraged to make available more facilities for both governmental and private sector investment in nature and heritage tourism.

The following reforms are necessary to facilitate financing for nature and heritage tourism projects in the Caribbean:

Governments

- Governments should establish the general objectives for the development of nature and heritage tourism in their national development plans and programs. These should include the provision of the legal and administrative frameworks under which a flexible and rational use of resources can be achieved.
- Governments need to enhance the atmosphere for private investment in nature and heritage tourism, partly by improving investment incentives. In addition to the usual tax holidays and import duty waivers, governments could improve access to credit and funding sources. Investment procedures should also be streamlined (in many countries, investors must navigate through a cumbersome permit process).
- Governments should be ready to negotiate the transfer of limited control over natural and historic areas in return for entrepreneurship and capital.
- Governments should abandon the notion that proprietary rights incorporate the exclusive responsibility for renovation, preservation, and conservation of natural and heritage tourism. NGOs and other parties could be assigned specific environmental responsibilities and be overseen by a governmental office, which could be paid for by user fees. Private museums should be encouraged. Licenses could be awarded for the reproduction of artifacts.
- Should the OECS governments adopt an environmental tax, the proceeds should be placed in a trust fund or nature and heritage tourism development fund to be used specifically for the development of nature-based tourism projects. These funds should be made available to viable projects at modest interest rates with the greatest emphasis placed on their potential for high economic return. The governments should channel the monies directly to the maintenance and enhancement of nature and heritage attractions. These funds could also be used to operate the government oversight office mentioned above.
- Campaigns are needed to help communities near nature and heritage attractions learn enough about them to be able to share them intelligently with visitors.

Local residents should also be taught the benefits of tourism for their economy. From the schoolchild to the farmer, each must realize the importance of tourism, and welcome visitors rather than treat them only as sources of money.

When community members offer their hospitality to tourists and share their knowledge, the visitor feels safe and has a more relaxed, comfortable, and pleasant

stay. This may require public education campaigns and government policy as well, such as regulating taxi drivers at the airport.

- Public support and awareness need to be raised for conservation and restoration work undertaken by para-statal agencies and NGOs. This might include publicity through public information offices or ministries and boards of tourism.
- User fee structures need to be evaluated periodically to ensure that they are at market level, and, for public-sector attractions, to ensure full recovery of costs. These projects should aim to be financially self-supporting.
- Statistics on the flow of visitors to nature and heritage attractions need to be compiled in each Caribbean nation. Tourists should be polled to find out whether ecotourism is the main goal of their travel, or a component activity to be explored while in the chosen destination.

Such statistics are crucial in calculating project occupancy rates and/or visitation potential. They can be the basis for sound market studies and demand assessments that potential lenders may consider as evidence of the potential success of proposed projects.

- National and local governments should expand training programs in order to increase the availability of human resources for the expansion of nature and heritage tourism services.

Coordination between education and environment ministries should be reinforced in this process. Community participation should also be facilitated.

- National governments should increase their efforts to promote their destinations as nature and heritage tourism attractions, both locally and internationally. Special budget allocations should be made to increase promotions through the mass media, travel agencies, international tour operators, and special promotion campaigns.

Financial/Banking Community

- Workshops could be held in target countries, bringing in specialized interregional ecotourism teams to counsel local financial institutions and entrepreneurs.

Local banking institutions are a vital link in the nature and heritage tourism finance chain, so it is important that they be knowledgeable about prospects.

- Grace and repayment periods need to be extended to allow for more suitable cash-flow management. This would enable developers to spread costs over a longer time frame so that projects could overcome the problem of low initial returns and long implementation periods.

Lodging developments require substantial amounts of capital; recovery is slow while new investments must be made in furnishings, payroll, and marketing.

- Corporations and asset-holding organizations such as insurance firms, trade unions, and credit unions should be encouraged to invest in projects that enhance the benefits of nature and heritage tourism.

Private Entrepreneurs

- Project proposals must be realistically viable in their financial planning. Potential sources of funding will be reluctant to consider over-leveraged financial plans. In addition to a detailed marketing plan and reliable occupancy projections, entrepreneurs must contribute enough equity up front to assure potential lenders of their commitment to the project and their ability to repay the loan. Only when nature and heritage tourism is well established, with a proven track record of success, will lenders be more willing to accept the inherent risks in this type of project.
- Projects need to be well-structured, documented, and supported with detailed cost estimates and implementation schedules, market research, and management and human resource requirements. Allowances for depreciation and maintenance should be adequate to cover ongoing maintenance and modernization. (See Case Study in Annex 1.)

All Borrowers

- Small-scale development projects seeking subsidized financing from international development finance institutions can benefit by being clustered to bring the total dollar value requested up to the minimum required by such institutions for economy of scale.

This can be done by, for example, linking small ecotourism facilities with larger hotel accommodations or geographically clustered projects can join in a financing request, as can projects that can offer a variety of ecotourism experiences, such as three sites offered in a package, so that, for example, a tourist can visit a tropical rainforest, a desert site, and a Caribbean fishing village.

This, of course, requires that borrowers share financial responsibility and so depend on each other for legal guarantees and repayment of the loan.

- Nature and heritage project operators could create a much-needed collateral guarantee fund by increasing entrance fees. Such a fund would reduce the risk associated with this type of project.
- More attention and effort should be given to the marketing of nature and heritage tourism attractions, particularly the cruise market.

An alliance with a tour operator for inclusion in a package is vital to ecotourism projects that are not large enough to serve as attractions in and of themselves.

Intergovernmental and International Assistance Agencies

- Although some countries are no longer classified as developing countries, exceptions should be made for nature and heritage tourism projects, because funding is difficult to obtain and many projects meet international environmental goals.
- Nature and heritage tourism investments have the potential to generate high economic rates of return (ERR) through the development of marginal lands, employment generation for rural communities and small historic towns, and the enhancement of a destination's tourism product. In this regard, emphasis also should be placed on the ERR instead of looking only at the internal rate of return (IRR) or debt-service parameters.
- Universally acceptable guidelines need to be prepared for nature and heritage feasibility studies. The studies should include infrastructure needs, cost projections, environmental impact assessments, qualifications of proposed management, and a detailed market assessment. This should include potential market projections, an implementation schedule, expected cash flow, a marketing study, and a detailed business plan that includes operating costs, funds to be set aside for the future, and expected depreciation.
- Technical assistance and training should be made available for the preparation and presentation of feasibility studies and supporting documentation. Potential borrowers often do not know what to present or where to seek help.

Along the same lines, a list of tourism planning professionals, engineers, designers, economists, environmental specialists, and marketing specialists whom they can consult on their own should be compiled, including the experts' language abilities and international experience.

- International development financing agencies should increase access to soft financing for nature and heritage tourism. An effort should be made to align funding requests with the priorities of agencies such as the GEF.

A fixed-term fund could be established to provide grant funds to sponsors willing to prepare feasibility studies and proposals for the development of projects.

Seed funds could also be considered as a mechanism to help potential sponsors develop nature and heritage tourism ventures.

Joint Efforts

- A system to combine the contributions of the various parties is needed. International development financing agencies, assistance organizations, and NGOs

have played the role of catalyst in certain projects thus far. A permanent, perhaps regional, commission could improve and help replicate collaboration in financing nature and heritage tourism development. The commission should be made up of representatives of governments, NGOs, intergovernmental associations, and entrepreneurs. This group could recommend policy reforms to accommodate ecotourism.

- The development of a region's tourism sector must be focused on innovation. This requires maintaining the uniqueness of each destination and preserving its natural and historical qualities.





ANNEX 1. NATURE AND HERITAGE TOURISM: CASE STUDY AND ROAD MAP FOR PROJECT PREPARATION

One of the findings of the OAS/IIC study is that the financial community is unfamiliar with the nature and heritage tourism sector, and that potential investors and entrepreneurs lack experience in the preparation and presentation of ecotourism projects. The following hypothetical case study is designed to illustrate the basic elements of project preparation and the areas which should be covered when approaching a financial institution to request financing. Potential investors need to have a clear project concept, a prefeasibility study, a feasibility study, a statement of the financial resource requirements, and a detailed project execution plan.

Case Study: The Flamingo Park Hotel and Nature Reserve

I. Introduction

Growth in the tourism industry as a whole and increasing public awareness of environmental issues combine to create vacation lifestyles which can be compatible with sustainable development as well as the preservation and protection of ecosystems. A commonly expressed point of view about the potential for development of the tourism industry in the Caribbean is that the island nations have to compete fiercely with other well-established destinations already known for sun, sand, and sea. However, since the region has other attributes to offer, such as unique ecosystems and a rich cultural heritage, it should be able to draw an increasing number of visitors interested in its environment and heritage.

This case study presents a detailed evaluation of an ecotourism venture. It is intended to attract the interest of financial institutions in order to complete the financial plan for the project. The total cost of the project is estimated at US\$1,200,000.

II. Buenavista International Resort Developments

Buenavista International Resort Developments (BIRD) was established for the purpose of investing in the development of the Flamingo Park Hotel and Nature Reserve in a certain Caribbean country.

a. The Sponsors

BIRD, the five-member sponsoring group, is composed of citizens of Caribbean nations and the United States. Three of the investors (sponsors #1, #2, and #3) are avid nature conservationists involved in research and the preservation of indigenous flora and fauna. They will contribute to the project thirty acres of land valued at US\$150,000, as well as their expertise in the field of

environmental research and education. The two other sponsors are experienced hotel and business administrators who will contribute the expertise required to build and manage the Flamingo Hotel. Sponsor #4 is a reputable hotelier with more than 30 years of experience in the tourist accommodation industry. Sponsor #5, the owner of EcoAdventures Expeditions, a nature-tour operator based in the United States, will provide a vast network of contacts with the travel industry. The strong synergies between the members of the sponsoring group result in a project that meets rigorous construction, environmental conservation, education, and business standards.

b. Shareholders

As can be seen in the proposed shareholding for the project, the sponsors are interested in attracting an additional shareholder to complete the equity composition of the venture. This would enable them to structure a more viable 50:50 leveraged project.

Investors	US\$	%
Sponsor #1	50,000	8.33
Sponsor #2	50,000	8.33
Sponsor #3	50,000	8.33
Sponsor #4	150,000	25.00
Sponsor #5	150,000	25.00
Sponsor #6	150,000	25.00
TOTAL	600,000	100.00

III. The Project

a. Concept

BIRD has developed a project concept based on the following principles:

- Location in a place of distinct natural beauty
- Integration with the local community and natural environment
- Environmentally friendly buildings
- Environmentally safe disposal of solid, liquid, and gaseous effluents
- Conscientious management of a nature reserve
- Educational and research activities to promote nature conservation and an appreciation of the local culture
- Maximum use of local human and material resources
- Economic and financial viability
- Compliance with national environmental regulations

b. Location

The thirty acres of land on which the Flamingo Park Hotel will be located are adjacent to the Flamingo National Reserve Park, a 500-acre reserve owned by the government. Many species live in the area, such as nesting birds, snakes, iguanas, various land mammals, frogs, and

lizards. Not far from the reserve are beautiful underwater reefs. The hotel will be built on a ridge affording a wide view of the ocean surrounding it on three sides. Flamingo Park will be a two-hour drive from the airport along coastal roads with panoramic views of the coastline and beautiful blue-green waters.

The location is ideal for those interested in a quiet, relaxing vacation. The guests will have access to sandy beaches, diving, good fishing, birdwatching, hiking, and an opportunity to learn about the importance of preserving natural resources.

The project concept was designed by expert businesspeople committed to nature and heritage conservation and seeking to operate and protect the reserve on a commercial basis, catering to researchers, nature lovers, and tourists in search of a healthy and rewarding vacation experience.

This first true ecotourism facility in the Caribbean has three components: (a) the construction and operation of a forty-room environmental hotel on a thirty-acre lot; (b) the construction of a conservation and educational center, which will be financed through grant funds to which several organizations have expressed interest in contributing in the form of funding, laboratory equipment, and technical and managerial assistance; and (c) the management of the Flamingo Reserve, which the government has leased to BIRD for twenty years with an option to renew, under a trust with strict conservation stipulations.

c. Description and Infrastructure.

The Hotel. Flamingo Park will consist of twenty two-unit cabanas (thirty square meters per room), and a central lodge with a reception area, restaurant, bar, kitchen, and a large open veranda. There will also be manager's quarters, a storage room, a laundry area, and a generator room. The buildings will have reinforced concrete frames and hollow clay block walls faced on both sides with concrete. The floors will be of wood and the roof of wooden shakes. The hotel will be constructed in compliance with current fire and earthquake safety standards.

The Environmental Education Center (EEC). The EEC will include a 150-square-meter, air-conditioned room with a seating capacity of fifty people. It will house a natural history library and four rooms (forty square meters each) with teaching aids for small groups. The rooms also can be used for reading. Audiovisual equipment will include video, slide, and overhead projectors, blackboards, and screens. Leaflets and other environmental education material will be available for visitors.

The Flamingo Nature Reserve. Twenty miles of trails with varying degrees of difficulty will be opened and maintained in the park. Guided tours will provide a comprehensive review of the flora and fauna; self-guiding brochures and trail signs will be available as well. Observation points will be constructed at strategic locations for birdwatchers and photographers. No food, radios, or cassette players will be allowed into the park. An entry fee will be charged to visitors not lodged at the hotel. Hotel guests will be informed that a portion of the room rate is earmarked for park conservation and management.

Electricity will be brought to the site via a three-phase high-voltage line. A standby generator will provide emergency power. Water will be piped from a regularly supplied storage tank in the village; telephone lines will be brought in and a basic telephone system will be installed at

Flamingo Park. Sewage will be disposed of via septic tanks and soakaways. Garbage will be transported daily to a public dump.

d. Implementation

Given the pro-environment nature of the project and the level of tourism services required to guarantee occupancy levels that will ensure its commercial viability, the project will be implemented by means of a turnkey contract with Environmental Engineers, a reputable engineering firm that will act as project manager. A detailed project execution program has been drafted. The project manager will follow the detailed program established by BIRD with the assistance of (a) civil engineers for site preparation, road design, and building construction; (b) architects for layout and design; (c) electrical engineers; and (d) a supervisor for procurement services and cost monitoring. Construction is expected to take fifteen months. BIRD has received from the relevant authorities the necessary permits for the construction and eventual operation of the hotel, the center, and the nature reserve.

e. Operation

The Flamingo Park Hotel will be managed by Sponsor #4, who has ample experience in hotel management. He will be responsible for installing effective management information systems, including on-line data processing for accounting, reservations, billing, food and beverage purchases, inventory control, and compliance with environmental regulations. Day-to-day operations will be carried out with the support of locally hired staff trained under the guidance of the general manager.

Sponsors #1 and #2 will manage the Flamingo Nature Reserve through a trust to be funded by grants from national and international agencies which have expressed a keen interest in the project. Sponsor #3 will be the director of the Education Center and will manage the tour services within the reserve, supervising a group of ten well-trained guides.

IV. Project Cost and Financing

a. Total Cost

The estimated total investment is US\$1,200,000, or US\$30,000 per room. The combined interests and roles of the sponsoring group, together with the experience of the project manager, the firm quotes obtained from other suppliers, and the detailed cost plans, will ensure that cost overruns are kept to a minimum and the project is completed on schedule. The total costs are summarized below by major category.

Total Project Costs

Major Category	US\$000
Land	150.0
Perimeter fence	10.0
Construction	370.0
External works	150.0
Equipment	50.0

Furniture	40.0
Vehicles	30.0
Subtotal	800.0
Contingency allowance	80.0
Pre-operating expenses	50.0
Professional fees	70.0
Interest during construction	100.0
Working capital	100.0
Subtotal	400.0
TOTAL	1,200.0

b. Financial Plan

The proposed financial plan is summarized below.

Financial Plan	US\$	% Equity-Debt	% Total
Sponsor #1	50,000	8.33	4.17
Sponsor #2	50,000	8.33	4.17
Sponsor #3	50,000	8.33	4.17
Sponsor #4	150,000	25.00	12.50
Sponsor #5	150,000	25.00	12.50
Sponsor #6	150,000	25.00	12.50
Subtotal	600,000	100.00	50.00
Lender A	600,000	100.00	50.00
TOTAL	1,200,000		100.00

As can be seen, in order to complete a financial plan the investors require an additional US\$150,000 in capital from one or more investors and a loan in the amount of US\$600,000. The resulting debt-to-equity ratio is expected to be 50% to 50%.

Financial projections prepared by the sponsors indicate that a loan with a twelve-year term and a three-year grace period are required to ensure healthy cash flows permitting profitable operations, provide for appropriate depreciation allowances, and service the financial obligations.

V. The Market

a. Trends

Caribbean tourism industry development strategy is placing increasing emphasis on the countries' natural resources, cultural heritage, and history. It is expected that development will try to maximize the benefits of each country's flora and fauna, rather than merely perpetuating the

image of sun, sea, and sand.

The figures for Country A, where the project will be located, approach the region's average for trends and market segments. This positive trend is expected to continue with occupancy rates in excess of 70 percent, as economic growth strengthens in tourism originating areas. A market report commissioned by BIRD indicates that nature and heritage tourism is the fastest-growing sector of the tourist industry worldwide and that in Country A in particular there has been a steady increase in the number of nature and adventure travelers such as birdwatchers, divers, and hikers. Statistical evidence indicates that over half of the visitors to Country A went there because of the variety of activities available, such as sea bathing, bird watching, hiking, observing flora and fauna, and scuba diving. The Flamingo Park Hotel and Nature Reserve stands to benefit from the growing demand for environmentally conscious vacations, given its privileged location providing immediate access to all these activities.

b. Competition

There are two tourist facilities already operating in the target area. Facility #1 is a fifty-room hotel situated directly on the beach. It has an established clientele and enjoys an average occupancy rate of 70 percent. Facility #2 is a seventy-eight-room hotel catering to the vacationer interested in quiet family holidays close to nature; it offers horseback riding, biking, tennis, and water sports. This hotel has conducted aggressive market campaigns and last year reported an average occupancy rate of 80 percent during the peak season and year-round occupancy of 70 percent.

Although Flamingo would not compete with these facilities directly, its proposed room rates will be 25 percent lower. Given the trends and the success of facilities #1 and #2 in attracting significant tourist traffic to this part of the country, it seems reasonable to expect that Flamingo will be able to attain similar occupancy levels.

c. Marketing Strategy

Flamingo Park will be marketed through arrangements made with Sponsor #5, who is the owner of EcoAdventures Expeditions, a nature tour-operator based in the United States. He will provide a vast network of travel-industry contacts and concentrate on linking up with specialist outbound tour operators who cater to the growing nature and heritage tourism market in the United States, Europe, and Japan. Contacts with specialized research centers and universities will also be established to promote Flamingo Park as a privileged research site. The national airline has three flights from Miami every week, and airport facilities are adequate for all commercial flights coming to the island.

VI. FINANCIAL PROJECTIONS AND PROFITABILITY

a. Profitability⁵

⁵The amounts presented in this hypothetical case study are used for presentation purposes only. The "Net long-term debt" row indicates that the project had no need of the grace period.

A summary of the projected financial statements is shown below. All operating expenses are based on estimates derived from reports from other comparable operating hotels in the industry.

Selected Items from Projected Financial Statements

Income Statement (US\$000)	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Average occupancy	50%	60%	70%	80%	80%
Room rate (US\$)	65.0	65.0	65.0	65.0	65.0
Sales revenue	1,430.0	1,716.0	2,002.0	2,288.0	2,288.0
Cost of sales	644.0	738.0	821.0	915.0	915.0
Operating expenses	686.0	824.0	941.0	1,075.0	1,052.0
Interest expense	100.0	95.0	90.0	80.0	70.0
Depreciation	100.0	100.0	100.0	100.0	100.0
Net Income	(100.0)	(41.0)	50.0	117.0	150.0
Balance Sheet					
Net fixed assets	1,190.0	1,090.0	990.0	890.0	790.0
Net long-term debt	600.0	560.0	510.0	460.0	410.0
Net worth	700.0	670.0	680.0	690.0	700.0
Return on equity	2.0%	6.0%	12.0%	16.0%	16.0%
Margins/Ratios					
Gross income/sales	54%	57%	59%	60%	60%
Net income/sales	0.0%	0.0%	6.9%	10.0%	13.1%
Current ratio	1.8	2.1	2.3	2.7	3.0
Debt-service coverage	0.7	1.1	1.8	2.2	2.4

These projected results, which are considered well within reach, show Flamingo earning profits after the second year of operation. The venture is expected to carve out a market niche in the island and in the region, and to attain increasing occupancy rates as it establishes its name. Under current regulations, which promote investment in tourism projects, Flamingo will enjoy a tax holiday during the first ten years of operations.

The project's liquidity appears to be satisfactory throughout the projection period, with a current ratio of 1.8 in the first year and improving thereafter. The debt-service coverage is also adequate, with a minimum of 0.7 in the first year and over 1.1 thereafter.

The base scenario shows an internal rate of return (IRR) of 20.2 percent. The net present value of the project's cash flows before interest and depreciation is calculated at US\$551,400. The economic rate of return (ERR) is estimated at 30 percent. There is a positive net foreign-exchange impact, reflected by a ratio of 2 to 1 between net foreign-exchange results and total investment cost. The project generates value-added that mainly accrues to local economic agents. The ratio of value-added to investment cost is estimated at 3 to 0, i.e., for each dollar (equivalent) invested in the project, three dollars' worth of value-added is generated for the local economy.

The sensitivity analysis indicates that the project is sensitive to changes in room rates and occupancy levels. However, the impact of changes in Flamingo's capital costs and its room and occupancy rates on its profitability and debt-service coverage ability were all calculated in the studies and the base-case scenario was prepared using very conservative assumptions. Flamingo can sustain a drop in occupancy rates of as much as 10 percent and a 10 percent decrease in room rates without jeopardizing its long-term profitability and debt-service coverage capability.





ANNEX 2. TOURISM AS AN ECONOMIC DEVELOPMENT TOOL

I. Tourism and the Economy in General

The most important economic feature of activities related to the tourism sector is that they contribute to three high-priority goals of developing countries: the generation of income, employment, and foreign-exchange earnings. In this respect, the tourism sector can play an important role as a driving force of economic development. The impact this industry can have in the different stages of economic development depends on the specific characteristics of each country. Given the complexity of tourism consumption, its economic impact is felt widely in other production sectors, contributing in each case toward achieving the aims of accelerated development.

A major difficulty in defining the boundaries of the tourism sector is to ascertain what investment costs should be ascribed to the development of tourism. Although heretofore not treated by international agencies as a “sector” in national accounting terms, tourism entails a collection of goods and services that are provided specifically for visitors and would not have been provided otherwise.

Because of its interdependence with other sectors of the economy, it is difficult to analyze and plan for tourism. The lack of reliable statistical data hampers identification of the mechanisms by which tourism generates growth, as well as its potential for development. Yet, in those instances where analysis has been carried out and research has preceded planning, tourism’s priority in competing for scarce investment funds has been established. In these cases, long-term programs for tourism development have been designed.

Nature and heritage tourism development has investment needs that differ, in certain respects, from traditional tourist hotel development. There may be a greater need to improve access to the attraction site or facility, and for a mode of development that does not interfere with a sensitive habitat or historic area.

a. Elements of Supply and Demand

Three primary factors influence the level of nature and heritage tourism demand: overall tourism growth, the growth in specialty travel, and increasing awareness of and concern for the environment. Each of these factors is in turn influenced by a number of elements. Overall tourism, for instance, is expected to continue to grow more rapidly than world economic output as a result of factors such as population growth, rising incomes and employment, shorter work weeks in many parts of the world, and the increasing integration of the world’s economies and societies. The rapid growth of specialty travel is fueled by some of the same factors, but there are a number of additional explanations: the boom in outdoor recreation and the new interest in health and fitness, for example. Environmentalism is another of the elements that have changed people’s attitudes about how they should spend their vacations.

b. Tourism and GDP

The tourism sector in the Latin American and Caribbean countries contributes significantly to GDP earnings, though this contribution is not reflected in the domestic income and product accounts of most

countries. In the Bahamas, tourism accounts for about one-third of GDP, and most sectors of economic activity are directly or indirectly linked to it. In Barbados, tourism is the leading economic sector, accounting for 15 percent of the GDP in 1992. In Jamaica, the tourism contribution to GDP was 13.4 percent in 1992, while in Mexico it was only 4 percent.

Not all tourism receipts are retained within the economy. In fact, there is an outflow of foreign exchange for some of the goods and services consumed by visitors, as well as for capital goods invested in tourism and for payments abroad. Import needs depend on the level of development and the degree of diversification of a country's economy. These needs are also dependent on the availability of substitutes for imported products and on the qualitative level of the tourist supply in each country.

c. Tourist Income Multiplier and Value-Added

The tourist income multiplier (*tim*) is a coefficient that expresses the amount of income generated by a unit of tourism expenditure.⁶ In Jamaica, a stopover visitor spending one dollar creates a ripple effect of US\$1.60 within the local economy, while a dollar spent by a cruise-ship visitor generates US\$1.20. In the Dominican Republic, the *tim* has been estimated at US\$1.70.

⁶The calculations are based on the familiar Keynesian multiplier $K = 1/MPS + MPM$, where MPS is the marginal propensity to save and MPM the marginal propensity to import (or to spend on tourism abroad),

The value-added concept is particularly important when considering the impact of tourism in the Caribbean region. Value is added when a product is developed, processed, refined, or marketed in a manner that allows it to be sold at a higher price than the prices of the raw materials, services, and components bought for its production. Countries with large domestic agricultural sectors supplying tourist consumption are well positioned to achieve higher levels of value-added in the tourism sector.

When a country's natural resources are packaged by foreign tour operators and sold through sophisticated marketing techniques, a substantial portion of the value-added is created and captured by those tour operators and therefore not returned to the country. To increase the value-added of tourism, host-country businesses and residents must offer travel services such as packaged tours ("land services"), offering locally owned accommodations and providing the necessary means to visit natural areas.

d. Income Distribution Effect (IDE) and Employment

The IDE offers one of the strongest socioeconomic arguments in favor of tourism development. It describes how income generated by the sector is distributed. The analysis can be undertaken at a spatial and at a functional level.

At the spatial level, tourists prefer to travel in regions with little industrial development. They also tend toward areas of little agricultural value. For these reasons, tourism can become a dynamic force in regional economies. Within a country, tourism demand originates in urban concentrations where the highest incomes are found. A percentage of such incomes is normally set aside for tourism in areas that are geographically different from the visitors' home base, reinforcing the process of internal income redistribution. Internationally, a portion of the tourism consumption by developed countries occurs in developing countries, favoring the process of international income redistribution.

At the functional level, the income generated tends to favor employment, which is estimated to contribute more to the total value-added of the industry than other factors do, because so much of tourism involves personal services. It has been estimated that, worldwide, tourism directly or indirectly supports sixty-five million jobs, including hotel managers and staff, taxi drivers, tour operators, and shop attendants, among others. Secondary employment is generated in agriculture, industry, handicrafts, and services.

Tourism compares favorably with other economic activities as a generator of both employment and income, both directly and diffused through the economy. An OAS study on new hotel development in the Caribbean estimates that every investment of US\$80,000 in the tourism industry in the region generates forty-one jobs⁷. The same investment would create only sixteen new jobs in the petroleum industry and fifteen in metallurgy. According to the CTO, the 77,319 hotel rooms in fifteen Caribbean countries equaled 88,697 jobs, or almost 1.15 per room⁸.

⁷Organization of American States. *The Optimum Size and Nature of New Hotel Development in the Caribbean*, Washington, D.C., 1987.

⁸Caribbean Tourism Organization, *Caribbean Tourism Statistical Report*, 1992.

Hotels account for about 75 percent of tourism employment (distribution, transport, finance and insurance, and entertainment make up the other 25 percent). Every room in a three- or four-star hotel in Venezuela generates one job, according to the IDB; for five-star hotels, each room creates 1.3 jobs. According to the OAS study, one job generated by a hotel generates one more job elsewhere in the tourism trade and two in the rest of the economy; thus one job generates an estimated three others.

The tourism sector, particularly hotels, can play an important role in attracting foreign investment and providing training for nationals. Many tourism ventures include foreign equity participation and technical knowledge about the construction and operation of hotels. The former represents a mobilization of international financial resources, which can be regarded as a desirable substitute for foreign borrowing. Outside management can be used to train large numbers of nationals who would not otherwise have access to training. Furthermore, tourism provides a stimulus for the development of other ancillary businesses catering to tourists.

An illustration of this can be found in Mexico, where foreign companies are seeking investment opportunities in the tourism sector because it is perceived to be less sensitive to trade agreements than, for example, manufacturing. Recent and prospective foreign investors in Mexico include the following:

- Japan's Aoki Group, a major shareholder in the Westin chain of U.S. hotels, will build a hotel and golf course in Cancún catering to foreign tourist groups, including Japanese vacationers.
- Another Japanese group will invest US\$20 million in the Ruinas del Rey tourism project.
- Investors from Germany's Robinson GmbH have signed an agreement to develop a US\$30 million ecologically oriented project south of Cancún, in the midst of Mayan archeological ruins.
- France's Grupo Dipe is investing in the US\$560 million Puerto Loreto project in Baja California.
- Italy's Società Esercizio Cantieri signed a contract with Fonatur, the national tourism development agency, to jointly develop a US\$1.5 billion marina in Cancún.

It is expected that the projects will bring in US\$2.2 billion in foreign-exchange revenues annually. The tourism sector in Mexico attracted 40 percent of total foreign investment in 1991 and at least US\$3.5 billion, or 14 percent of total foreign direct investment in all sectors, over the last five years.

In Venezuela, six debt-equity swaps totalling nearly US\$360 million are benefiting the tourism industry. The funds are being used to develop four resorts on Margarita Island, where approximately 60 percent of all tourism projects under development are located. Spain's Grupo Once is building a US\$50 million resort named Isla Bonita on the island's northern coast. Posadas de Mexico and Club Aguasal are planning a US\$150 million hotel and housing project nearby. Ramada Inn will soon be operating the third

project, a US\$57.2 million hotel called Complejo Porlamar, owned by Promenade and Nocal N.V. of Curacao. The fourth project, owned by Grupo L'Hermitage, is the US\$88 million L'Hermitage Hills, in Pampatar.

e. Tourism and Balance of Payments

Tourism can make an important contribution to a country's balance of payments. The IDB estimates that in the Latin American and the Caribbean five-star hotels can generate US\$5.4 for each dollar spent in their operation. The figure for three- and four-star hotels averages US\$4.2.⁹ From an economic viewpoint, services performed in tourism are classified as exports. Tourism activity in the Caribbean does not usually require sophisticated technology, and can absorb more personnel without skilled training than other industries.

⁹Inter-American Development Bank, *Evaluation Report on IDB Lending for Tourism Projects*, Washington, D.C., March 1989.

Tourism offers developing countries the possibility of diversifying their export earnings, particularly given that (i) traditional exports are subject to price fluctuations and (ii) there is a trend toward reducing the administrative, monetary, and border formalities that affect international tourism mobility.

The tourism sector has the capacity to recover foreign-currency investments in a very short period of time. The World Tourism Organization (WTO) estimates, for instance, that a medium-class beach hotel in a developing country will earn back in one year the entire foreign exchange required to build and equip it. In the case of tourist vehicles, such as buses, this period is even shorter.

Import factors vary from 3 to 10 percent of total tourist receipts in Mexico, Venezuela, and Colombia. This jumps to about 30 percent in Jamaica and more than 40 to 50 percent in the smaller Caribbean islands. Where the amount earned exceeds the amount paid to provide the product - a positive net balance of payments - tourism development merits strong consideration.

The OAS estimates that to produce a unit of value of Jamaican currency in the tourism sector, 0.37 units in direct and indirect imports are needed, which means that 37 percent is imported. This figure is smaller than in any other sector except mining. By contrast, the industry sector imports 73 percent of its inputs. Therefore, a unit of investment in tourism would have more than double the impact of an equivalent amount in other industries. In bigger countries, with a better capacity to provide food, transportation, and varied cultural attractions, tourism would presumably involve fewer imported inputs.

With only a few exceptions, the terms of trade for developing countries, i.e., the ratio between the prices that a country receives for its exports and the prices it pays for its imports, have traditionally been unfavorable, because of fluctuations in the prices of raw-material exports. But in the case of international tourism, if the index of average international tourist expenditure is taken as the expression of the price of the international product, the prices received have enjoyed greater stability than the prices of raw materials - in fact, prices have tended to increase in a stable manner, because, among other reasons, of the demand for holidays, the growth of business travel, and the rigidity of destination supply in the short and medium term. Whereas the prices of other products are affected by speculative or strategic offers, this is generally not the case with tourism. It is therefore a sector that tends to improve the terms of trade of an economy in the medium as well as the short term.

II. The Conventional Tourism Industry in the Caribbean

For many Caribbean islands, tourism has become the most important economic activity, especially as the major earner of foreign exchange. This is in part the result of the declining importance of sugar, bananas, bauxite, and oil as engines of growth. But it is also a reflection of the increasing importance given to recreation and leisure as a result of rising world income levels. In addition, unlike many goods

and services, tourism has no exact substitutes, meaning that the demand for holidays will grow rather than be traded for something else.

a. Recent Trends

During the period 1985-1992, the Caribbean region registered a 52.1 percent increase in tourist arrivals (6.2 percent in annual terms), compared with only 16 percent for 1980-1985 (3 percent in annual terms)¹⁰. In 1992, the Caribbean islands recorded over twelve million tourist arrivals and nearly nine million cruise-passenger visits—an increase of 2.9 percent and 7.7 percent, respectively, over 1991. The main originating areas in 1992 were the United States (52.1 percent), Europe (16.9 percent), and Canada (6.5 percent). Intra-regional tourism represented 8.8%. The remaining 15.7% is mainly composed of visitors from Central and South America¹¹. The revenues generated by visitors were estimated at about US\$9.8 billion in 1992, an increase of 8 percent over the previous year.

¹⁰ The figure for worldwide tourist arrivals in the same period was 46.4 percent (5.8 percent in annual terms).

¹¹ The source of all figures related to Caribbean tourism is Caribbean Tourism Organization, *op. cit.*

Although the majority of tourists to the Caribbean are from the United States, the percentage is dwindling as other countries discover the islands. In 1988, 58 percent of visitors to the Caribbean had been from the United States. Between 1988 and 1992, the proportion of European tourists had increased from 13 to 17 percent. Moreover, since Europeans generally stay longer, each arrival from Europe accounts for a higher average number of tourist days.

With respect to the United States market, about 6.3 million tourists visited the Caribbean in 1992. Over one-third (35.6 percent) went to U.S. territories (Puerto Rico and the U.S. Virgin Islands); another third (35 percent) visited the Bahamas, Jamaica, and the Dominican Republic. The dependence of Caribbean destinations on the U.S. market is most noticeable in the Bahamas, Bermuda, and the U.S. Virgin Islands, where it represents nearly 80 percent of all U.S. travel to the Caribbean. In 1991, 20 percent of all U.S. overseas travelers went to the Caribbean.

b. Accommodations

It is estimated that the Caribbean has approximately 145,800 hotel rooms, distributed among 32 countries and territories (end 1992). The Bahamas, Cuba, Jamaica, and the Dominican Republic accounted for about 50 percent of the total and were the only destinations with more than 10,000 rooms.

The number of hotel rooms in the Caribbean has increased by 74 percent since 1980. During the last decade, the hotel capacity of the region increased by nearly 62,000 rooms (about 6 percent a year). However, the growth has been concentrated geographically: 77 percent of the new rooms were constructed in the Dominican Republic, Jamaica, Cuba, Guadeloupe, Aruba, and Martinique. In some countries the total number of rooms has remained unchanged or even declined.

With regard to establishment size, over 50 percent of the hotel rooms are in hotels of 100 or more rooms. However, this proportion varies from country to country. In Aruba, Puerto Rico, and Cuba, over 70 percent of the rooms are in establishments of more than 100 rooms. By contrast, seven Caribbean destinations have no hotels of this size.

The Dominican Republic is the largest destination in terms of room capacity, with 24,410 in 1992. There has been a rapid increase in capacity in Aruba and Puerto Rico in recent years. Also, a high level of hotel construction is under way in Cuba, mostly in association with Western European consortia.

c. Cruise Ships

The number of cruise tourists has increased vigorously in the last ten years. Total cruise-passenger visits to the Caribbean have increased by nearly 40 percent since 1988, equivalent to an annual growth rate of 8.5 percent. During 1992, 8.9 million cruise-ship passenger arrivals were registered at Caribbean ports - a 7.7 percent increase over the 8.2 million of just a year before. In 1992, about 53 percent of total North American berths were allocated to the Caribbean.

The three largest cruise destinations in the region are The Bahamas, the U.S. Virgin Islands, and Puerto Rico, which recorded growth rates averaging 4.2 percent. On the other hand, very large increases were registered in Aruba, Bonaire, The Cayman Islands, Dominica, Jamaica, and St. Kitts and Nevis. The individual performance of these destinations in terms of cruise-passenger visits was impressive, recording rises of over 25 percent.

The cruise-ship sector is expected to continue growing rapidly during the remainder of the decade. Much of this growth is likely to take place in the Caribbean, increasing its share of a growing market that could represent 15 million visits to the region by the end of the 1990s.

d. Visitor Expenditures

It is estimated that visitors to the Caribbean spent US\$9.8 billion in 1992. This represents an 8 percent increase over the previous year and reflects a continuing rise in average expenditure per visitor (although this is partly due to inflation). Gross tourism receipts represented some 25 percent of all export receipts. For many countries, it is the dominant productive sector and generates the most foreign exchange. Over the same period, the value of the region's main commodity exports (sugar, petroleum, bauxite, and manufactured goods) declined sharply.

In 1992, Caribbean tourists spent the most in the Dominican Republic, The Bahamas, and Puerto Rico, over US\$1 billion in each. Together, these countries accounted for nearly 40 percent of the region's total receipts in 1992. The other major beneficiaries of tourist expenditures during that year were Jamaica (US\$850 million), the U.S. Virgin Islands (US\$790 million), Barbados (US\$460 million), Aruba (US\$450 million), and Bermuda (US\$440 million). Stayover visitors accounted for almost 95 percent of total spending by visitors to the region in 1992.

III. Factors Affecting the Caribbean Tourism Industry

Global tourism has become the largest industry in the world, with nearly 500 million consumers of tourism services per year spending hundreds of billions of dollars. The industry provides employment to over 100 million people worldwide. The 1986 total of US\$2 trillion in world tourism receipts is expected to grow by 4 percent annually to nearly US\$3 trillion by 1996.¹² The WTO reported that 364 million international tourists spent US\$150 billion (excluding airfare) in 1987.

¹²*Travel Industry World Yearbook*, 1989.

International Tourist Arrivals 1984-1989 ('000s)

	CARIBBEAN	MEXICO AND CENTRAL AMERICA	SOUTH AMERICA	TOTAL	PERCENT CHANGE
1984	7,364	5,735	6,403	19,502	
1985	7,765	5,477	6,747	19,989	2.5
1986	8,203	5,903	7,818	21,924	9.7
1987	9,301	6,749	7,780	23,830	8.7
1988	9,797	7,151	7,998	24,946	4.7
1989	10,016	7,199	8,199	25,414	1.9

Source: World Tourism Organization.

In view of tourism's increasing role in economic activity, the factors affecting its performance should be analyzed. An understanding of these factors is crucial to determine the ways in which national and international financial institutions, NGOs, and other entities can play the most value-adding role.

a. Demand FACTORS

The Importance of Location. People with incomes high enough for foreign travel are concentrated in a few countries. Most developing countries are far from key points of origin. In this regard, countries like Mexico and some Caribbean islands that are close to the United States and Canada benefit from a comparative advantage. These tourist destinations reaped early success in promoting their attractions. In 1989, for example, the Caribbean region captured 2.58 percent of the world's 450 million tourist arrivals, with gross expenditures estimated at more than US\$3 billion. Tourists have since ventured to further Caribbean islands and coasts such as those of Venezuela and Costa Rica. Travel between neighboring regional countries is also expanding. Foreign-exchange receipts in Paraguay, which receives over 85 percent of its visitors from Argentina and Brazil, increased eightfold between 1976 and 1986.

Income Elasticity. In several countries, travel receipts have been the fastest-growing export item. The tourism sector represents over two thirds of the value of total exports of goods and services from the Bahamas, three fifths of those from Barbados, and over one third from the Dominican Republic and Jamaica. As national incomes increase, expenditure on travel increases even faster.¹³ As a result of this trend, international receipts from foreign travel have been increasing by nearly 11 percent a year (over 8 percent in constant prices) or at more than twice the rates of national incomes.

¹³ A model developed by the IDB for seventeen major source countries gave a weighted average of 1.7 for the income elasticity of tourism demand.

Decreasing Travel Costs. There is evidence that tourism demand is also price-elastic, particularly below certain price levels. The two major costs of a trip abroad are transport charges and expenditures in the destination country. For short-distance traffic, such as from the eastern United States to the Bahamas, the Dominican Republic, or Jamaica, destination expenditures have the greater weight in the total cost of a trip. In these particular countries, however, they are generally lower than in other, competing Caribbean destination areas; the present study found empirically that their cost structure in general also tended to be lower, probably because of the larger scale of their tourist industries and the greater self-sufficiency of their economies. For long-distance traffic, air transport is predominant, and average air transport costs have been declining. Where such transport costs constitute a high proportion of the total cost of a trip, this decline is of great significance for the potential for long-distance travel growth.

b. Supply Factors

Public and Private Sector Involvement. Tourism is mainly a private-sector enterprise, but the timely provision of hotel and other visitor services, such as entertainment, food, and sport facilities, requires public-sector participation in the form of infrastructure, promotional support, and fiscal and financial incentives, so as to attract private investment to the sector.

Another important factor directly related to tourism facilities is the availability of credit. As in any commercial activity, the availability of credit on suitable terms is an essential catalyst for sound tourism investment. In a number of countries, when the private financial system does not provide it, the public sector has established credit lines for tourism investment.

Tourist Destination Attributes. Tourist demand is spurred by innovation in the type of holidays offered (new commodities) and by improvements in transport, accommodations, and attractions (quality

changes). The tourism sector offers a multidimensional product that, if vigorously promoted, is likely to lead to changes in the pattern of demand and generate new demand for services. Yet, as in any other sector of economic activity, a minimum set of parameters needs to be in place in order to make an investment viable. In this sense, it is important to identify those attributes of a destination area that are necessary to attract tourism projects and make them viable. Such attributes relate to at least six different categories: climate, natural resources, infrastructure, amenities, culture, and socioeconomic and political factors. The table below presents these categories with their related attributes.

An ideal combination of these attributes should result in forms of tourism development that maximize returns to the economy, to the investors, and to the consumers of tourism services.

Tourist Destination Attributes

CLIMATE	NATURAL RESOURCES	INFRASTRUCTURE	AMENITIES	CULTURAL	SOCIAL-ECONOMIC POLITICAL
Temperature Rainfall Humidity Sunshine	Beaches Lakes Rivers Forests Mountains Flora Fauna	Water/energy supply Drainage Telecommunications Roads Railways Ports Airports Waste removal	Accommodations Tourism Organizations Restaurants Shopping Sports facilities Recreational parks Zoos Entertainment	Historic features Theaters Concert halls Art galleries Museums Architecture Exhibitions Festivals	Industrial structure Government structure Planning system Language Religion Gastronomy Hospitality





ANNEX 3. CHART 1, CHART 2, CHART 3

Chart 1. Financing Government-Managed Nature and Heritage Tourism

Attraction	Purpose	Financing Sources	Operational Characteristics
Northern, Central, Southern Ranges & wetlands, Trinidad Main Ridge, Tobago	Education and research	Capital and operating costs funded by government. Revenues from license and permit fees.	Revenues insufficient to cover operating costs. Approximately US\$84,650 in revenues lost to private tour operators. Government subsidized.
Dominica's 12 sites for potential tourism use.	Environmental education, recreation, and research	CDB loan of US\$4 million to evaluate tourism potential at the sites.	Revenue flows to be determined.
Historic buildings, Cabrits, Dominica	Historic preservation and education (through visitor center)	Capital investment funded by CIDA. Revenues from entrance fees and souvenir sales.	Revenues should cover operating costs to qualify project for SPIF funding.
Central market, Castries, Saint Lucia	Historical	SPIF grant for infrastructure to sell local crafts. Revenues from stall rentals.	Revenues should cover operating costs to qualify project for SPIF funding.
Waterfront market, St. Vincent	Historical	SPIF grant for infrastructure to sell local crafts. Revenues from stall rentals.	Revenues should cover operating costs to qualify project for SPIF funding.
Historic sites, Barbados	Historical	IDB funded a study to identify heritage sites.	Revenue flows to be determined by evaluation.
Gun Hill Signal Station, Barbados	Historical and educational	Capital investment funded by government. Nominal entrance fees.	Revenues insufficient to cover operating costs. Government subsidized.

Fort Granby, Tobago	Historical	Capital investment funded by government. Revenues from entrance fees and souvenir sales.	Revenues insufficient to cover operating costs. Government subsidized.
Heritage Village, Studley Park, Tobago	Historical and educational	Capital investment and operating capital provided by government and commercial donations.	Revenue flows to be determined.
Turner's Hall Wood, Barbados	Educational	Capital investment provided by government grant. Revenues from nominal entrance fees.	Revenues insufficient to cover operating costs. Government subsidized.
Farley Hill National Park, Barbados	Historical, educational, and recreational	Capital investment provided by government grant. Revenues from nominal entrance fees.	Revenues insufficient to cover operating costs. Government subsidized.
Joe's River Tropical Rain Forest, Barbados	Educational	Capital investment provided by government grant. Revenues from nominal entrance fees.	Revenues insufficient to cover operating costs. Government subsidized.
Harrison Cave, Barbados	Educational	Capital investment provided by government grant. Revenues from entrance fees, restaurant, and souvenir sales.	Revenues fully cover operating costs.

Chart 2. Financing NGO-managed Nature and Heritage Tourism

Attraction	Purpose	Financing Sources	Operational Characteristics

Barbados Primate Research Centre and Wildlife Reserve	Environmental education and research	Capital investment funded by CIDA. Revenues from entrance fees and export/sale of monkeys for medical research.	Revenues cover operating costs.
Asa Wright Nature Centre, Trinidad	Environmental education, research, and species-specific management	Capital investment provided by owner equity. Revenues from entrance fees, stayover visitors, rental of research station, grants and donations.	Revenues cover operating costs.
Museum and Interpretation Centre, Pigeon Island, Saint Lucia	Educational and historical	Capital investment provided by SPIF grant. Revenues to come from entrance fees and souvenir sales.	Revenues should cover operating costs to qualify project for SPIF funding.
Grenade Hall Signal Station, Barbados	Educational and historical	Capital investment provided by commercial bank loan and loan from financial agency. Revenues to come from entrance fees and souvenir sales.	
Stollmeyer Castle, Trinidad	Historical	Capital investment provided by government and donations. Revenues from special events and government subsidies.	Revenues cover operating costs.

Grenade Hall Forest, Barbados	Educational	Capital investment provided by commercial bank loan with 12.75 to 16.5 percent interest and loan from financial institution with 10 to 13 percent interest. Revenues from entrance fees.	Entrance fees to be set at levels sufficient to cover operating costs and to repay loans.
Welchman Hall Gully, Barbados	Educational	Capital investment provided by grants and donations. Revenues from entrance fees.	Revenues insufficient to cover operating costs. Subsidized by the Barbados National Trust.

Chart 3. Financing Privately Managed Nature and Heritage Tourism

Attraction	Purpose	Financing Sources	Operational Characteristics
Flower Forest, Barbados	Educational	Capital investment provided by owner equity and commercial bank loan. Revenues from entrance fees and souvenir sales.	Revenues cover operating costs.
Oughterson Zoo Park, Barbados	Educational	Capital investment provided by owner equity and commercial bank loan. Revenues from entrance fees and souvenir sales.	Revenues cover operating costs.
Freshwater Reef-Atlantis Submarines, Barbados	Educational	Capital investment provided by equity and commercial bank loan. Revenues from participation fees and souvenir sales.	Revenues cover operating costs.

Highland Outdoor Tours, St. Thomas/St. James, Barbados	Educational	Capital investment provided by private sources as equity, loan from Tourism Development Corporation, and grant from Barbados Tourism Authority. Revenues from participation fees.	Revenues cover operating costs.
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ANNEX 4. TERMS OF REFERENCE OF STUDY

MEMORANDUM OF UNDERSTANDING BETWEEN THE GENERAL SECRETARIAT OF THE ORGANIZATION OF AMERICAN STATES AND THE INTER-AMERICAN INVESTMENT CORPORATION FOR A STUDY OF FINANCING FOR NATURE AND HERITAGE TOURISM

This Memorandum of Understanding between the General Secretariat of the Organization of American States, hereinafter referred to as “GS/OAS” and the Inter-American Investment Corporation, herein referred to as “IIC” is intended to enable collaboration in preparation of a study of financing for nature and heritage tourism. This is not to be considered as a binding international agreement, and is limited to the cooperation herein described.

ARTICLE I - OBJECTIVES OF THE STUDY

- 1) An analysis of actual and prospective needs for financing of nature and heritage tourism in the Caribbean.
- 2) An analysis of adequacy of current sources, costs, terms, and procedures for such financing.
- 3) Recommended measures for facilitating financing nature and heritage tourism in the Caribbean.

ARTICLE II - BACKGROUND

The Department of Regional Development and Environment (DRDE) of the Economic and Social Executive Secretariat, OAS, is engaged in a study of nature and heritage tourism in the Caribbean. Nature and heritage tourism is defined here as tourism which is primarily attracted by natural resources, such as scenic sites, flora or fauna. The DRDE has extensive experience in natural resource base management and its inter-relation with the main economic activities in the several countries of the Caribbean, particularly tourism development.

Increasing awareness of the potential of tourism for the economies of the Caribbean as well as the growing recognition of the inter-relation of natural and heritage attractions and tourism gave impulse to the DRDE/OAS study of nature and heritage tourism in the Caribbean. Caribbean member countries are seeking to identify their potential for nature and heritage tourism and strategies for exploiting that potential in ways that contribute simultaneously to economic development and environmental conservation.

One crucial aspect of the study is financing the development of nature and heritage tourism. Financing the development of more traditional tourism during the 1970s and 1980s encountered persistent difficulties, that, in becoming more familiar to investors, banks and government

authorities, perhaps are becoming less daunting. The particular activities and context of nature and heritage tourism present different and in some ways more difficult financing requirements in relation to financing for more traditional beach/resort type tourism. A major difference is the need to acquire or secure the attraction for nature and heritage tourism and heritage. That is by definition a scenic natural or historical site, or some unique flora or fauna. To secure a scenic natural site, one needs to secure not only the immediate vicinity, but also the surroundings that go into making up the "view-scape". In the case of unique fauna, and to some extent flora, it is necessary to secure the habitat of the species. Therefore, generally the development of nature and heritage tourism requires considerably more land, which usually requires the purchase of land, even in instances where the land has been declared a national park or protected area.

Another difficulty in financing the development of nature and heritage tourism is that the type of visitor facilities required are typically somewhat distinct and may reduce the profitability of the required investment, or along with the still novel character of the nature and heritage tourism market, raise the level of apparent risk to the investor. Typically, nature and heritage tourism takes place in small parties or excursion groups. Lodging accommodations are on a much smaller scale. Therefore, the lower investment cost usually expected in less luxurious construction is often outweighed by the cost of more environmentally friendly power and sanitary equipment, building materials, and techniques, as well as the premium paid for lower economies of scale. Infrastructure required may lack the supplementary justification from neighboring industrial or governmental welfare activity. While tourism attractions in national parks or in wild lands may not require the same level of infrastructure as a resort development, there is virtually always an irreducible amount of infrastructure required. For example, the practical access to some remote jungle lodges may be only by plane, which would require some form of airport, terminal, and navigational equipment.

The IIC is a multinational organization set up in affiliation with the IDB to facilitate financing to the private sector in Latin America and the Caribbean, especially small and medium sized-firms. Recognizing the particular aptness of small enterprises for nature and heritage based tourism, the IIC hosted a conference on the issue of financing such tourism in November 1992. Discussions between staff of the OAS and IIC at the conference led to the collaboration subject of this memorandum.

ARTICLE III - METHOD

The study will provide an understanding of tourism in the Caribbean, of the natural attraction endowment of the Caribbean, and of nature oriented tourism demand in the major nature and tourism generating countries. This research required is primarily empirical research.

The analysis of current nature and heritage tourism financing is also to be based largely on empirical research, i.e., reviewing operating nature and heritage tourism support facilities and nature and heritage tourism operations, and summarizing the experiences of different cases. Attaining the third part of the objective - recommending measures for facilitating the financing of nature and heritage tourism - will not only involve perceiving practical policy reforms for governments, but also innovative proposals for private and public sector cooperation, collaboration of the local financing institutions with tourism entrepreneurs, and a review of the possibilities for assistance in financing from a number of international development assistance institutions, as well as non-governmental conservation associations. Presumably, this will involve

the drafting of innovative proposals and their review by the parties potentially affected by the proposals.

The study will need to be aware of the close nexus between financing the development of nature and heritage tourism on the one hand, and the conservation of natural tourism attractions on the other hand.

The research for this study will involve working with the tourism industry, particularly those firms specializing in nature and heritage tourism in the destination country and in the originating country. It would involve research of the sources of financing, primary and secondary, which presumably would mean national and international. What conceivably could be a relatively extensive research will necessarily be constrained by time and budget. The locus of international research may be limited to Washington, site of international financing and of conservation entities, and perhaps New York as the largest market for Caribbean tourism. The locus of destination country research would be a few selected case studies. Existing material and the representativeness of Jamaica, Guyana, Barbados and a small CDB member country justify consideration of them as case studies.

ARTICLE IV - SOURCES

Sources of information might include:

- A. the files, data and officials of the national tourism authorities of relevant IIC member counties and of OAS member counties;
- B. business leaders in the tourism private sector in the Caribbean;
- C. studies and reports on tourism in the Caribbean produced in the international assistance agencies, e.g., OAS, CTO, IDB, CDB, particularly the reports of the other OAS consultants on the wider study;
- D. national tourism sector development plans and national economic development plans;
- E. natural resource inventories, national environmental profiles, descriptions and analyses of physical endowments of the countries and of the region and their evaluations as attractions for the nature tourist;
- F. national park and protected areas development and management plans, and officials of entities charged with responsibility for those areas;
- G. international tour operators and receptive tour operators;
- H. international and national conservation associations and societies, particularly staff involved with tour planning;
- I. officials of financial intermediaries in the Caribbean;
- J. officials of international development financing institutions;
- K. the plans, proposals, feasibility or pre-feasibility studies for future nature and heritage tourism development in the Caribbean.

ARTICLE V - PRODUCT

The product of this effort is to be a study which concludes with proposals to facilitate the financing of nature and heritage tourism in the Caribbean, and which:

- A. analyzes present nature and heritage tourism to the Caribbean and projects its trends in the future;
- B. analyzes the amount and characteristics of the financing utilized in financing nature and heritage tourism thus far, as well as the constraints encountered or problems met in raising the financing required, separately analyzing the financing of the acquisition of nature and heritage tourism sites, i.e., land, and other costs such as lodging, tour operator investments, etc.;
- C. distinguishes and describes the participation of the private sector in nature and heritage tourism development and financing, particularly the potential of nature and heritage tourism revenue generation;
- D. estimates the financing likely to be required to facilitate the potential development of nature tourism to take place;
- E. proposes specific measures for the governments to take in helping to develop financing for i) nature and heritage tourism site (land) acquisition, and ii) the financing of tourism facilities or services such as lodging or tour operations;
- F. proposes arrangements between the international finance assisting agencies, the insurance/guarantee agencies, the local financial intermediaries, entrepreneurs, conservation associations, and the communities neighboring the natural tourism attraction to facilitate financing of nature and heritage tourism development.





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THE ORGANIZATION OF AMERICAN STATES

The Organization of American States (OAS) is the world's oldest regional organization, dating back to the First International Conference of American States, held in Washington, D.C., from October 1889 to April, 1890. This meeting approved the establishment of the International Union of American Republics. The Charter of the OAS was signed in Bogota in 1948 and entered into force in December 1951. The Charter was subsequently amended by the Protocol of Buenos Aires signed in 1967, which entered into force in February 1970, and by the Protocol of Cartagena de Indias, signed in 1985, which entered into force in November 1988. In 1992, the "Protocol of Washington" was signed and in 1993 the "Protocol of Managua" was signed. These two instruments will enter into force upon ratification by two-thirds of the Member States. The OAS currently has 35 Member States. In addition, the Organization has granted Permanent Observer status to 30 States, as well as the European Union.

The basic purposes of the OAS are as follows: to strengthen the peace and security of the continent; to promote and consolidate representative democracy, with due respect for the principle of nonintervention; to prevent possible causes of difficulties and to ensure the pacific settlement of disputes that may arise among the Member States; to provide for common action on the part of those States in the event of aggression; to seek the solution of political, juridical and economic problems that may arise among them; to promote, by cooperative action, their economic, social and cultural development, and to achieve an effective limitation of conventional weapons that will make it possible to devote the largest amount of resources to the economic and social development of the Member States.

The OAS accomplishes its purposes through the following organs: the General Assembly; the Meeting of Consultation of Ministers of Foreign Affairs; the Councils (the Permanent Council, the Inter-American Economic and Social Council and the Inter-American Council for Education, Science, and Culture); the Inter-American Juridical Committee; the Inter-American Commission on Human Rights; the General Secretariat; the Specialized Conferences; the Specialized Organizations and other entities established by the General Assembly.

The General Assembly holds regular sessions once a year. Under special circumstances it meets in special session. The Meeting of Consultation is convened to consider urgent matters of common interest and to serve as Organ of Consultation under the Inter-American Treaty of Reciprocal Assistance (Rio Treaty), the main instrument for joint action in the event of aggression. The Permanent Council takes cognizance of such matters as are entrusted by the General Assembly or the Meeting of Consultation and implements the decisions of both organs when their implementation has not been assigned to any other body, it monitors the maintenance of friendly relations among the Member States and the observance of the standards governing

General Secretariat operations and also acts provisionally as Organ of Consultation under the Rio Treaty. The purpose of the other two Councils is to promote cooperation among the Member States in their respective areas of competence, These Councils hold one annual meeting and meet in special sessions when convoked in accordance with the procedures provided for in the Charter. The General Secretariat is the central and permanent organ of the OAS, The headquarters of both the Permanent Council and the General Secretariat is in Washington, D.C.

MEMBER STATES: Antigua and Barbuda, Argentina, The Bahamas (*Commonwealth of*), Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica. Cuba, Dominica (*Commonwealth of*), Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname. Trinidad and Tobago, United States, Uruguay and Venezuela.

