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I have written in previous editions about the interest that the international hotel chains are showing in Africa, seeking to expand their network in the face of increasing demand for hotel accommodation and other services. So if there is so much increase in hotel development, why isn't the map covered in hotel flags? Progress is slow and, with the best will in the world, is likely to continue to be so. Why? There are many reasons, which all meet at the same place – lack of finance.

Hotels need long-term funding – they need equity investors who will wait up to 10 years to get their money back, and they need lenders who will offer terms which match the payment of interest and principal to the cash flows which hotels generate. In general terms (and never generalize about Africa!), neither of these are available. Home-grown investors tend to want short-term returns, domestic lenders do not have long-term deposits to lend, and overseas investors and lenders see too much risk.

In the past, many hotels, particularly those in capital cities, have been built by government – name any capital city from Abuja to Yaoundé and you'll find government-owned hotels there. But they were built in the days when government investment in private sector activities was considered OK, and that's not the case today, rightly so, with more fundamental social requirements needing those funds.

Investment in new hotel construction today comes mainly from three sources – domestic equity investors, "special" international equity investors and from bilateral and multilateral "special" lenders. Domestic equity investment predominates – majority stakes in the three main government-owned hotels in Nigeria's capital Abuja - the Hilton, the Sheraton and the Meridien – were recently sold to domestic investors.

Gulf investors such as Kingdom Hotels Group and Albawardy Investments fall into the category of "special" investors who, whilst primarily interested in the commercial returns from their hotels, also have a non-commercial reason for investing, i.e. promoting national development and social welfare. Kingdom's African portfolio includes several hotels in Kenya, and the $100 million Mövenpick project in Accra, Ghana. Albawardy have invested in two Kempinski hotels in Tanzania, and are planning more projects there.

Other special investors include the various Libyan government investment vehicles, with hotels under whole or partial ownership in Ghana, Togo, Gambia and others, and investments in management companies such as Corinthia and Legacy.

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And then there are the special lenders, who have contributed so much to the development of hotels in Africa. Notable amongst these are the International Finance Corporation (IFC) and the European Investment Bank (EIB).

In June 2006, IFC alone had over US$100 million committed to the hotel sector in Africa in 14 countries – a tiny sum compared to other sectors, but still far more than any other lender. In recent years, its largest commitments have been in Nigeria (US$11 million for the development of the 430-room Novotel Hotel) and in Kenya (US$ 20 million for the refurbishment of Kingdom's Fairmont portfolio). Notably, both of these investments have been alongside blue-chip local or overseas investors – UAC Property Development and Kingdom Hotels respectively.

EIB's portfolio is smaller, totaling just over €40 million, but this excludes several small loans extended through lines of credit to local banks.

In my experience, financing for hotel development, especially in Africa, is almost always sourced locally. African investors need therefore to understand that, although the returns from hotel investments come later than they are used to, those returns are long-term and sustainable.

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