Public-Private Partnership Stories

Sierra Leone: Cape Sierra Hotel


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Sierra Leone has been struggling to recover from a devastating civil war in the 1990s. One promising sector—tourism—has been held back by an acute shortage of quality hotels in the capital, Freetown. To address this problem, the government hired IFC as lead advisor for a public-private partnership to attract an international hotel operator to redevelop and operate the Cape Sierra Hotel.

In August 2010, International Development Enterprise Associates [UK] Ltd. (IDEA), in a consortium with Hilton Worldwide, won a competitive bid for a 25-year concession to redevelop the 200-room hotel. It will share 6.5 percent of annual revenues with Sierra Leone's National Social Security and Insurance Trust (NASSIT), which holds a long-term lease to the property. The project is expected to cost around $40 million, will employ 400 people, and attract 40,000 guests per year. It will significantly improve the attractiveness of Freetown as a tourist destination and encourage more business travel to Sierra Leone.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The newly redeveloped Cape Sierra hotel is expected to attract 40,000 visitors annually and employ 400 people.

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UKaid from the Department for International Development

BACKGROUND

In the 1980s and early 1990s, Sierra Leone, a coastal state in West Africa, had a small but thriving tourism industry. But a brutal civil war during the 1990s kept tourists away and devastated the economy. After the war ended in 2001, the tourism industry slowly emerged, led by development and business travelers. Tourist facilities, however, remained inadequate. The three main hotels in Freetown, the capital, provided only 120 rooms, about one-quarter of the total demand. None of the hotels met international business hotel standards.

The Cape Sierra Hotel, located adjacent to Lumley Beach and with easy access to central Freetown, was well positioned to be the hotel of choice for business and holiday travelers. Its prime location gave it the potential to become an anchor for tourism development in the country, facilitating growth and providing employment. After the war, the Sierra Leone government, which owned the hotel, leased it to a private operator. Unfortunately, the hotel was poorly managed and it gradually became dilapidated. In 2009, the government terminated the lease and closed the hotel.

In 2009, the National Social Security and Insurance Trust (NASSIT) took on a 25-year lease. In conjunction with Sierra Leone's 50th anniversary in the spring of 2011, NASSIT aimed to attract a strategic investor to redevelop the Cape Sierra Hotel as an international, first-class business destination.

IFC'S ROLE

The World Bank Group's Investment Climate Advisory Services group worked closely with Sierra Leone's Ministry of Tourism to develop a strategy for rebuilding the country's tourism sector. As a result, the government identified the Cape Sierra Hotel as an excellent opportunity to jump-start the tourism sector. However, it needed further support to set up a concession.

NASSIT retained IFC to find a strategic investor through a competitive and transparent bidding process. IFC's PPP transaction advisory team led the transaction with support from the Investment Climate group, which contributed tourism sector expertise and access to its network of high-level government contacts.

IFC helped organize a bidder's conference in London to introduce potential investors to the project. Initially, the government requested that the hotel be refurbished in time for the country's 50th anniversary celebration. While this was technically feasible, many potential investors favored construction of a new, modern hotel rather than renovation of the existing structure. The outcome of the initial tender was inconclusive. IFC helped the government modify the transaction and launched a retender in June 2010, which attracted eight submissions for prequalification and four final bids by reputable international corporations.

TRANSACTION STRUCTURE

NASSIT's preferred structure was a sub-lease and concession agreement. NASSIT had previously taken equity stakes in other ventures in the hospitality sector and wished to limit further exposure. However, NASSIT wanted to share in the potential of the hotel. Therefore, the deal was structured so that NASSIT would provide to the concessionaire the rights to redevelop and operate the Cape Sierra Hotel for 25 years (with the option to renew for another 25) in exchange for a share of annual turnover, benefitting the government, NASSIT, and the concessionaire. This allowed NASSIT to be removed from the operations of the hotel while still enjoying the potential for increased revenue from improved performance.

Another principal concern of NASSIT was the timely completion of the hotel. The transaction was structured to require the concessionaire to post a performance bond and provided NASSIT with the right to take back the hotel if the hotel was not finished within the timeframe the concessionaire indicated in its bid.

BIDDING

On August 6, 2010, four bids were received. International Development Enterprise Associates [UK] Ltd. (IDEA) was selected as the preferred bidder on the basis of its offer to develop the Cape Sierra Hotel into a 200-room hotel and share 6.5 percent of annual revenue with NASSIT. Hilton Worldwide, a leading international hospitality company, will operate the hotel. The proposed development is expected to cost around $40 million with a construction period of two years.

EXPECTED POST-TENDER RESULTS

- The hotel is expected to attract 40,000 visitors annually, employing 400 people.
- The project will attract $40 million in foreign direct investment.
- The redeveloped Cape Sierra hotel is expected to enhance the image of Sierra Leone and boost the development of the business tourism sector.
- Residents and businesses in the region witnessed the benefits of conducting sound and transparent business transactions.

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