HOSPITALITY

Key sector ESG aspects relevant to operations:
Labour standards | Health, safety & security | Resource efficiency & pollution prevention | Supply chains | Business integrity

1. APPLICABILITY

This Sector Profile is designed to help fund managers quickly familiarise themselves with the most frequent and important environmental, social and governance (ESG) aspects of investments in the hospitality sector. It aims to be a starting point for thinking about ESG risks and opportunities, and not a detailed technical guidance document.

1.1 Using this Sector Profile

A company can be affected by non-sector specific issues such as impacts on Indigenous Peoples and cultural heritage. Therefore, each company must be carefully considered based on its specific characteristics and circumstances including scale of operation, location, technology utilised, management capacity, supply chains, commitment and track record. Additionally, the environmental and social (E&S) impacts, risks and opportunities in a particular company or sector can change over time (e.g. changes in the applicable laws, or expansion of a company's activities or assets). Fund managers should have systems in place to identify such changes and manage any associated risks and impacts and, where possible, capitalise on new opportunities.

This Sector Profile draws on internationally recognised good practice standards and guidance, particularly the International Finance Corporation (IFC) Performance Standards and the World Bank Group Environmental, Health and Safety (EHS) Guidelines. The Sector Profile identifies key standards that are generally applicable to each sector (refer to the 'Standards, guidelines and other resources' section below). It is not a substitute for such standards, which should take precedence as authoritative sources and basic technical references. Applicable laws and regulations must be taken into account and compliance with them should be regarded as the minimum acceptable performance standard.

See CDC Environmental and Social Checklist and CDC Governance and Business Integrity Checklist for questions that fund managers should consider when evaluating a hospitality investment from an ESG perspective.

1.2 Scope of this Sector Profile

This profile covers:

- Hotels and tourist facilities.
- Leisure facilities.
- Catering and hospitality services.

Business activities that fall within the scope of this Sector Profile include:

- Provision and service of food and beverages through restaurants, temporary or permanent fast food outlets, cafes, bars and clubs, catering businesses, sporting or recreational venues.
- Provision of leisure and business accommodation services through urban or rural hotel-type facilities (i.e. excluding accommodation provided in educational or work facilities).
- Provision of leisure services (i.e. recreational activities and services).

This Sector Profile does not cover activities related to tourist travel (by air, ship, bus or train), and only loosely applies to short-distance transfer related travel. For hospitality related activities such

as food and beverage handling and manufacture, and retail activities, refer also to the CDC Sector Profiles: Food and Beverages and CDC Sector Profiles: Retail.

Unless otherwise stated, the risks, impacts and opportunities outlined below relate to the operational phase of business activities. Generic guidance on ESG risks, impacts and opportunities associated with Project design and construction of hospitality facilities and services may be found in the CDC Project Design and Construction Guide.

2. KEY ENVIRONMENTAL AND SOCIAL ASPECTS

This section outlines some of the specific risks and impacts that emerge from poor ESG practices. Weak management of these issues aspects may lead to reputational damage, have an impact on a company's capacity to raise funding (debt and equity) and, more broadly, negatively impact a company's financial performance. Conversely, sound E&S practices are likely to improve a company's reputation, access to investors and overall performance.

2.1 Management commitment, capacity and track record (CCTR)

Companies need management's commitment and sufficient capacity to ensure that the necessary resources are available for sound E&S management. Refer to CDC Guidance: Assessing Companies' Commitment, Capacity and Track Record.

2.2 Environmental and social management system (ESMS)

Companies should develop and implement an ESMS commensurate with the level of risks and impacts associated with its activities. For further advice refer to CDC E&S Briefing Note: Environmental and Social Management Systems (company-level).

2.3 Labour and working conditions

Note – Occupational health and safety is covered separately below.

Risks for the business	- Companies may face prosecution or fines (or have their licences removed) if they fail to comply with labour laws and regulations. - Financial, reputational and legal risks can result from poor staff morale or attitudes, industrial action, high staff turnover, theft and poor employee health (e.g. due to long working hours and working late at night). - High turnover of staff arising from poor labour standards and working conditions can lead to increased recruitment and training costs. - Quality customer service is a key factor for any hospitality business to succeed. Therefore it is critical to ensure that careful attention is given to training, labour capacity and good working conditions.

Opportunities for the business	• Costs can be reduced and productivity enhanced through good labour standards and working conditions. In the service industry, staff performance, friendliness, competence and quality all significantly impact on the reputation, success and profitability of a business. Attention to good working and labour conditions can help to attract and retain motivated and competent workers. • Client base can be enhanced if a company achieves certain standards or related certifications covering labour and working conditions (e.g. SA 8000 or those related to the service industry including customer service and quality). • Access to market and customers can be improved where approved supplier or certification programs include E&S requirements. For example, attaining standards on ingredient traceability, operational or service attributes such as 'Organic', 'Fairtrade' or 'Eco-tourism').

Employment grades and skills can vary greatly depending on the nature and scale of the hospitality operation. Nevertheless, the labour standards should be uniform regardless of pay and skill grade - from the head office of large resorts to kitchen staff at a food outlet.

Wages and working hours: The hospitality sector is a major employer of contract, migrant or seasonal labour, and workers who provide services via supply chains (e.g. catering services, facilities management and recreational services), so attention should be paid to working hours and the nature of shift work. The hospitality sector often involves long shifts and after-hours work, so care must be taken to ensure that low-paid migrant workers are not exploited. Immigration laws and work permits must be taken into consideration. Companies should not use third party contractors as a means of exceeding working hour regulations or avoiding minimum wage payments.

Good practice in this area can help to manage costs relating to recruitment, training and talent retention and maintain or enhance customer service and build the hospitality industry's reputation and overall business success.

Freedom of association and collective bargaining: The rights of workers and the role of unions has previously been an issue within the hospitality sector. Extra care should be taken to ensure that the right to enter free and voluntary collective bargaining arrangements with management is respected. Failure to respect this and to establish a good relationship with unions could have negative impacts on a company (e.g. strikes). Collective bargaining can also be a constructive forum for addressing working terms and conditions and for improving worker/employer relations. It is often more effective and more flexible than state regulation. It can help in anticipating potential problems and can advance peaceful mechanisms for dealing with them that satisfy both employers and workers. Companies should adopt international good practice to help manage costs relating to recruitment, training and talent retention and to enhance productivity.

Child labour and bonded/forced labour: Child, bonded or forced labour is a risk in many aspects of the hospitality sector. Child labour may be employed in the hospitality industry for services relating to entertainment, food preparation and service (particularly in small scale operations) and the sex industry. Refer to the ILO briefing note on Child Labour in Hotels, Catering and Tourism for additional information on steps to be taken to identify and combat these practices. Non-compliance with ILO Core Labour Conventions on Child Labour/Minimum Age and

Forced Labour is not acceptable under international standards. Measures to eradicate these forms of labour should be implemented as a matter of priority.

Equal opportunities and non-discrimination: Employment opportunities for women are generally high in the hospitality sector. However, sexual harassment poses a significant risk to women and companies should develop and implement employment policies to guard against this. Good practice in this area can help to manage costs relating to recruitment, training, and talent retention and enhance productivity.

Accommodation: Working hours in the hospitality sector can be long and may require extended periods of absence from family and community at remote operations such as tourist resorts. Where the company undertakes to provide (either directly or through contractors) worker accommodation, it should include the provision of basic services and take into account the principles of non-discrimination and equal opportunity. The company should develop and implement policies on the quality and management of the accommodation in accordance with Good International Industry Practice (GIIP) as this can help maintain a stable and productive workforce. Companies should develop and apply family-friendly employment policies.

For further sector specific guidance refer to ILO Briefing Note on Child Labour in Hotels, Catering and Tourism.

For further general guidance on Good International Industry Practice (GIIP) relating to labour standards and working conditions (in line with ILO Core Conventions), refer to CDC E&S Briefing Note: Labour Standards, IFC Performance Standard 2: Labor and Working Conditions and IFC Good Practice Note: Non-Discrimination and Equal Opportunity.

2.4 Occupational health and safety (OHS)

Risks for the business	• Companies may face prosecution or fines if workers or contractors are injured or killed. • Poor OHS practices can lead to damage or loss of company assets, clients and business as well as increased insurance premiums and even legal claims. • Low workforce morale and erosion of trust can lead to higher staff turnover, lower productivity, additional training and recruiting costs, and reputational damage.
Opportunities for the business	• Proactively involving workers and contractors in key decisions can help to identify and maintain good OHS practices, and improve implementation if found to be significantly different to existing practices or new practices adopted. • Quality of service can be improved and insurance premiums for workers' and compensation payments can be reduced.

OHS is an important consideration for any business, regardless of sector and all companies should have in place appropriate OHS and emergency preparedness and response management systems, commensurate with level of risks. Measures should also be in place to ensure contractors work in accordance with applicable regulations and GIIP.

Where contractors are involved in operation and maintenance activities, companies should implement measures to ensure contractors work in accordance with applicable regulations and GIIP. Such measures should be covered in companies' OHS and emergency preparedness and response management systems.

Specific OHS risks in the food and beverage industry include those in connection with:

- Physical hazards (e.g. long working hours, repetitive work, slips on wet or food contaminated floors, food preparation and sharp knives, strains and hard labour associated with grounds management/furniture movement/installation for conferencing).
- Exposure to noise (e.g. laundry, entertainment facilities, facilities management).
- Chemical hazards (e.g. chemicals used in cleaning/disinfection operations and cooling systems (ammonia), pesticides used in landscaping and grounds management, chemicals used in pool maintenance).
- Fire (e.g. ensuring customers and guests are protected and evacuated first can pose additional risks to hospitality staff).

For further sector-specific guidance refer to World Bank Group Industry Sector EHS Guidelines for Tourism and Hospitality Development and ILO Occupational Safety and Health Manual in Tourism.

For further general guidance on GIIP relating to OHS, refer to CDC Briefing Note: Occupational Health and Safety, IFC Performance Standard 2: Labor and Working Conditions, World Bank Group General EHS Guidelines and CDC Good Practice: Preventing Fatalities and Serious Accidents.

2.5 Resource efficiency and pollution prevention

Risks for the business	• Fines and penalties can be imposed for non-compliance with national pollution prevention standards and waste management. • Excessive expenditure on energy and water supply. • Excessive expenditure on management of emissions, solid waste and wastewater.
Opportunities for the business	• Lower operating costs, reduced environmental footprint and future proofing for resource shortages or increased resource costs can result from adopting energy efficiency, water efficiency and cleaner production measures. • Use and, where possible, re-use of food packaging with lower environmental footprint and reduced transportation costs. • Improved access to market and customers from adoption of certification standards such as ISO 20121 (green event management).

Energy efficiency: The hospitality sector can be a large consumer of energy. Companies often require continuous energy for lighting, air conditioning, refrigeration, food preparation, guest entertainment and security systems. Therefore opportunities for improved energy efficiency or the use of renewable energy should be explored and where possible implemented.

This is often achieved during the design phase (see CDC Project Design and Construction Guide) when energy efficiency measures can most easily be incorporated into the operational practices of hospitality facilities (e.g. training of staff, encouraging guest contribution to energy conservation, ensuring preventive maintenance and updating to more energy efficient products when replacing appliances.

Many energy efficiency technologies that may not have been feasible at design and construction are now economically attractive on a retrofit basis especially in areas where electricity prices have increased. Examples include LED lights, occupancy or motion sensors, room key card-power supply linkages and the linking of room booking online systems with heating ventilation and air conditioning (HVAC) systems to ensure that only occupied rooms are heated/ cooled. The price of renewable power sources such as solar panels has also reduced significantly.

Air emissions: The bulk of air pollution from hospitality operations stems from on-site power generation (particulate matter and GHGs), and ozone depleting substances from large HVAC systems. Particularly where older or poorly maintained equipment is used. Unpleasant smells and odours can also be a concern to local communities where significant food preparation takes place and where food waste is stored or disposed of on site. Air emissions control and monitoring measures should be implemented by companies in accordance with the applicable regulations and standards.

Water management: The hospitality sector often requires a continuous and reliable supply of large quantities of good quality water for drinking, guest ablutions, food preparation, cleaning, laundries, recreation, landscaping and design, fire protection and general premises upkeep. Consumption of water by guests at hotels and resorts can exceed that of the local population and therefore there is potential for conflict with local communities regarding access to water – posing a significant business risk. High levels of water use also leads to large volumes of wastewater, which may be expensive to treat and may require special permits, particularly in remote or pristine areas. Special attention should be paid to on-site sewage treatment to prevent ground water contamination and the potential for grey water and post treatment water recycling should be investigated.

Hospitality companies should assess water scarcity and pollution risks throughout their operations and where possible seek to introduce and implement water consumption reduction measures. Guests should be informed of local water scarcity issues and encouraged to participate in water conservation measures (e.g. choosing less frequent laundering of towels). Retrofitting of water conservation methods such as the collection and re-use of grey water for use in landscaping should be considered and rain water tanks installed where possible.

Waste management: The hospitality sector can generate significant packaging waste, as well as organic and solid waste. Handling, storing, treatment and disposal of solid waste involves significant hygiene and contamination risks and can be expensive. A waste management plan should be implemented aimed at reducing the amount of solid waste produced.

Where even small volumes of potentially hazardous wastes are generated (e.g. detergents and solvents from cleaning and laundry operations, or pesticides and herbicides from landscaping) the company should ensure that these are stored, handled, transported and disposed of in accordance with GIIP to prevent environmental contamination or danger to handling workers and nearby communities.

For further sector-specific guidance refer to World Bank Group Industry Sector EHS Guidelines for Tourism and Hospitality Development.

For further general guidance on GIIP relating to resource efficiency and pollution prevention, refer to CDC E&S Briefing Note: Resource Efficiency, CDC E&S Briefing Note: Pollution Prevention, IFC Performance Standard 3: Resource Efficiency and Pollution Prevention, and World Bank Group General EHS Guidelines.

2.6 Community health, safety and security

Risks for the business	• Social licence to operate can be put at risk if appropriate Life and Fire Safety measures are not implemented. Failure to do so can also lead to claims from customers. • Indirect risks to communities can arise from increased numbers of job seekers or criminal elements moving into the area. • Reputational damage and loss of licence to operate if excessive, intimidating or aggressive use of force by security personnel is used against communities.
Opportunities for the business	• Building relationships with local communities can help to improve reputation, widen the customer base and provide a bigger potential labour pool.

Emergency preparedness and response: Companies must implement emergency preparedness and response systems to respond to accidental and emergency situations associated with the company's activities in a manner appropriate to prevent and mitigate any harm to people and/or the environment. Companies should develop these systems in collaboration with appropriate and relevant third parties (e.g. local authorities).

Life and Fire Safety: This is vital to the hospitality sector. All buildings used by the general public should meet the highest standards for Life and Fire Safety (LFS). LFS should be taken into account at the design and construction phase, as retrofitting can be costly. Monitoring and maintenance systems should be implemented during operations. Companies should design and implement emergency response measures and plans to protect the public (e.g. clear signs for evacuation routes and the installation of smoke detectors and sprinklers).

Local community safety: Hospitality operations can cause safety risks for local communities through increased traffic and population. Customer volumes should be taken into account when planning and managing parking and road access and existing traffic patterns and road use should be assessed when planning deliveries.

Health: Hospitality operators should ensure that activities minimise and wherever possible prevent negative health and noise nuisance impacts for nearby communities and the environment. Waste handling, storage and disposal should not contaminate land and water, or lead to vermin.

Security: Many hotels, resorts and conference venues employ security staff to protect patrons, their belongings and the premises. When using security forces, companies should be guided by the principles of proportionality, good international practice and applicable laws for hiring, rules of conduct, training, equipping and monitoring of security personnel. Particular attention should be

paid to any human rights violations from terrorism and sabotage and the potential for social conflict and unrest instigated by security personnel. Such principles include practices consistent with the United Nation's (UN) Code of Conduct for Law Enforcement Officials and UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials.

For further sector-specific guidance refer to World Bank Group Industry Sector EHS Guidelines for Tourism and Hospitality Development.

For further general guidance on GIIP relating to community health, safety and security, refer to CDC E&S Briefing Note: Community Health, Safety and Security, IFC Performance Standard 4: Community Health, Safety and Security, UN Code of Conduct for Law Enforcement Officials, UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials and Voluntary Principles on Security and Human Rights.

2.7 Supply chains

Risks for the business	• Reputational risks linked to the sourcing of products from unsustainable supply chains and/or providers who do not meet basic international standards and conventions.
Opportunities for the business	• Collaborating with and, where possible, training suppliers to improve E&S management can lead to reduced use of resources, higher productivity and product quality and better relationships with suppliers. • If approved supplier programs include E&S requirements companies can benefit from improved access to market. For example, markets where customers consider sustainability issues when making purchasing decisions. Consider local sourcing of food and beverages to help build stronger economic links with local producers and communities and as a potential cost saving exercise.

Improved sustainability across primary supply chains can enhance business success in hospitality operations. It helps to avoid reputational risks that might occur through association with companies with poor environmental, social or ethical practices. Particular attention should be paid to products (e.g. food or wood for construction) that may come from unsustainable or illegal sources.

For further guidance on supply chains, refer to the CDC Briefing Note on Supply Chains. Also refer to the CDC Sector Profiles for Manufacturing, Retail and Food and Beverages.

3. BUSINESS INTEGRITY CONSIDERATIONS

Fund managers should ascertain and continue to ensure that companies (regardless of sector) comply with the fund's business integrity requirements. For further information, see Governance and Business Integrity.

3.1 Business integrity issues specific to the hospitality sector:

In addition to standard business integrity concerns, risks that are particularly relevant for the hospitality sector include:

- The potential for hidden ownership by Politically Exposed Persons (PEPs).
- Undue influence or political involvement in the identification, acquisition and leasing of land.
- The obtaining of licenses and permits for construction and access to infrastructure.
- Risks associated with vendors and suppliers.

Companies should have clear processes in place for managing government permits and inspections. It is also important that companies conduct thorough due diligence on any agents and local partners to prevent corrupt payments being made on their behalf.

4. ADVICE FOR FUND MANAGERS

See also [CDC Environmental and Social Checklist](#) and [CDC Governance and Business Integrity Checklist](#) and [ESG in the Investment Cycle](#).

4.1 Sector risk overview

There are a number of ESG issues that may be material to the long-term value of hospitality companies. These risks will vary depending on the specific circumstances and geographies of each company. Fund managers should expect to find that while the ESG risk and impacts can be complex, they can usually be addressed through the application of widely-used, proven techniques and management practices (although this will need to be assessed on a case-by-case basis). External consultants can be engaged to advise on ESG matters, depending on the nature, scale and location of a company's operations, its track record and the fund manager's expertise and capacity to conduct appropriate E&S due diligence.

Fund managers should take note of any investors' Exclusion Lists (e.g. Schedule 6 of [CDC's Code of Responsible Investing](#)) as some of the exclusions typically included relate to activities in the hospitality/entertainment sector (e.g. gambling, gaming or associated activities).

4.2 Scoping considerations

In addition to the aspects highlighted above fund managers should take into account the following during the life of the investment:

- *Associated facilities* (e.g. access routes which are not part of the company's assets but are required for the company's operations).
- *Contractors* whose operations present significant E&S issues which could have an impact on the business (e.g. land clearing, security services).
- *Supply chains* (e.g. food suppliers or wood supplier for construction). Even where a company cannot directly address risks because it lacks leverage or commercial influence, it is important that fund managers are aware of the risks. For further guidance refer to [CDC E&S Briefing Note: Supply Chains](#).

4.3 Situations requiring extra attention

Extra attention, longer timescales, more intensive ESG due diligence and ongoing company engagement may be required in more complex situations. This may involve engaging consultants (see [CDC Guidance: Working with Consultants](#)) to conduct a gap analysis against the applicable local and international E&S standards (e.g. [IFC Performance Standards](#) and [World Bank Group EHS Guidelines](#)).

Examples of activities or situations in the hospitality sector which require extra attention include:

- *New projects/expansion*s: Greenfield construction, major expansion Projects where the scale of operations carries a high risk of major social or environmental impacts, Projects involving land acquisition or where the site is in a sensitive location (e.g. close to protected natural habitats). See also the [CDC Project Design and Construction Guide](#).
- *Large-scale individual hospitality operations:* Including the LFS measures of customers and the general public, general customer and community security measures, and where the size

of operations results in continual resource use and pollution disposal impacts. Large-scale operations also have potentially ongoing community impacts as a result of their operations (e.g. traffic, noise, access). These may require long term attention.

- *Large-scale hospitality chains:* Such as hotel chains with a number of operations. While individual outlets or facilities may not pose large-scale risks or impacts, the collective footprint of the business can be significant. They also offer the potential for noticeable and positive environmental opportunities, as a result of economies of scale. For example, retrofitting motion sensor lights or replacing white goods with more energy-efficient models in a single restaurant back of house area could be prohibitively expensive, but sourcing these in bulk for a group operation can result in a significant discount per individual. Bulk ordering can also result in less packaging wastage.

- *Operations which may have an impact on natural habitats, legally and/or internationally recognised areas, Critical Habitats, Indigenous Peoples and/or cultural heritage:* Hotels, lodges and other hospitality sector services are sometimes located in or around environmental and/or social features which attract tourists (e.g. National Parks and ethnic groups). It is vital to ensure that companies manage any E&S impacts and risks and where appropriate there is equitable sharing of benefits from commercialisation of knowledge, innovation, or practices of local communities (particularly Indigenous Peoples and other vulnerable groups).

- *Operations in areas that may have become significantly more developed since initial establishment:* Sometimes, long established operations come under increased operational pressure due to the influx of other hospitality operators. This can impact the nature and extent of E&S risks posed by a business where cumulative impacts may have significant repercussions for its ongoing viability.

- *Water use:* The hospitality sector and its operations often require significant amounts of water. Some place greater pressure on local supply than others. For example, water based recreational venues such as water parks, golfing resorts and large-scale highly landscaped properties. Other may be in areas prone to water scarcity. Fund managers should engage with companies' on water use and seek to minimise or prevent the potential for competition or conflict with other water users, particularly local communities, both over the short and long term.

- *Transactions and geographies with high business integrity risks.*

- *Any other activities or Projects involving involuntary economic and/or physical displacement of communities or significant adverse impacts on biodiversity or ecosystem services, Indigenous Peoples, cultural heritage, or local communities:* There are no intrinsic features of the hospitality industry that predispose the sector to be associated with such impacts and risks (other than through the primary supply chain), but such issues may arise on occasion and should be managed in accordance with the applicable IFC Performance Standards.

5. STANDARDS, GUIDELINES AND OTHER RESOURCES

For authoritative guidance, fund managers should consult the applicable IFC Performance Standards and World Bank Group EHS Guidelines.

5.1 Applicable IFC Performance Standards

The IFC Performance Standards most commonly applicable to investments in this sector are:

- IFC 2012 Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts.
- IFC 2012 Performance Standard 2: Labor and Working Conditions.
- IFC 2012 Performance Standard 3: Resource Efficiency and Pollution Prevention.
- IFC 2012 Performance Standard 4: Community Health, Safety and Security.

In addition, other IFC Performance Standards may be applicable depending on the specific characteristics and locations of a company's operations (lodges/hotels located in legally protected areas and/or near Indigenous Peoples may trigger other IFC Performance Standards). The screening stage of the fund manager's ESG due diligence should include a routine check for the presence of impacts covered by IFC Performance Standards.

5.2 Applicable World Bank Group EHS Guidelines

- World Bank Group General EHS Guidelines.
- World Bank Group EHS Guidelines for Tourism and Hospitality Development.

5.3 Additional references, standards and guidelines

Additional resources that may be valuable are:

- ILO Briefing Note on Child Labour in Hotels, Catering and Tourism.
- ILO Occupational Safety and Health Manual in Tourism.
- World Health Organisation. Guidelines for Safe Recreational Waters. Vol. 2: Swimming Pools, Spas and Similar Recreational-water Environments.
- World Tourism Organisation. 2004. Indicators of Sustainable Development for Tourism Destinations.
- World Tourism Organisation Global Code of Ethics for Tourism.