PS&D

JUNE 2018

Private Sector & Development

PROPARCO'S MAGAZINE

THE HOTEL AND TOURISM INDUSTRIES IN AFRICA: A BOOMING MARKET

Africa – Development – Big chains
Hotels – Tourism

SPECIAL ISSUE

PROPARCO
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

PRIVATE SECTOR & DEVELOPMENT
is published by Proparco,
Agence Française
de Développement Group,
share capital of EUR 693,079,200,
151 rue Saint-Honoré, 75001 Paris - France
Tél. (+33) 1 53 44 31 07
E-mail : revue_spd@afd.fr
Website : www.proparco.fr
Blog : blog.private-sector-anddevelopment.com

Graphic design and creation
LUCIOLE

Photo credit (front cover)
iStock / Getty Images

Translations
Neil O'Brien/Nollez Ink
Warren O'Connell

Editorial office
(:?!;) D O U B L E P O N C T U A T I O N,
www.doubleponctuation.com,
Sabine Cessou

Printing on recycled paper
Pure Impression

ISSN 2103-334X
Legal deposit at publication
23 June 2009

MIX From responsible sources FSC® C022968

SUMMARY

The booming African hotel industry

Thomas Éloy

Head of Proparco's Debt department

The tourism and hotel industry, which is often vaunted for its capacity to create jobs and boost regional economic activity in general, has been enjoying a boom in Africa for a few years now.

Available data bear this out: in 2017, nearly 62 million international tourists travelled to Africa, a year-on-year jump of 8%. According to the United Nations Conference on Trade and Development (UNCTAD), in 2016 around 21 million African jobs were generated by tourism, representing nearly one working person in 14.

Moreover, the fact that this fine growth has been achieved despite the various political, social and economic crises affecting certain African countries is proof of the resilience of tourism across the Continent as a whole. And while we should bear in mind that the sector is developing at a different pace depending on geography and local economic circumstances, the forecasts of the World Tourism Organisation (WTO), the United Nations Conference on Trade and Development (UNCTAD) and international consulting groups all seem to forecast a buoyant market for the major hotel groups right across the Continent. The big players are well aware of this and have already developed high-end offerings that have helped disseminate best environmental and social practices.

Obviously, financial backers, investment funds and development finance institutions (DFIs) – including AFD Group and Proparco in particular – are well placed to partner the African tourism and hotel sector. Indeed, Proparco has been supporting the hotel sector for more than 20 years. Since 2015, it has invested nearly €80 million in seven hotel projects. By working in this way, DFIs can use their investments and technical assistance not just to create jobs but to help major groups to develop and comply with international standards.

Mossadeck Bally,
Founder and CEO, Azalaï Hotels Group

Mossadeck Bally is the Founder and CEO of Azalaï Hotels Group, West Africa's leading hotel chain. Born in Niger to Malian parents, Mr. Bally studied first in France and then in the United States, where he graduated from the University of San Francisco with a Master's in finance and management. Azalaï Hotels Group is the flagship of his ambitious vision for "African Business".

Rémy Darras,
Assistant Editor, *Jeune Afrique*

Rémy Darras is Assistant Editor at *Jeune Afrique*, responsible for economic affairs. He mainly covers news about African air transport and also focuses on the hotel, construction and logistics sectors.

David Harper,
Head of Property Services, Hotel Partners Africa

David Harper is the managing director of Leisure Property Services, a fellow of the Royal Institute of Chartered Surveyors and the author of newly published book Hotels and Resorts; An Investor's Guide. He is also the author of the best-selling book; Valuation of Hotels for Investors. David is a founding member of Hotel Partners Africa (HPA), a consultancy offering a comprehensive range of services to hotel owners, operators and investors from initial feasibility to sale and exit. David has over 20 years' experience in property and the hotel industry and has worked in over 100 countries. He also advises the RICS on hotel valuations and wrote the guidance on ISURV, a subscription service providing best practice advice for Chartered Surveyors the world over.

Charlotte Specht,
Director for West and Central Africa, Horwath HTL

Charlotte joined Horwath HTL in 2013, after graduating from ESC Rouen Business School with a major in entrepreneurship. She is responsible for development in West and Central Africa and opened Horwath HTL's commercial representative office for the Abidjan region (Côte d'Ivoire) in 2016. Charlotte is specialized in market and feasibility studies for hotels under development and has developed specific skills for hotel strategies and programming, evaluations and due diligence in the context of urban projects or resorts.

Caroline Dole,
Investment Manager, Proparco

Caroline Dole joined Proparco in 2012 as Investment Manager in the Finance and Management division before switching to the Manufacturing, Agribusiness and Services Division in 2016 where she is in charge of identifying, vetting and structuring projects in the tourism and health sectors. Previously, Caroline worked in Switzerland for Ernst & Young audit, Givaudan and Damart-Somfy. She holds a Masters degree from Grenoble School of management and is a graduate of both Copenhagen Business School and the Swiss Institute of Chartered Accountants.

Hatim El Gharbi,
Director of the Moroccan National Tourist Office, ONMT

Hatim El Gharbi is Director of the Moroccan National Tourist Office (ONMT) in France and Benelux. He was born in Rabat and graduated with a Master's in International Trade and Business from the University of Montpellier. He joined ONMT in 2003 as product manager. Since 2006, he has held positions in the international offices of ONMT, including in Scandinavia Germany, Benelux and in France since 2013.

Coordinator and contributor

Nicolas Willemin,
Senior Investment Manager, Proparco

Nicolas Willemin arrived in Proparco in 2015 as Senior Investment Officer and head of tourism and urban development in the Manufacturing, Agribusiness and Services division (MAS). Nicolas previously spent five years working in structured and corporate finance before joining AFD Group in 2011 where he structured numerous projects in French overseas territories. He is a graduate of the Sorbonne and EM Lyon Business School.

The hotel industry in sub-Saharan Africa: A booming market

Charlotte Specht, *Director for West and Central Africa, Horwath HTL*

Sub-Saharan Africa is considered as one of the most promising emerging markets in the world, with some 5% of international tourist arrivals in 2017[1]. The continent has thereby recently become a new land of opportunity.

With the exception of a few iconic hotels built in the 19th century, the major change in the history of hotel development in sub-Saharan Africa coincides with the development of air traffic, starting in 1960, and the successive declarations of independence. However, from 1990 onwards, the lack of investments by owners and the gradual shift of interest by hotel groups to other emerging markets (Asia and the Middle East) led to a rapid deterioration in the range of hotel accommodation.

> “Hotel development on the continent has seen a revival and has even been scaled up over the past decade [...]. At the same time, the return of international donors has led to the development of more modern infrastructures.”

However, hotel development on the continent has seen a revival and has even been scaled up over the past decade, in connection with economic growth bolstered by the rise in oil prices and China's growing interest in African raw materials. At the same time, the return of international donors has led to the development of more modern infrastructure. Furthermore, the saturation of certain markets in the rest of the world is prompting international hotel groups to seek new opportunities.

1 ▸ World Tourism Organization, 2017.

MULTI-SPEED HOTEL DEVELOPMENT

Overall, two dynamics can be seen in sub-Saharan Africa: one around the Gulf of Guinea and the other along the Indian Ocean. Four areas reflect these dynamics and share common features (political issues, economic dynamics, demography, tourism activity, etc.): West Africa, Central Africa, East Africa and Southern Africa.

Sub-Saharan Africa is subject to a high level of political instability along its northern fringe, from Mauritania to Somalia. This instability is to be found in each region in question in the West (Mauritania, Mali, Burkina Faso, Niger), Center (Chad, Nigeria, Cameron) and East (Sudan, Somalia, Eritrea, Kenya). This leads to a *de facto* selectivity which favors the most stable countries and areas. In most cases, capitals are away from areas of tension.

From an economic perspective, two countries stand out for their economic weight: Nigeria (which alone accounts for 70% of West Africa)[2] and South Africa (62% of Southern Africa)[3]. These countries often benefit from a specific approach.

Some countries also stand out for their current demographic weight (Nigeria, Ethiopia and the Democratic Republic of Congo, which have over 80 million inhabitants)[4] and others for the projected strong population growth (in particular in countries in the Sahel region, such as Mali, Burkina Faso and Niger, where the population is expected to increase by a factor of over 2.5 by 2050)[5]. These are countries that benefit from several major urban hubs which are business centers.

Finally, in terms of tourism, while there has been a decline in the number of tourist arrivals in a few countries, mainly due to periodic events (terror attacks, epidemics, political instability), some stand out for their strong growth rates: Mozambique (5.6%) and Zimbabwe (5.4%)[6].

However, hotel developers are becoming increasingly familiar with these factors affecting emerging markets. They are also aware that they can obtain higher returns on their risk taking.

FOCUS
HORWATH HTL

Horwath HTL is one of the main French leaders in hotel, tourism and leisure consulting services. It has a network of 45 offices and 250 consultants in 39 countries around the world. Horwath HTL provides the hotel industry with consulting services and practical solutions thanks to its international experience and local expertise, especially in North and West Africa.

THE BARRIERS RELATED TO HOTEL DEVELOPMENT

The pace of hotel development also depends on the capacity to address the main barriers seen in sub-Saharan Africa. For example, access to land, with practically no land register in certain cities, or the difficulties related to the transfer of land; the search for financing, with sponsors often lacking liquidity, the cost of foreign currency, or the fact that local commercial banks are not familiar with the hotel industry; but also the barriers related to construction processes, including the slow progress of works, the quality of the finishing works and the import of materials.

Generally speaking, these factors are managed better on stable and mature markets, such as in Southern Africa, while they still constitute major barriers, on West African markets in particular. →

2 ▸ African Development Bank, 2018.
3 ▸ French Ministry of Economy and Finance, 2018.
4 ▸ World Factbook – CIA, 2016.
5 ▸ Population Reference Bureau, 2015.
6 ▸ World Tourism Organization, 2017.

POTENTIAL STILL LARGELY UNTAPPED

Today, there are over 72,000 rooms with international standards in sub-Saharan Africa (according to Horwath HTL data), over half of which are operated under a brand name. The other half is local accommodation with satisfactory standards, able to complete with hotels under brand names due to the imbalance between supply and demand, rather than its level of services.

Only Southern Africa has an above-average brand penetration rate, and more specifically South Africa, whose economic maturity has led to a more longstanding hotel development. On the other markets, there are still few brands, leaving poorly structured independent accommodation to meet an unsatisfied demand. Consequently, there is real growth potential for brands. Outside Southern Africa, where there are several large markets, the other regions are marked by a single dominant market (for example, in Abidjan, Kinshasa and Addis Ababa).

> “Only Southern Africa has an above-average brand penetration rate, and more specifically South Africa, whose economic maturity has led to a more longstanding hotel development. On the other markets, there are still few brands, leaving poorly structured independent accommodation.”

At the level of the continent, the majority of accommodation is 3 and 4-star, ahead of the 5-star hotel segment. This reflects an upward structuring of markets, but with development conditions which remain difficult for the high-end, given the construction costs and expected level of quality. The share of economy and mid-range accommodation is higher in countries whose development is more advanced. This shows that the development of countries in Africa goes hand in hand with a diversification of activities and clients, opening up new opportunities for economy and mid-range segments.

Demand is characterized by four main types of clients:

- Business clients, which largely dominate (up to 80% depending on the markets). This demand is mainly based on activities related to raw materials, imports/exports, processing industries, infrastructure projects, service projects (telecommunications, banks, etc.) and, in addition, institutional demand.
- Leisure clients, which are complementary and vary depending on the regions (the number is higher in Southern and East Africa), often in transit to tourist sites. Tour operators only offer a limited number of destinations in Africa. There are, however, a few high-growth destinations emerging, driven by a political will to develop this sector, such as Cape Verde and Botswana, where tourism accounts for 18% and 4% of GDP, respectively[7].

7 ‣ French Ministry of the Economy and Finance, 2018.

- MICE[8] activity, which is increasingly dynamic on the continent thanks to the increase in the number of meeting rooms, through the market entry of hotels with quality labels.
- Clients from airline crews, which are increasing thanks to the development of flights to Africa and domestic flights.

Europe and North America were for a long time the main outbound markets in Africa, in both the business and leisure segments. Demand from Africa is experiencing continuous growth, with the growth in regional air connections, the development of regional trade and the growth of the middle class. But the continuous increase in demand from China and the Middle East, which is closely related to the investments made in Africa, should also be noted.

> "Most sub-Saharan African countries offer opportunities for the development of 3 and 4-star business hotels."

WHAT ARE THE PROSPECTS FOR DEVELOPMENT?

On the one hand, with the exception of the most unstable countries or countries affected by monetary crises, most sub-Saharan African countries offer opportunities for the development of 3 and 4-star business hotels. On the other hand, only a handful of destinations are suitable for the development of high-end hotels (5-star). Furthermore, very few operators have already banked on strong growth in tourism in the region. Club Med is the only forerunner, with the planned opening of a second unit in Senegal.

According to Horwath HTL data, hotel accommodation respecting international standards is expected to increase by a third of its current volume (*i.e.* some 24,000 additional rooms) in the medium term continentwide. Today, West Africa is the main area of hotel development. This is firstly due to the current low level of accommodation and, secondly, to the increasing number of emerging markets with favorable conditions for hotel development. Generally speaking, the main markets are those with the largest portfolio of hotels under development (Lagos, Abuja, Luanda, Nairobi), as they represent a major issue in terms of competitiveness for brands which are not yet established.

Future hotel accommodation is dominated by the high-end segment. Indeed, given the risks of these markets, international hotel groups with several brands tend to focus on their 4 and 5-star brands in order to benefit from higher returns. Yet international 3-star accommodation, which for a long time competed with existing independent accommodation, is benefiting from growing interest and several regional initiatives (Onomo, Mangalis, CityBlue, etc.). For hotel owners, there is a real issue of clear positioning, tailored to demand and in line with the international standards expected in the various segments. ■

8 ‣ Meetings, Incentives, Conferences and Exhibitions/Events.

How the sub-Saharan African hotel sector can impact sustainable development

Caroline Dole, *Investment Manager, Proparco*
Nicolas Willemin, *Senior Investment Manager, Proparco*

Given the attractiveness of the region, supporting the sub-Saharan African hotel sector is a major imperative. This is an especially dynamic sector that has numerous direct and indirect impacts on sustainable development through knock-on effects on the local economy.

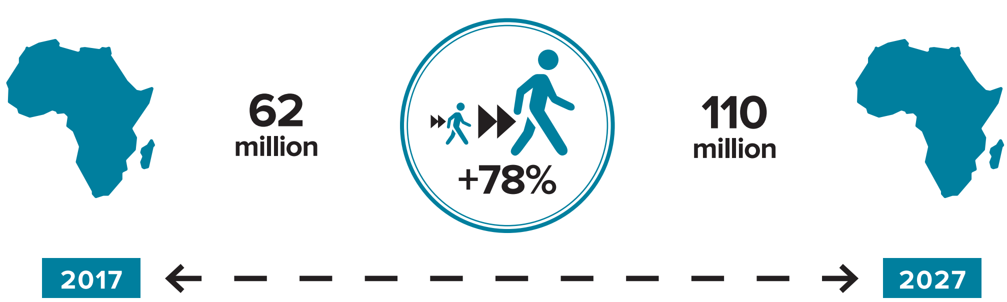
FOCUS PROPARCO

Proparco, the Agence Française de Développement (AFD) subsidiary dedicated to private sector financing, has been supporting sustainable development in Southern countries for the past 40 years. It plays a key role within the AFD Group and in French economic cooperation, *i.e.*, financing and supporting projects deployed by French businesses and financial institutions in developing and emerging countries – everything from promoting microfinance to financing SMEs and regional banking groups.

Although Africa currently accounts for only 5% of the World's travellers, its hotel sector is booming, especially in sub-Saharan Africa. This growth is being driven by Africa's burgeoning middle class[1] on the lookout for quality hotel accommodation.

Between 1995 and 2016, the number of foreign tourists more than doubled from 24 to 58 million, with a marked increase from the mid-2000s on. In 2017, the World Tourism Organisation (WTO) put the number of tourists at 62 million and estimated that this should rise to 110 million in 2027[2]. This increase has been underpinned by a big jump in the number of African tourists who are currently estimated to comprise 40% of the total and 70% in sub-Saharan Africa (UNCTAD, 2017).

IN 2017, THE NUMBER OF TOURISTS IS ESTIMATED AT 62 MILLION, AND SHOULD REACH 110 MILLION IN 2027



1 ▸ In 2016, one African in three belonged to the middle class, *i.e.*, an estimated 400 million people according to the United Nations Development Programme (UNDP).
2 ▸ Africa is home to 131 UNESCO World Heritage sites spread throughout 37 countries (12% of the World's total).

DYNAMIC DESPITE STRUCTURAL IMPEDIMENTS

Tourism's total contribution (*i.e.*, direct and indirect contribution) to sub-Saharan Africa's gross domestic product (GDP) has grown rapidly and accounted for US$ 108 billion or 7.2% in 2017[3] (its share of global GDP is 10.2%). In 2015, the biggest draws included Morocco (over 10 million visitors), Egypt (9.1 million), South Africa (8.9 million), Tunisia (5.4 million) and Zimbabwe (2.1 million). For business travellers, the key destinations were Johannesburg, Lagos, Nairobi, Abidjan, Casablanca and Cairo.

The hotel sector includes both establishments owned by big international and regional chains and independent hotels. The latter generally account for more than 50% of the total offering[4] (*i.e.*, over 40% of three star and 55% of four and five star hotels located exclusively in regional hubs).

The dynamism of the sector is driving a big increase in the number of projects: according to a 2017 report[5] (W Hospitality, 2017), there are more than 417 African hotel projects in progress comprising some 73,000 rooms – twice the number of projects identified in 2009. However, structural impediments (*i.e.*, visa requirements, transport costs, poor air services) are limiting development and investment by the big international brands. The majority of African hotels are independent and the big chains are not part of the investment process. They are limiting their development commitment to management contracts ("asset-light strategy") which is placing most of the investment burden (*i.e.*, cost of land, consulting services, finance and construction) on the shoulders of project initiators.

> "Tourism's total contribution to sub-Saharan Africa's gross domestic product (GDP) has grown rapidly and accounted for US$ 108 billion or 7.2% in 2017."

It is generally entrepreneurs specialised in sectors other than tourism who are investing in hotels. They seek to add value to land that they own by building a hotel but due to a lack of experience and consultancy services, they struggle to deliver hotels that meet the international standards demanded by the big chains. According to W Hospitality, in 2016 only one out of two hotels was actually open for business. →

3 ‣ World Travel & Tourism Council (WTTC).
4 ‣ Study commissioned by Colliers International in 2016 based on a selection of 23 sub-Saharan African cities.
5 ‣ Based on the contribution of 36 international hotel chains with a presence in Africa.

MAJOR IMPACT ON GENDER BALANCE...

In a 2010 report, the International Labour Organisation (ILO) estimated that for every job created in the hotel and catering sector, 1.5 indirect jobs are generated in related sectors. This ratio is even higher in Africa, especially for management-grade jobs (approximately 3). In 2016, an estimated 21 million African jobs – *i.e.*, one working person in 14 for the Continent as a whole – depended on tourism. These figures only take account of the operational phase as labour for the construction phase is not necessarily provided locally. Although it is the most vulnerable sections of the population, particularly young people, women and rural communities, that benefit most from the low-skilled, service-type jobs created in the sector, one of the impediments to growth is the clear shortage of training structures despite huge demand.

> "In Africa, just like elsewhere, over 60% of jobs in tourism are performed by women, including managerial-grade functions."

In Africa, just like elsewhere, over 60% of jobs in tourism are performed by women (of which 50% by women under 25), including managerial-grade functions (UN Women, WTO, 2011). It is worth pointing out that 31% of business owners in tourism-related sectors are women, versus 21% in other African business sectors. In Ethiopia and Botswana, over half of all hotels are run by women (UN Women, WTO, 2011). Therefore, in the long run, the expansion of tourism should enhance gender balance in African workplaces.

... WITH A KNOCK-ON EFFECT ON THE ECONOMY

Tourism also has major knock-on effects on other sectors such as agriculture, infrastructure or healthcare. New hotels mean improved water and electricity services together with more modern transport systems that often benefit people living nearby. Nevertheless, such effects are contingent on the supply chain management policies of the tourism groups that do business in Africa: if they import some products, these will compete with locally-produced wares.

Conversely, using local goods to supply hotels and restaurants will help redistribute income and upscale the offering of local producers. Lastly, the development of niche offerings such as ecotourism, health or cultural tourism will generate more highly-skilled jobs: in Tunisia for example, the growth in health tourism bumped up the value of health service exports from US$ 22 million to US$ 83 million between 2003 and 2010.

Such knock-on effects are also a result of deliberate policies as illustrated by certain island economies such as the Seychelles, Cape Verde and Mauritius where the sector has a disproportionate importance and accounts for 62%, 43% and 27% of GDP respectively. These states are hugely dependent on tourism and especially vulnerable to climate change. Consequently, devising and implementing a balanced development strategy is an economic and political priority in order to preserve their heritage and tackle a social climate that is frequently characterised by the persistence of conflict.

BUILT TO THE HIGHEST INTERNATIONAL STANDARDS

Getting and holding onto certification is a recurring criterion for obtaining funding from financial backers in the real estate and especially the hotel sector. The United Nations Environment Programme (UNEP) estimates that the construction sector on its own is responsible for 30% of the World's CO2 emissions and that said emissions could double in volume over the next 20 years if sustainable building practices are not deployed pretty quickly.

This is why financial backers promote energy-efficient solutions in the building design and construction phases by funding technical assistance for project deployment. Integrating EDGE certification[6] recommended by IFC (World Bank group) starting in the project design phase makes it possible to measure energy efficiency, water savings and the performance of building materials used. With over 2.3 million m² already certified, EDGE generates annual savings of more than 105,000 megawatt hours, 2.6 million m^3 of water and 47,000 tonnes of CO2.

So, the dynamism of the sub-Saharan market is attracting the major international hotel groups and forcing the sector to upgrade, restructure and develop a quality offering in line with international standards in all phases of development (*i.e.*, procedures, construction, environmental and social aspects, and training). ■

REFERENCES

UNCTAD, 2017 Report *"Economic Development in Africa: Tourism for Transformative and Inclusive Growth"*, 2017. Available at: http://unctad.org/en/PublicationsLibrary/aldcafrica2017_en.pdf

W Hospitalitys, *Hotel Chains Development Report,* 2017.

UN Women, WTO, *Global Report on women in tourism 2010,* 2011. Available at: http://www2.unwto.org/sites/all/files/pdf/folleto_globarl_report.pdf

Proparco's role

Proparco has been partnering the hotel sector for more than 20 years and it has recently stepped up this commitment by focusing on business hotels in cities and providing support for established regional and international players. Since 2015, Proparco has invested around €80 million in seven projects in this sector which has made it possible to raise a total amount of nearly €200 million.

This money has been used to get projects off the ground in both West Africa (Guinea, Mali, Niger, Senegal) and East Africa (Ethiopia, Kenya and Uganda). Proparco has used the hotel sector to boost its presence in frontline states in which it is often difficult to invest.

These projects have mainly supported integrated regional hotel operators by strengthening our longstanding partnership with the Serena Group and forging two new partnerships with Azalai and Teyliom. They have also provided an opportunity to partner with a local investor and with AccorHotel.

All of this activity should eventually generate nearly 1,120 direct and 3,500 indirect jobs that apply environmental and social criteria in line with IFC standards (World Bank Group), particularly EDGE certification.

6 ▸ "Excellence in Design for Greater Efficiencies". See https://www.edgebuildings.com/

"Tourism is part of Morocco's path towards sustainable development"

Hatim El Gharbi, *Director of the Moroccan National Tourist Office, ONMT*

The Kingdom of Morocco is leading an ambitious plan to develop renewable energies and is also supporting "sustainable" tourism in all its forms. These are concrete commitments which involve financial incentives to build in an environmentally friendly manner, as well as a water supply specially designed for golf courses. An interview with Hatim El Gharbi, France and Benelux Director of the Moroccan National Tourist Office (ONMT).

FOCUS
ONMT

The Moroccan National Tourist Office (ONMT) is one of the main actors of tourism in Morocco, whose aim is to promote tourist activity in the country.

This article was first published on August 11, 2016 on the Agence Française de Développement (AFD) ID4D blog.

A number of countries, including Morocco, are committed to limiting their CO2 emissions. The tourism sector contributes to these emissions. Is the aim of developing it not contradictory with the country's international commitments?

On the contrary, and this is what we wanted to show with our presence at the Grand Palais during COP21. Tourism accounts for 8% of our GDP. It is the first provider of foreign currency and the second largest provider of employment after agriculture, with 500,000 jobs. Our country has been the number one tourist destination in Africa since 2014, ahead of South Africa, with 11 million visitors in 2015 – including 3.5 million French people. We are penalized by the confusion made on our source markets between the terrorist threat and the whole of North Africa, but the number of tourist visits is continuing to rise.

> "The share of renewable energies in our total generation capacity will rise to 42% by 2020 and 52% by 2030, with consequences on all the sectors of our economy."

Tourism is part of the sustainable development trajectory that we have established at national level. The share of renewable energies in our total generation capacity will rise to 42% by 2020 and 52% by 2030, with consequences on all the sectors of our economy. We feel that this trend is an additional asset: we believe that it is good for tourists to know that our country not only has cities and beautiful landscapes, but also a large solar farm in Ouarzazate and a wind farm in Tarfaya.

Morocco wants to be a model for sustainable development in the entire Mediterranean region, and not only for tourism. All these factors contribute to our country's positive image and position it as a "sustainable" destination. Furthermore, Morocco is rewarded for its efforts: the fact that Marrakech was chosen to host COP22 in 2016 is a real sign of recognition.

WHAT DO YOU MEAN WHEN YOU TALK ABOUT "SUSTAINABLE" TOURISM?

For us, it involves studying the ecological transition in the tourism sector in a more concrete manner, at several levels. In terms of activities, tourists are given the opportunity to leave their mark by planting trees when they are hiking, participating in local cooperatives, or even building schools in remote areas. Our aim is to see rural communities stay in their areas, propose accommodation with locals, and offer a rural way of life that is different from cities, in order to conserve the wealth and diversity of our tourism.

In terms of products, we promote the green construction of hotels, be it for large resorts or small "boutique hotels", with the benefit of tax incentives, which are beginning to be known and used. For example, import taxes on sustainable equipment have been abolished. 100% of the cost of digging a well and planting olive trees is reimbursed.

All large-scale projects must have a wastewater treatment plant. For example, we have prohibited golf courses in Morocco from being watered using water from cities. The 12 golf courses in the city of Marrakech alone are watered by the Autonomous Drinking Water and Electricity Distribution Authority of the city of Marrakech (Radeema), the company which processes wastewater from the city. First, it removes the methane from this water and uses it to produce electricity, then discharges the rest of the wastewater into golf courses and part of the palm grove. This company has conducted extension works making it the largest wastewater treatment plant in the Maghreb region. Since 2010, 30% has been financed by companies which manage the golf courses – a regulation which is imposed by the city. This concept is highly innovative and directly affects tourism.

DOES YOUR VISION GO MUCH FURTHER THAN THE SMALL "ECO-LODGE" WHERE EVERYTHING WOULD BE RECYCLED?

Yes, it does. For example, the Taghazout Bay complex in Agadir comprises a 5-star Hyatt which has been entirely built in an environmentally friendly manner. The hotel has not been built using adobe, but with modern techniques, including a lot of solar energy and permaculture. The Sofitel Essaouira Mogador Golf & Spa is a cultural seaside resort which meets the same environmental requirements. Similarly, the Mazagan Beach and Golf Resort in El Jadida is one of these big hotels which could have cost the same price without renewable energies, but which will eventually make huge savings and have a lower impact on the climate.

This does not mean that small hotels do not make a difference. A family-run structure, the Atlas Kasbah eco-lodge located in a natural park of argan trees near Agadir, was awarded the Gold Medal for Responsible Tourism in London this year. This was not only for the way in which it heats the water for its swimming pool, but because its employees come from the neighboring douars and the products for its cuisine are grown in the region. It is an extremely positive sign. ■

> "We promote the green construction of hotels, be it for large resorts or small "boutique hotels", with the benefit of tax incentives, which are beginning to be known and used."

Africa, a "small" dynamic continent for global tourism

New record number of tourists

Nearly 62 million tourists visited Africa in the first 10 months of 2017, 8% more than in 2016 (+13% for North Africa; +5% for sub-Saharan Africa). This trend confirms the attractiveness of the African Continent. There were more than 1.12 billion tourists throughout the World over the same period (70 million more than in 2016), a 7% increase on the previous year.

Source : World Tourism Organisation (WTO), 2018.

African tourism VS global tourism

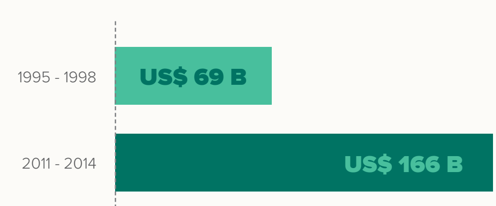
With almost 62 million tourists in 2017, Africa accounted for 5% of global international tourist arrivals.

Source : World Tourism Organisation (WTO), 2018.

Tourism: a growing proportion of African GDP, but still low overall

As proof of the Continent's rude economic good health, tourism's share of GDP registered strong growth between 1995-1998 and 2011-2014, up from US$ 69 billion (6.8% of GDP) to almost US$ 166 billion (8.5% of GDP).

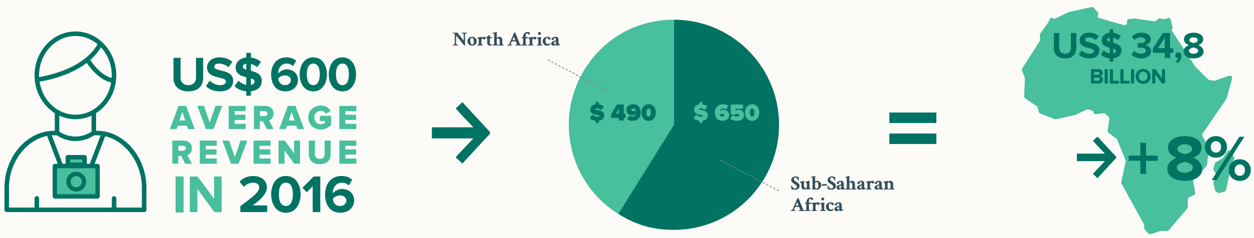
For 2015 alone, it was nearly US$ 178 billion (8.3% of GDP).



Source : UNCTAD, 2017 Report *"Economic Development in Africa: Tourism for Transformative and Inclusive Growth"*, 2017.

Average revenue per tourist

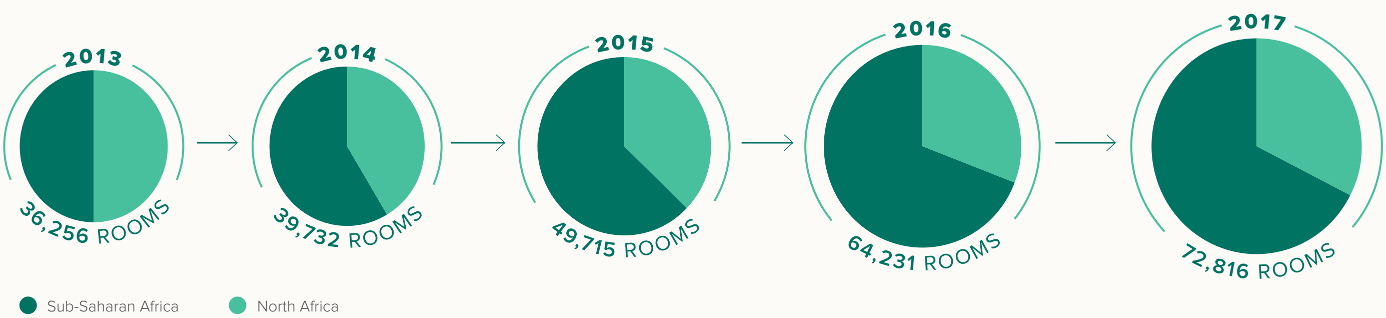
In 2016, each tourist arriving in Africa generated average revenue of US$ 600 (US$ 490 in North Africa; US$ 650 in sub-Saharan Africa). For the Continent as a whole, this represented US$ 34.8 billion, an 8% year-on-year increase.



Source : World Tourism Organisation (WTO)
Tourism Highlights, World Tourism Organisation (WTO), 2017.

Constant growth in hotel business

According to a report published by the W Hospitality group of experts in 2017, the number of hotel rooms grew by approximately 13% year-on-year, by more than 72,800 rooms in 417 hotels (versus 64,000 rooms in 365 hotels in 2016). Between 2015 and 2016, the equivalent increase was almost 30% (49,700 rooms spread throughout 270 hotels).



Source : W Hospitality Group, *Pipeline Report 2017*, 2017.

Top 4 major hotel groups in Africa*

AccorHotels, Hilton Worldwide, Marriott/Starwood and Radisson Hotels Group account for 80% of brand hotels and 80% of projects in progress.

* Non-exhaustive list.
Source : Horwath HTL, 2018.

Tourism and employment in Africa

On average, 1 African job in 14 is in the tourist industry.

Source : UNCTAD, 2017 Report *"Economic Development in Africa: Tourism for Transformative and Inclusive Growth"*, 2017.

Hotel industry: Why large chains are banking on management contracts

Rémy Darras, *Assistant Editor,* Jeune Afrique

On the continent where hotel management remains a matter for specialists, the large chains prefer to control the provision of services, leaving it up to local investors to manage the real estate. Some explanations.

This article was published by *Jeune Afrique* in December 2017. It is available on Internet (in French): http://www.jeuneafrique.com/505496/economie/hotellerie-pourquoi-les-grandes-chaines-misent-les-contrats-de-gestion/

With 365 hotel construction projects identified by Hospitality Report Africa 2017, representing 64,231 rooms (+ 29% in a year), the hotel industry continued its expansion in 2016.

To implement these programs, more easily meet demand and be more flexible in their development, large international chains such as AccorHôtels, Hilton, Louvre Hôtels, Carlson Rezidor, InterContinental and Starwood, which are often present in a hundred or so countries, prefer to join forces with real estate investors. *"The larger the chain, the less it owns hotels"*, confirms Feras Hasbini, Hilton's Director for North Africa.

> "In certain countries, such as Rwanda, the public authorities are wooing large international chains to develop as a business destination."

In addition, as it is extremely difficult to find local partners on the continent able to manage hotels in accordance with international criteria, they are abandoning the principle of franchises to focus on management contracts, through which they manage a hotel for a third party.

This solution also benefits industrial groups and independent entrepreneurs such as, for example, the Beninese businessman of Lebanese origin Ghaby Kodeih – who is currently building a Best Western, a Marriott and a Ramada (Wyndham Group) in Cotonou –, investment funds, such as Quantum Global Africa Hotels, based in Mauritius, and States, for which the hotel industry is not their profession, but which are seeking to diversify their investments, benefiting from the high returns currently offered by this sector. *"In certain countries, such as Rwanda, the public authorities are wooing large international chains to develop as a business destination thanks to conference centers"*, points out from Kenya Estelle Verdier, cofounder of the website Jumia Travel.

A NON-NEGOTIABLE "MODEL CONTRACT"

Management contracts especially allow hotel groups to focus on services and filling rooms, their core business, rather than on real estate issues. To ensure the best occupancy rate, investors, for their part, will be attracted by the experience and power of both the brand and booking channel and loyalty system of these large groups, which manage up to 4,000 hotels.

"It is the key to success", states Alain Sebah, Chief Operating Officer of Louvre Hotels (Golden Tulip, Kyriad, Campanile), which owns some thirty hotels across the continent and is currently working on pooling its booking platform with the platform of its new Chinese shareholder, Jin Jiang, which took over from Starwood in 2016.

Following the signing of a non-negotiable "model contract", which sets out the standard of services required from the hotel owner and the level of construction and refurbishment the investor is subject to, the two partners agree on a business plan, which determines the number of rooms, the positioning of the hotel and an annual budget.

AN INVESTMENT FOR AT LEAST FIFTEEN YEARS

"Our business also involves maximizing revenues, optimizing the value of the owner's assets and ensuring efficient cost management", explains Olivier Granet, Chief Operating Officer for Africa and the Middle East of AccorHôtels since February. *"It above all involves building a long-term relationship, as an investment in a hotel is for at least fifteen years, up to fifty years for the most high-end addresses, it's like a marriage"*, stresses Alain Sebah, whose group owns a third of its own network.

"Management contracts especially allow hotel groups to focus on services and filling rooms, their core business, rather than on real estate issues."

In the worst-case scenario, a contract can, of course, be terminated if the performance does not meet the objectives. While the hotel owner does not invest directly in the construction, the cost of which can amount to between EUR 30m and EUR 50m, one year before the opening it does appoint a hotel director *"who knows the brand's standards"*, points out Olivier Granet. It is the latter who will supervise the recruitment and training of the owner's future staff and employees.

At Accor, a third of teams comes from the network, a third from competition and a third is newly formed. *"The hotel owner communicates every month on the activity, the revenues and the occupancy rate and can revise the budget every quarter"*, explains Alain Sebah. The operator can then review the price of rooms depending on the results. →

"REBRANDED" HOTEL OR NEW CONSTRUCTION

The owner, for its part, pays a first license fee for the right to use the brand and a second proportional to the performance achieved by the hotel. An operator will get between 8 and 15% of the turnover. *"An amount will be set aside by the owner for the hotel's routine maintenance and refurbishment program"*, points out Olivier Granet.

The hotel owner can take over the management of an existing hotel, which it will "rebrand" with its graphic identity, like the Hôtel du 2 Février in Lomé which in 2016 became a Radisson Blu (and whose management contract was terminated last September) or the Méridien in Douala, owned by Fadil Group, which became a Pullmann in 2015, Starwood having handed over control to Accor, after thirty years of management by the Le Méridien brand.

But the ideal situation for the owner is when an investor comes to consult it even before the foundation stone has been laid, as it will give a mandate to architects with specifications and the chain will provide technical input throughout the construction phase. *"This is an advantage for the owner, which will benefit from international construction standards for its property and a certain standing"*, says Feras Hasbini.

THE PRESTIGE OF HYATT AND SHERATON: A GUARANTEE OF CREDIBILITY FOR BANKS

> "The hotel owner can take over the management of an existing hotel, which it will "rebrand" with its graphic identity."

The partnership between an investor and a renowned brand will especially allow the owner to obtain financing from banking institutions, the main stumbling block for projects. This process is more complicated in Africa and longer than elsewhere, six months at best, sometimes up to two years.

"When rich families come with the prestige of Hyatt or Sheraton, it gives a guarantee of credibility", explains Estelle Verdier. However, with the experience of unfinished or poorly implemented major construction sites serving as a lesson, banks now demand a personal contribution of 40% of the investment.

As Olivier Granet and Feras Hasbini, Alain Sebah refuses to engage in projects whose financing has not been completed. *"We need to ensure that we don't 'give' a brand on the pretext that it serves to raise funds. In cases where there is only a plot of land, we won't follow, as the project will have fifteen times more value than the land"*, explains the manager who opened a Golden Tulip in Cotonou in May and another in Kampala in August, and who will commission hotels in Senegal, Ethiopia and Côte d'Ivoire in 2018.

"However, we can help find partners", he continues. For Alain Sebah, it is often difficult to establish the financial arrangements with local investors. It is for this reason that he welcomes the arrival of major foreign investment funds in hotel construction. But he does not say any more about this as he is, of course, bound by business confidentiality.

Tourism in Africa: a priceless resource with untapped potential

Mossadeck Bally, *Founder and CEO, Azalaï Hotels Group*

Generating business volumes equivalent to the petroleum, agri-food and automotive industries[1], tourism is now an important growth driver for the African economy. World Bank figures show that tourism accounts for 8.8% of the world's employment and 4.5% of global investment.

The 2015 *Africa Monitor Tourism* report, published by the African Development Bank (AFDB)[2], paints a clear picture of the sector's position in Africa. Africa welcomed more than 55 million tourists in 2014, a remarkable increase compared with just over 17 million in 1990. International tourism in Africa increased by 2% in 2014[3]. An influx of around 2 million visitors to the West African Economic and Monetary Union (UEMOA) states (Mali, Niger, Togo, Ivory Coast, Senegal, Guinea-Bissau, Benin and Burkina Faso) generated an estimated revenue of 580 billion CFA Francs, almost a billion dollars. Aware of these high stakes, the members of the West African Economic and Monetary Union (UEMOA) and the Economic Community of West African States (ECOWAS) are determined to make tourism a cornerstone of strong economic and social development.

This article was first published on 27 June, 2016 on the Private Sector & Development blog. An edited version of this article was published by *Jeune Afrique*, in partnership with Private Sector & Development.

“Africa welcomed more than 55 million tourists in 2014, a remarkable increase compared with just over 17 million in 1990. International tourism in Africa increased by 2% in 2014.”

1 World Tourism Organization website.
2 Africa Tourism Monitor 2015: “Tourism in Africa is on the rise but has not yet reached its full potential”. Available here: http://www.afdb.org/fr/news-and-events/article/africa-tourism-monitor-2015-tourism-in-africa-is-on-the-rise-but-has-not-yet-reached-its-full-potential-15284/
3 UNWTO, Tourism Highlights, 2015 Edition.

FOCUS
AZALAÏ HOTELS GROUP

Headquartered in Mali, Azalaï Hotels Group is the leading hotel chain in West Africa and is strengthening its position on the international market. Over 20 years, the group has developed a strategy focused on satisfying its clients' growing needs. From Bamako to Cotonou, Ouagadougou, Nouakchott and Bissau, the group maintains strong local roots and employs over 4,000 people, directly and indirectly, across the sub-region.

In 2010, West Africa confirmed its commitment to growth in the tourism sector by establishing a common tourism policy and signing up to "PRDTOUR", the regional programme for tourism development in UEMOA countries (Programme Régional de Développement du Tourisme au sein de l'UEMOA). The programme provides for a series of incentives to strengthen the sector by 2020. These should bring visitor numbers up to 8.5 million and extend the average stay to 4 days for international tourists and 4.5 days for local visitors. On average, tourism is expected to contribute more than 7% to the GDP between now and 2020, creating 200,000 direct jobs and an overall total of 800,000 jobs. If the programme meets its goals, revenue from tourism will reach 4,070 billion CFA francs[4].

In Mali, and throughout UEMOA, the various strategies being applied by the tourism sector bring with them opportunities to enhance cultural and natural resources and breathe new life into ancillary business activities. Growth in tourism also boosts activities in the construction and public works, transport, services, agriculture and traditional craft sectors.

TOURISM: A GROWTH DRIVER FOR LOCAL ECONOMIES

Controlled by the government and heavily dominated by international chains, the hotel sector saw profound changes in the mid-1990s. Azalaï Hotels Group acquired the Grand Hotel de Bamako when it was privatised in 1994. Over the past 20 years, the group has expanded its tourism activities in the subcontinent to provide 700 permanent jobs, 1,400 casual jobs and 2,100 indirect jobs in Mali, Burkina Faso, Guinea-Bissau and Benin.

> "Hotel groups like Azalaï have a responsibility to help their various partners address the challenges of sustainable development, especially by reducing their environmental impact."

Hotel groups like Azalaï have a responsibility to help their various partners address the challenges of sustainable development, especially by reducing their environmental impact. Our hotels have invested in energy-saving lightbulbs, water and electricity saving devices, waste-water treatment facilities and new, energy-efficient technologies. Our local presence means we can contribute to socio-economic growth in the countries where we are based and help build a strong, responsible and professional private sector, which can drive growth and create jobs.

It should be standard, everyday practice within the sector to use raw materials and resources that come directly from Africa's agricultural

4 ▸ Regional Programme for Tourism Development in UEMOA countries (PRDTOUR).

and rural environment. We maintain links with small and medium-sized local producers so we can involve local communities in the sector and create new sources of revenue. We have developed particularly strong partnerships with farmers, fishermen and women in business, both individual entrepreneurs and cooperatives. The decor in our hotels (paintings, portraits, tablecloths, etc.) is also primarily supplied by the local craft industry. By building ethical local partnerships, the hotels and tourism sector is establishing itself as a major player in diversifying local and national economies.

“We maintain links with small and medium-sized local producers so we can involve local communities in the sector and create new sources of revenue.”

However, there are still many obstacles to the success of Africa’s tourism sector, and there is a lot more work to be done before we reap the full economic and social benefits of the hotel business.

PROBLEMS FACING THE HOTEL INDUSTRY IN WEST AFRICA

West Africa’s progress is impeded by low visibility on key markets, poor road and rail networks, inadequate and expensive air services and the absence of institutional and administrative mechanisms to provide incentives. With the exception of Mali, the hotels and tourism sector is not an investment priority, despite UEMOA directives, and there are no competitive incentives in place (such as customs or tax measures) to attract investment. The UEMOA states often prioritise mining and manufacturing, industries that add little value on a local scale. The region’s instability also tarnishes its image as a destination and reduces tourist traffic. This was the case in Mali and Guinea-Bissau, two countries that suffered from military coups and political instability in 2012 and 2013. There are additional problems that complicate the situation and restrict hotel and tourism business, especially in UEMOA and ECOWAS countries.

To begin with, hotel complexes are largely concentrated in urban areas, neglecting rural areas where inferior road, air and hotel infrastructures restrict domestic and leisure tourism. Training for hotel personnel in the UEMOA region is also inferior, sometimes non-existent, which reduces the quality of the services they can offer. Finally, unofficial accommodation chains and failure to observe building regulations have an impact on hotel occupancy rates and result in loss of earnings.

The lack of a dedicated financial structure to develop the tourism sector is also a problem. A number of factors deter commercial and custodian banks from financing the sector: the absence of long-term resources, a lack of specialist expertise in tourism financing, failure to tailor credit agreements to professional needs, lack of confidence in credit agreements and high interest rates. Too often, investors still see tourism as a high-risk sector. →

The situation is exacerbated by two additional factors. On the one hand, operational costs are increased by taxes in the UEMOA member states and the high costs of basic services such as water, electricity and telecommunications. These costs are reflected in the tourist's bills, making hotel and tourism infrastructures in the region less competitive and attractive.

Furthermore, a lack of IT and information systems is hampering growth in tourism. African hotels rarely feature in CRS platforms[5], and unstable internet speeds make it difficult to process online payments.

REFERENCES

AZALAI HOTELS Group documents

Le Pays (BF) : Tourisme dans l'espace UEMOA « Des pistes de progrès examinées », *Monday 21 June, 2010,*

Journal Du Mali : « Le Tourisme au Mali » OMATHO

PRDTOUR Mali investment code. Available here: http://www.droit-afrique.com/upload/doc/mali/Mali-Code-2012-investissements.pdf

Report on 2nd meeting of CRC-PRDTOUR Available here: http://news.abidjan.net/h/494496.html

ENVIRONMENTAL AND SOCIAL FOOTPRINT: ANOTHER ASPECT OF THE SECTOR'S FUTURE

Our overview of tourism in West Africa would not be complete without considering the environmental and social impact of growth in the sector. Environmental and social issues must be identified when sectorial policies are being defined and implemented, so that clear rules and goals can be established to protect the environment, young people and social and humanitarian values.

As an investor in the sub-region, our group has ascertained that all UEMOA countries have taken these issues into account in their national policies. Before any hotel project can be carried out in the area, a detailed impact study of its environmental and social effects must be carried out and approved by the appropriate authorities. By encouraging eco-friendly practices, tourism will take on a particular social and environmental responsibility. This responsibility will become an asset on its own with the potential to attract investors and clients in search of new products that reduce their ecological footprint.

> "A number of factors deter commercial and custodian banks from financing the sector: the absence of long-term resources, a lack of specialist expertise in tourism financing, failure to tailor credit agreements to professional needs, lack of confidence in credit agreements and high interest rates."

I cannot conclude this article without mentioning the tragic events that have hit the region recently. Sadly, death tolls from terrorist attacks have shown once again that no one, regardless of nationality, is immune to this scourge. The opening of an Azalaï hotel in Ivory Coast in the near future will be all the more symbolic in view of the devastating effects recent attacks in Mali and Ivory Coast have had on the tourism sector. Only a positive approach can curb the threat of the new security challenges affecting West Africa. The problem is deeply rooted in the region's difficult economic conditions, and in an absence of openness and dialogue with the outside world, due as much to misunderstanding as to the barriers they have imposed.

5 Computer Reservation Systems or Central Reservation Systems: A CRS is a digital reservation management platform allowing travel agents to view the availability of various tourism product providers (airlines, hotel chains, car hire companies, tour operators, etc.) and make bookings online.

But no other sector represents openness, stability and peace to the same extent as the hotels and tourism industry, an endless source of encounters and interaction. We firmly believe that our activities play at least a small part in the struggle against the blight of terrorism, by breaking down the barriers of misunderstanding, helping us to (re)discover each other and bringing us together. ■

> “By encouraging eco-friendly practices, tourism will take on a particular social and environmental responsibility. This responsibility will become an asset on its own with the potential to attract investors and clients in search of new products that reduce their ecological footprint.”

Five key initiatives to boost the sector

A local market must be created so that the tourist potential of the West African Economic and Monetary Union (UEMOA) states can be fully developed and the hotels and tourism sector can become more efficient. Against this background, the UEMOA member states have decided to join forces to overcome the sector's challenges. Five strong initiatives would ensure growth in West Africa's tourist industry:

- Develop the tourism offer across the region by improving visitor sites and basic infrastructures like airports, roads, hotels and catering.

- Make UEMOA's tourist destinations more visible and competitive by promoting tourism both internationally and across the region, and financing investment in tourism.

- Introduce incentives to attract investment in the sector, especially by improving current mechanisms. Mali has implemented a tourism growth strategy that strengthens its “Investment Code”. This includes making national funds available, attracting foreign capital, creating jobs, training a qualified workforce, and developing a framework for a successful supplementary economy.

- Build new road, rail and air infrastructures to open up tourist areas and make them more accessible to local and international tourists.

- Build capacity among key players in the sector such as national tourist bodies and consultation and training organisations, and set up a regional tourism information system

African hotel development, great potential returns for investors

David Harper, *Head of Property Services, Hotel Partners Africa*

Everyone knows about Africa's potential, created by the population explosion, the demographic profile of the population and the commodities "lottery win". However, the shortage of hotel bedrooms provides one of the best opportunities for traditional property investors anywhere in the world. What are the benefits for the host country? And how to minimize the impact of the key obstacles to successful development?

This article was first published on November 28, 2016 on the Private Sector & Development blog.

In 2015 the latest of the biannual reports by Hotel Partners Africa outlined the huge opportunity that was available for hotel investors in sub-Saharan Africa, echoing many earlier reports by a whole series of academic and professional luminaries. Everyone knows about Africa's potential, created by the population explosion, the demographic profile of the population and the commodities "lottery win". However, the shortage of hotel bedrooms provides one of the best opportunities for traditional property investors anywhere in the world. To set this opportunity into context, it is useful to look at some of the key facts. In the USA, one of the most mature hotel markets in the world, there are approximately 15,000 branded hotel bedrooms per million people in the population. Across sub-Saharan Africa there are only 89 bedrooms per million population. That is 168 times less; purely in terms of supply, the opportunities are huge.

However, that is not the only reason why hotel development can provide such a great opportunity for investors. Many governments throughout sub-Saharan Africa are extremely keen to see to hotel development, and some commentators have questioned this almost instinctive desire to help such developments happen as not always in the best interest of the country. I would argue however, that hotel development is extremely good for an emerging economy, as it brings many tangible as well as intangible benefits to a country.

ATTRACTIVENESS, EMPLOYMENTS, TRAINING...

One of the easiest to understand, but least considered benefits that international class hotels bring is the very facilities they offer. Having a well-known international branded hotel encourages international investors to visit a country and look at the investment opportunities in all sectors of the market. Without a quality hotel, it is extremely difficult to persuade an investor to come and visit a country, and without personal due diligence of opportunities, inward investment tends to be limited. It is often stated that when the Tanzanian government invested in the Kempinski hotel in Dar es Salaam, the inward investment in the country doubled after it opened compared with the year before.

> “Having a well-known international branded hotel encourages international investors to visit a country and look at the investment opportunities in all sectors of the market.”

Another big advantage of hotels is the amount, and type, of employment opportunities they provide. Hotels in Africa tend to employ somewhere between 1-5 staff for each bedroom, with higher employment in the smaller, more luxurious segments. Employment levels are typically higher in Africa compared with all other geographic regions, except for Asia. As such a single 200-bedroom hotel can typically employ 300-400 people directly, with countless other people employed in indirect services, for example taxi drivers or suppliers to the hotel.

However, a hotel is unique in taking staff with no training and providing training and then offering very real opportunities for personal (and therefore financial) improvement. A member of staff can start as a pot washer in the kitchen, but with the right attitude will get the opportunity to seek promotion, and can advance all the way to senior management. When education opportunities are not high in a developing country, this opportunity for the population is highly prized by local people, and quite rightly it is also highly prized by politicians, who are tasked with representing the people and their best wishes.

A HIGH “MULTIPLICATION FACTOR” OF MONEY GENERATED

For government to run a country effectively it needs to generate taxes. Of course, generating taxes does not mean that the money will be spent wisely, but if such taxes are not collected then there is no chance it can be used to enhance the lives of the population. Hotels offer fantastic opportunities for governments to raise revenues from a wide range of sources. Visa fees for hotel guests when they enter the country, income tax on all employees, taxes on imports required for the business operation, taxes on company profits, not to mention bedroom taxes and VAT.

In addition, throughout the development process there are opportunities to charge fees during the planning process, for imports on the materials needed to build the property, as well as income tax on the construction crew and company tax on the profits of the construction company. With so many opportunities for raising taxes it is not surprising that some forward- thinking governments offer tax incentives for hotel developers, to ensure the development phase is profitable enough to see the initial investments made. →

FOCUS
HOTEL PARTNERS AFRICA

The Hotel Partners Africa (HPA) is a coming together of the most experienced and respected hotel consultants working on the African continent. HPA provides a seamless service for all hoteliers and developers across Africa, drawing on over 100 years of hospitality experience. At HPA we look after all your needs related to hospitality real estate in Africa, from the initial appraisal of a potential development, to sourcing the money to develop the hotel, to building and opening the business, and finally to selling the asset.

> "The presence of well-known hotels will also attract tourists, whether business or leisure guests."

The travel and tourism industry has one the highest "multiplication factors" of money generated. One dollar earned in the industry turns into seven dollars, a higher rate than any other industry. The WTTC believe that for every direct dollar earned in the industry, 3.2 dollars are earned indirectly, through ancillary services.

In addition, the presence of a high class international hotel can enhance the view of country to foreigners bestowing a prestige not offered by any other type of commercial property. When the Sheraton in Addis Ababa was opened for example, it raised the profile of prestige of the city to unprecedented levels. The presence of well-known hotels will also attract tourists, whether business or leisure guests. "Build it and they will come" is a mantra within the hotel industry, not just in Hollywood movies about baseball stadia.

LONG AND COSTLY DELAYS

So what are the obstacles? Why are so few hotels developed each year, even though the opportunities are seemingly boundless? In 2016 there were 248 branded hotel developments officially under construction, yet of the planned openings in sub-Saharan Africa due for that year only 18.7% had actually opened on time.

In a piece of research Hotel Partners Africa carried out earlier this year on actual hotel developments in key cities, it was shown that the typical delay in hotel openings was around 4 years across sub-Saharan Africa, with Lagos showing an average delay of 7 years, Accra and Dar es Salaam showing 3 years, Addis Ababa, Kigali and Kampala showing a 4-year delay, Lusaka showing a 5-year delay, and Nairobi and Abidjan showing and average delay of 2 years. These delays cost money – the returns on a development diminish rapidly if there are delays, and in one project the IRR dropped from an ungeared 15% to less than 7% on the back of a 4-year delay. There are a number of factors causing these delays, including planning issues, difficulties in procurement, hold-ups at port, and issues with finding sufficient trained sub-contractors. There is absolutely no substitute for having an experienced team in the development process if such potential delays are to be minimised or indeed removed altogether. The problem is that the unskilled and inexperienced are usually offering a cheaper service, and short-sighted investors are attracted by these offers, not knowing it will cost them much more in the long run. Companies like HotelSpec will happily work with developer's, acting as the owner's representatives, ensuring that the projects are developed on time and on budget, whilst also offering a procurement service that takes the risk out of the development phase of the project.

THE FEASIBILITY STUDY : A HELPFUL SPENDING

Another key issue is the lack of focus and due diligence given to a project. A feasibility study is essential, not just to raise funding or to attract a good operator, but also to ensure the site is being used to its optimum potential. There is no point in building a 400-bedroom luxury hotel, if the market requires a 200-bedroom mid-market property and the returns on such are much higher. The cost of a feasibility study, somewhere between $30,000 – $40,000, will usually help stop expensive mistakes. W Hospitality Group worked on one project, where development costs were cut by 30%, yet the end value was increased by an impressive $20m, enhancing the investors returns to 40% on a geared basis. Such advice always ends up cheap, even when it says "don't do the project at all".

However, the single biggest cause of delays is the lack of money. Many projects are delayed because the owner simply does not have enough funds at hand to develop the project. Debt for development projects has traditionally been difficult to come by. Typically expensive, with short terms available, it is very important that a developer knows how best to attract affordable debt funding, if the loan terms are not to reduce the profitability of the project. There are a number of reliable funding sources for new developments, including Proparco, IDC, DEG, and other DFIs to name but a few. It is possible, if the funders are approached properly, for the terms to be favourable enough to enhance the development profitability. Talk to the lender, find out what they need to take the project forward (usually a good feasibility study and a hotel management agreement with a respected operator at the least), ensure you present the project and the team involved in the most favourable light (and by this we mean use the presentation method that bank favours, not hide the truth!), and ensure you are extremely transparent on all issues, especially risks involved, so the bank knows you are being realistic. No development project has no risks – if you cannot identify those risks the funder will not think you are credible as an investor/developer.

"Debt for development projects has traditionally been difficult to come by. Typically expensive, with short terms available, it is very important that a developer knows how best to attract affordable debt funding, if the loan terms are not to reduce the profitability of the project."

Hotel development across sub-Saharan Africa offers great potential returns for investors, as long as they avoid the many pitfalls that befall many developers. Since such developments usually meet the requirements of local and national politicians, such developments are likely to be favourably regarded, so it is essential all potential hurdles are avoided to ensure that all the benefits of hotel development, investment returns, employment, tax revenues and prestige are all maximised. ■

Nicolas Willemin, Senior Investment Officer, Proparco

With some 62 million tourist visits to Africa in 2017 (*i.e.* an increase of about 8% compared to 2016), and strong and steady growth in its contribution to the gross domestic product (GDP) of the continent, Africa's tourism industry is undoubtedly experiencing boom years. This tourism industry does, of course, still only account for a marginal share on a global scale – about 5% of total travelers in 2017 – but the signals sent out promise much for the future.

"In just 4 years the number of rooms with international standards leapt by 100% in sub-Saharan Africa."

Internationally and regionally renowned industries and leading brands have, of course, fully understood and anticipated this. In just 4 years, between 2013 and 2017, the number of rooms with international standards leapt by 100%, from 36,250 to over 72,800 rooms in sub-Saharan Africa[1]. This strong growth leads to a reduction in the number of available rooms owned by independent hotels, which still account for half of accommodation, but also pushes the sector to upgrade, structure itself and develop quality accommodation in line with international standards.

While 3 and 4-star hotel accommodation still largely predominates, the high-end market (5-star) is tending to have an increasingly important place on the continent. As Charlotte Specht, Director for West and Central Africa at Horwath HTL, analyzes *"international hotel groups with several brands tend to focus on their 4 and 5-star brands in order to benefit from higher returns"* in the new emerging African markets *(pages 6 to 9)*.

Yet can we say that Africa is benefiting from uniform growth in hotel and tourism industries? Nothing could be less sure. As Charlotte Specht rightly points out, we can speak of a *"multi-speed development"*. While certain countries such as Nigeria, South Africa, Mozambique and Zimbabwe stand out for their economic weight and strong tourism growth, others are experiencing very different economic, political and geopolitical contexts.

Indeed, many sub-Saharan African countries have been subject to a certain instability for several years, which *"leads to a* de facto *selectivity which favors the most stable countries and areas"*, points out Charlotte Specht. For example, West Africa is still suffering from certain weaknesses: the deficiencies in transport infrastructure, the lack of visibility on markets and the fact that there are no institutional and administrative measures providing incentives are all barriers to the development of the hotel industry in this region. *"The region's instability also*

1 ▸ W Hospitality Group, *Pipeline Report 2017*, 2017.

tarnishes its image as a destination and reduces tourist traffic", comments Mossadeck Bally, founder and Chairman of Azalaï Hotels Group, in his article *(pages 22-25)*. Furthermore, this article recommends several solutions to boost the hotel industry, which include developing transport infrastructure (road, rail and airport), implementing incentive measures for investors and strengthening existing tourism players.

But developing the hotel and tourism industries in Africa requires taking a look at the issue of negative externalities, in particular in terms of the environment, and each player in the value chain has a key role to play on this point. As you will read on pages 10 and 13 in this magazine, the issue of environmental certification is already a prerequisite for financing by investors. The intervention of donors, which obviously include Proparco, makes it possible to assist in the adoption and respect of international energy efficiency standards.

The development of international hotel groups undoubtedly has a role to play as an engine to boost and structure the hotel industry in Africa at several levels: environmental, of course, but also by creating jobs and developing suitable infrastructure. ■

PS&D

Since 2009, Proparco has coordinated the *Private Sector & Development* (PS&D) initiative, examining the role of the private sector in southern countries.

Issued as a quarterly themed magazine and specialist blog, the PS&D initiative presents the ideas and experiences of researchers and actors in the private sector who are bringing true added value to the development of the countries.

The last five issues of the review

Issue 29
Financing start-ups to build tomorrow's African economies

Issue 28
Improving the quality and accessibility of African medicine

Special issue
Private sector and digital innovation: catalysts for development

Issue 27
Vulnerabilities and crises: what role for companies?

Issue 26
African ports: gateway to development

Recent blog articles

Regulating African pharmaceutical markets in order to structure and develop the local economy more effectively
Alexandre de La Volpilière, *pharmacist and public health inspector*

Agri-businesses must act in a sustainable manner to develop African agriculture
Anne Pacquet, *Vice-Chairman of the Scientific Committee, FARM Foundation*

Access to quality seeds: the example of local seed ventures in Malawi
Jérôme Bossuet, *agronomist*

In Rwanda, "hospitals can now use RapidSMS data to get ready for new arrivals!"
Samir Abdelkrim, *entrepreneur and consultant*

What role for the private sector in developing a digital Africa?
Jean-Michel Huet, *partner, Bearing Point*

Video

Report: Microfinance in Côte d'Ivoire to tackle financial exclusion

BLOG.PRIVATE-SECTOR-AND-DEVELOPMENT.COM

Private Sector & Development

Private Sector & Development (PS&D) is a quarterly publication that provides analyses of the mechanisms through which the private sector can support the development of southern countries. Each issue compares the views of experts in different fields, from academia to the private sector, development institutions and civil society. An extension of the magazine, the PS&D blog offers a wider forum for discussion on private sector and development issues.

blog.private-sector-and-development.com

PROPARCO
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT