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Hospitality Investment in the Afar Region, Ethiopia: Trends, Challenges, and Opportunities

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Abstract This study explores the landscape of hospitality investment in Ethiopia's Afar region, a region known for its unique geological and cultural attractions. However, hospitality investment remains underdeveloped, with a significant gap between accommodation supply and demand. This study explores the trends, challenges, and opportunities for hospitality investments in the Afar Region. A concurrent triangulation mixed-methods design was used to provide a comprehensive analysis. Data were collected through questionnaires, interviews, observations, and secondary sources, targeting hotel investors and experts through census and purposive sampling. Quantitative data were analyse descriptively, and qualitative data underwent thematic analysis. Findings reveal that the Afar Region offers substantial opportunities for hotel investment, driven by its attractive tourist sites, strong market demand, favourable government policies, and limited competition. However, challenges include water supply interruptions, inadequate health facilities, high inflation, foreign currency shortages, poor transportation access, inefficient tax and customs processes, raw material shortages, political instability, extreme climate conditions, lack of skilled labour, and land provision issues. Despite these obstacles, the investment climate in Afar remains promising for stakeholders seeking entry into emerging hospitality markets.

Keywords Hospitality investment · Emerging hospitality markets · Investment challenges · Investment pattern · Afar region

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The hospitality sector is increasingly recognised by several sub-Saharan African countries as a key driver of economic diversification and development (Baidoo, Agbloyor, Fiador, & Marfo, 2022; Dogru, McGinley, & Kim, 2020). Consequently, the study of hospitality investments in these regions has become a significant area of research (Chhetri, Chhetri, Arrowsmith, & Corcoran, 2019). The hospitality investment landscape has shaped by many trends, challenges, and opportunities, influenced by global economic shifts, technological advancements, and evolving consumer preferences.

The industry is experiencing a transformation driven by digital innovations, sustainability imperatives, and geopolitical factors (Zrnić & Božić, 2024). These elements collectively define the current and future trajectory of hospitality investments, offering both hurdles and prospects for stakeholders (Wei, 2024). Investment activities contribute to economic development in many ways, such as generating tax revenues, increasing income levels, and creating new jobs (ALshubiri, 2024).

Hotel investments, which require major capital spending, also support economic development and growth, especially through the generation of employment in the markets in which they operate, foreign exchange generation, and the promotion of cultural exchange (Dogru et al., 2020; Tesfa Regassa & Xin, 2020). In particular, investment in the hotel industry drives socio-economic growth by responding to the increasing demand for accommodation and expanding global tourism destinations (O'Neill, Zhao, Liu, & Caligiuri, 2023).

Understanding investment challenges and opportunities in the hotel sector is crucial for successful hotel establishment and maximising returns (Kadieva, 2016; Michopoulou & Moisa, 2019).

Hotel investment is both an art and a science, requiring a deep understanding of the industry's dynamics and a significant financial commitment (Martin-Rios & Pasamar, 2018). Theoretically, an investors' decision-making process is assumed to be rational (Rehan & Umer, 2017).

In Ethiopia, hotel investments are recognised as a key driver for the growth of the tourism sector, especially as the government seeks to expand tourism and boost economic development through the hospitality industry (Kabete, 2021; Tegegne, 2020). As the government aims to boost tourism as part of its economic reform agenda, significant efforts have been made to create an enabling environment for both domestic and foreign investors in the hotel industry (Abela, 2023). Currently, the government of Ethiopia is developing various tourism destinations, lodges, and resorts for the development of the tourism and hotel industry and the economic benefit of the country (Genet & Kebede, 2022). This activity will greatly encourage the hotel industry and make it attractive to domestic and foreign investors investing in the tourism and hotel industry. This project of the Ethiopian government is known as "*Gebeta-Lehager (dine for Ethiopia)*" and was initiated by Prime Minister Abiy Ahmed (Wubneh, 2023). Ethiopia's hotel sector has seen the entrance of prominent international hotel chains, such as InterLuxury Hotels Group, Radisson Blue, Marriott, and Sheraton, particularly in Addis Ababa (Megersa, 2016).

The Afar Region, known for its cultural heritage and natural attractions such as the Ert Ale Volcano, Awash National Park, Afdera Lake, Lake Afambo, Afar's people unique culture, and Dallol Depression, has emerged as a unique tourism destination in Ethiopia. Despite this, hospitality investment in the region remains significantly underdeveloped (Mekonnen, Ibrahim, & Andavara, 2022). The region faces a shortage of high-standard international hotels and accommodation service standards (ANRCTB, 2023). Factors such as inadequate infrastructure, security concerns, and limited government incentives are often cited as barriers to hotel investment in the region (Mekonnen et al., 2022).

Regarding hotel investment opportunities and challenges, there is some research has been conducted in different countries with different scopes, such as Guadie (2020); Krisada (2019); Abebe et al; (2021); Newell & Seabrook (2006) and Gatsinzi & Donaldson (2010). However, previous studies have not addressed factors like land accessibility factors, location, market-related, seasonality, competition, socio-cultural, geography, and environmental factors; there has been no prior scientific study that comprehensively investigates the trends, challenges, and opportunities of hotel investment; investment opportunities and challenges are dynamic and vary by region (Legese, 2018), making it difficult to apply findings directly to the Afar region. Hence, there is an immediate need to conduct research on the investment opportunities and challenges for hotel establishments in the Afar Region.

The Afar Region is significant for studying hospitality investment due to its unique position as a culturally and geologically rich tourism destination in a developing context. Renowned attractions like the Erta Ale Volcano, Dallol Depression, and Awash National Park attract domestic and international tourists, highlighting its untapped potential for growth in the hospitality sector. Globally, emerging destinations like Afar align with the increasing interest in niche and adventure tourism, offering opportunities for first-movers in underdeveloped markets. Additionally, understanding the challenges and opportunities in Afar provides insights applicable to other developing regions facing similar constraints, such as inadequate infrastructure and limited investor incentives. This research contributes to global knowledge on fostering sustainable hospitality investment in regions with significant natural and cultural assets, enhancing their integration into the global tourism economy. This study aims to address the gap in research by comprehensively investigating the trends, challenges, and opportunities for hotel investments in the Afar Region. The specific objectives as follows:

1. To analyse the trends of hospitality investment in the study area.
2. To assess the key challenges hindering the hospitality establishment.
3. To identify the opportunities available for hospitality investment.

Literature Review

A Concept Related to Investment

For a long time, the concept of investment has been defined and perceived differently by various authors; nevertheless, the definition and view remain the same (Sanjay Kumar, Srivastava, & Prakash, 2023). The concept of investment is multifaceted, encompassing various definitions and classifications across economic, financial, and legal domains (Fu, Lu, & Pirabi, 2024). Generally, investment refers to the allocation of capital with the expectation of generating future income or appreciation. This involves sacrificing current consumption for uncertain future benefits, realised over a period of time, and is characterised by risk and potential reward (Орєхова & Свіргун, 2024). Investment is the use of an amount of money in the hope of obtaining benefits and planning its financing and implementation as a unit of activity within a certain period (Pahlevi, Musa, Anwar, Norhaedah, & Evendi, 2023). Investment is a vital prerequisite for a nation's economy to grow because it enables business owners to mobilise resources to create goods and services and broadens the growth process' social and geographic reach, which increases the chances for the underprivileged to engage in and profit from the process (Kahsay & Belete, 2018).

Hotel as an industry needs a large initial investment; usually this capital from the private sector, government, and some transnational institutions is provided. This investment will depend on economic conditions, social and environmental, regional and local in every country (N. Khan, Hassan, Fahad, & Naushad, 2020). The hotel business is a part of the global tourism industry (Provotorina, Kazmina, Petrenko, & Makarenko, 2020), and it is currently under dynamic development, which is largely due to the increasing number of tourist trips both within and abroad (Holovnia O et al., 2022).

Characteristics of Hotel Investment

Hotel investment has characterised by several unique features that distinguish it from other types of commercial real estate (CRE) (Roberts, 2023). These characteristics include varying levels of risk, specialised valuation techniques, and the complexities of project financing. Understanding these aspects is crucial for investors looking to navigate the hotel investment landscape effectively (Evangeline, 2019).

Hotel investment is the act of investing money in a hotel property to earn a return on investment (ROI). It is an area of hot topic in today's global investment point of view (Leung, 2019). Since seeing the growth potential, the outcome of this investment sector is the key focus, hotel investment has been deeply explored and shown in this part of the literature review (O'Neill et al., 2023).

Hotel investment is unique due to its dual nature as both real estate and an operating business (Wei, 2024). Investors must consider location, market demand, and operational efficiency. Additionally, hotel investments often require substantial capital and have long payback periods, making them suitable for investors with a higher risk tolerance (Akmeşe & Çelikmıh, 2021).

Hotel investment "inherits three categories of risk that are directly attributable to the main phases of its lifecycle: development risk, operating risk, and obsolescence risk" (Radović, Vuković, Drăcea, & Zejak, 2024). Risk factors, both internal and external, affect everyone. Although external forces are largely uncontrollable, internal factors are. A severe economic downturn, political instability, new legislations, changes in demographic or social conditions, demand and supply dynamics, etc. are examples of macro-environmental factors that largely affect investments in the tourist accommodation sector (U. U. Khan, Ali, Petrillo, & De Felice, 2023).

Investing in hotels can go through several analyses including risk, strategic, geographic attractiveness, and economic analysis (Abebe, Bekele, & Yaekob, 2021). Cash flow, net present value (NPV), internal rate of return (IRR), profitability of index (PI), return on investment (ROI), and payback period are all included in the economic analysis of hotel investment. Strategic analysis is a comprehensive understanding of the hotel industry.

Compared to other industries such as mining and agriculture, the hotel sector has larger multiplier impacts on underdeveloped nations (Kabete, 2021). Hotel investments involve more risk than other property sectors because of their high volatility, capital-intensive nature, low government intervention, and dependence on other sectors (Wei, 2024).

Trends in Hotel Investment

Global Trends

The global hotel investment landscape is evolving, driven by technological advancements, sustainability initiatives, and changing consumer preferences (Marques & Marques, 2023). Recent trends indicate a significant shift towards digital transformation and the integration of sustainable practices within the hotel industry (Fatema, Sinnappan, Meng, & Watabe, 2024). This transformation is essential for adapting to the increasingly segmented tourism market and enhancing competitiveness (Morhulets, Hryhorchuk, & Nyshenko, 2024).

The global travel and tourism market has grown steadily since the 1950s, with a significant acceleration post-Cold War, averaging an annual growth rate of 4.1% from 1995 to 2010 and 8.6% from 2010 to 2022 (Kovalevska, 2023). In countries like India, the increase in international tourist arrivals has driven hotel demand (Rastogi & Kanoujiya, 2023). Traditionally, hotels were owned and operated by the same entity. However, there has been a growing separation of ownership and management, with more investors focusing solely on owning hotel properties and outsourcing the management to professional hotel management companies (Nava, 2021). Additionally, there has been a shift in ownership and management structures within the hotel sector. This shift has allowed investors to focus on the financial aspects of hotel ownership while leaving the operational responsibilities to experienced professionals (Wilton, 2022). This trend has created new opportunities for hotel investment and has attracted a diverse range of investors, including private individuals, institutional investors, and real estate developers.

Global trends in hotel investment show a shift towards emerging markets and niche segments, such as eco-friendly and boutique hotels. This shift has driven by changing consumer preferences and the search for higher returns (UNWTO, 2022).

The rise of digital platforms and the sharing economy has transformed customer expectations, necessitating personalised services and local experiences (Salazar, 2018). Environmental sustainability is increasingly prioritized, with impact investing becoming a key driver for eco-friendly practices in the hospitality sector (Aksoy et al., 2022; Honchar et al., 2023).

Regional Trends

In the African context, hotel investments have been concentrated in major cities and tourist destinations. However, there is growing interest in secondary cities, driven by infrastructure development and government incentives (Davidson & Sahli, 2015; Iurchenko, Iurchenko, & Kondrova, 2021). In recent years, Africa has seen a rise in hotel investments due to booming tourism. However, challenges such as foreign ownership concerns and the need for high-quality international hotels persist (Vumbunu, Viviers, & du Plessis, 2022). South Africa, Kenya, and other rapidly growing economies highlight the demand for more hotel rooms (Yobesia, Kihima, Makopondo, & Opondo, 2024). Africa's major cities have seen an increase in business travel, especially with the expansion of infrastructure projects, foreign direct investment, and growing industries like mining, energy, and technology. Cities like Lagos, Nairobi, Addis Ababa, and Johannesburg are experiencing a strong demand for business hotels (Gyamfi, Agozie, & Bekun, 2022).

In Ethiopia, the government's focus on tourism as a key economic driver has led to increased hotel investments, particularly in areas with rich cultural and natural attractions (Abela, 2023). Modern hotel development in Ethiopia began in the early 20th century with the establishment of the Taitu Hotel by Empress Taitu Bitul in 1905 (Tsebo, 2018). Ethiopia's hotel industry grew under Emperor Haile Selassie (1930-1974), with the development of modern hotels like Ras Hotel and the Addis Ababa Hilton (Megersa, 2016).The Derg regime (1974-1991) saw a slowdown in hotel investment due to its socialist ideology prioritising state-owned enterprises (Tomkinson, 2019). However, post-1991, economic reforms and privatisation policies boosted both domestic and foreign investment in the hotel sector (Seid & Lamesegen, 2019).

Ethiopia, a country well known for depending mostly on agriculture as its economic engine, is currently trying to lessen its reliance on the sector by increasing its emphasis on hospitality (Eyassu, Chekole, & Tadesse, 2019). There are hopes that the hospitality industry, which is also the new economic frontier, would healthily lead the nation's economy. Logistical issues, currency restrictions, limited capital market, and weak export performance hinder investment in Ethiopia. Short-term investor discouragement is anticipated due to the fighting in Northern Ethiopia, consistent political instability, and the slowness in debt restructuring negotiations (Abela, 2023).

The Federal and provincial governments have given great emphasis to tourism and hotel development. They support tourism and hotel investment. Hence, they have developed good policies and strategies, prioritised tourism development with plans for infrastructure and facility expansion and tried to improve the tourism and hotel sector (Getachew, 2015).

Compared to other regions like Addis Ababa, Hawassa, or the Northern historical circuit (Axum, Bahir Dar, Gondar, and Lalibela), Afar is still relatively underdeveloped in terms of hotel infrastructure (Winslow, 2015). This makes it a promising area for first movers to capture a large market share. However, factors like remoteness, low investor confidence, or climate-specific issues are the main challenges for hotel investment in the region.

Ethiopia's rich cultural heritage, including 11 UNESCO World Heritage Sites, provides a strong foundation for tourism development (Yasin, Gebbisa, & Bacsi, 2024).

Challenges Faced in Hospitality Investment

The hospitality industry faces a myriad of challenges that significantly impact investment decisions (Anastasopoulos & Varelas, 2023). These challenges stem from economic, environmental, and regulatory factors, necessitating innovative strategies for resilience and sustainability. Understanding these challenges is crucial for stakeholders aiming to navigate the complexities of hospitality investment (Sanjeev Kumar, Kapoor, & Shah, 2024). Climate change poses risks such as natural disasters, which can damage properties and alter location desirability (Anastasopoulos & Varelas, 2023). Changing regulations can create uncertainty for investors, complicating compliance and operational strategies (Sanjeev Kumar et al., 2024).

Funding challenges arise from the operational risks associated with hotel management agreements, making traditional financing less accessible (Nava, 2021). Geopolitical Instability like the ongoing conflict in Ukraine has severely impacted tourism and investment attractiveness, highlighting the vulnerability of the sector (Boiko, Bosovska, Vedmid, Bovsh, & Okhrimenko, 2018; Tsviliy, Mykhailyk, Gurova, Ogloblina, & Korniienko, 2024). Changing consumer behaviour which is the shift in consumer preferences post-COVID-19, requires hospitality businesses to adapt quickly to maintain competitiveness (Kariru, 2023).

Opportunities for Growth

The hospitality industry presents numerous investment opportunities, particularly in the context of impact investing, foreign direct investment (FDI), and the evolving landscape of asset classes (Honchar et al., 2023). As the sector rebounds post-pandemic, investors are increasingly drawn to its potential for economic growth and social responsibility (Blamoh, Jingyi, Meixue, & Weiijie, 2021). Hotels are increasingly viewed as viable alternatives to traditional real estate, attracting generalist investors seeking diversification (Cook & Nava, 2022).

There is a growing potential for investments that not only yield economic returns but also promote social responsibility and regional development (Honchar et al., 2023). As the industry rebounds, there are opportunities for innovative business models and enhanced service offerings to attract a new generation of travellers (Salazar, 2018).

Research Methodology

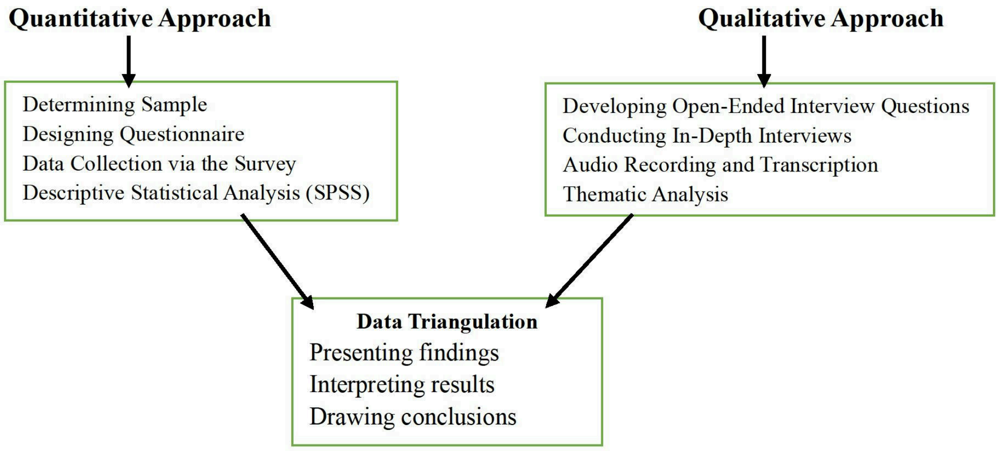
Research Design and Approach

This study employed a concurrent triangulation design (Cresswell, 2013), a mixed-methods approach that integrates both qualitative and quantitative research methods to provide a comprehensive understanding of hospitality investment trends, challenges, and opportunities in the Afar Region of Ethiopia. The concurrent mixed-methods approach was selected over sequential or purely qualitative/quantitative approaches to allow for real-time triangulation of findings, thereby enhancing the validity and comprehensiveness of the results (Cresswell, 2013).

To apply the concurrent triangulation mixed method design first, the researcher collected qualitative and quantitative data simultaneously and triangulated the analysis to obtain a comprehensive understanding, as shown in Figure 1.

Figure 1

Concurrent Triangulation Mixed Methods Design Framework



Source: Adopted from Creswell (2013)

Sampling Techniques and Sample Size Determination

The sampling techniques used in this research were both purposive and census. Census sampling was applied to the selection of hotel investors and existing hotels, including all target populations in the study area, which included 127 existing hotels and 28 licenced hotel investors. The study targeted these groups specifically as they were directly involved in hotel investments in the Afar Region. A total of 12 experts were purposively selected based on their expertise and relevance to the study, as shown in Table 1. These experts were drawn from institutions such as the Afar Region Culture and Tourism Bureau, the Afar Region Investment Commission, the Afar Region Land Administration Bureau, and Samara University, contributing to a well-rounded understanding of the local context regarding hotel investment.

Table 1

Purposely Selected Samples of The Study

No	Sample target populations	Quantity	Rationale for selection
1	Afar Region Culture and Tourism Bureau	4	Expertise and responsibility regarding hotel and tourism investment like certification and qualification.
2	Afar Region Investment Commission	3	Expertise and responsibility regarding hotel and tourism investment such as licencing and registration.
3	Afar Region Land Administration Bureau	2	Expertise and responsibility concerning land use policy like land acquisition, land lease, and zoning for a hotel establishment
4	Academicians from Samara University (tourism & hotel department)	3	Experience working in the field of the tourism and hospitality industry
	Total	12	

Table 2

Sample Size and Respondent Distribution

Category	Population Size	Sampling Technique	Sample Size
Existing hotels	127	Census	127
Licenced hotel investors	28	Census	28
Experts from different bureaus	12	Purposive	12
Total sample size of the study	167		

The above data is obtained from the Afar Region Culture and Tourism Bureau and Afar Investment Commission, and the number of experts selected was based on the data saturation. The selection of experts was informed by the principle of data saturation, ensuring depth and reliability in the quantitative data.

Data Collection Procedure and Data Analysis

Both primary and secondary data sources were employed in the research. Primary data were collected through questionnaires, interviews, and structured observations, while secondary data were gathered from reports and documents relevant to hotel investment in the Afar Region.

Questionnaires designed for hotel owners and licenced investors; the questionnaires included a mix of open-ended and close-ended questions. A five-point Likert scale was used to measure perceptions of various aspects of hotel investment. The closed-ended questions in the survey were designed using a five-point Likert scale, with responses ranging from not challenging to very high challenging (the 5-point Likert is scored as 1=Not challenging, 2=Little challenging, 3=Moderately challenging, 4=Highly challenging and 5=Very highly challenging). Some of these questions were adapted from previous hospitality and investment studies, ensuring reliability and comparability with existing research, while others were self-developed based on the research objectives and expert consultations.

The questionnaire contained 58 total questions and was divided into the following sections such as demographic information of respondents, hospitality investment trends, challenges in hotel investment and opportunities for hotel investment. Each section included Likert-scale, multiple-choice, and open-ended questions to gather both statistical data and qualitative insights. Semi-structured interviews were conducted with 12 key informants, including experts from government bureaus, investment commissions, and academia. A total of 10 thematic questions were asked across three key themes such as trends of hospitality investment, challenges and possible opportunities and questions like What are the key challenges faced by hotel investors in the Afar Region? What opportunities do you see for hotel investment in the Afar region? Who are the primary customers of hotels in Afar Region? (NGOs, government conferences, tourists, business travellers). The interviews were conducted face-to-face, except for one participant from the tourism sector who was interviewed via a telephone call due to location constraints. Each interview lasted approximately 23-30 minutes and was audio-recorded with the consent of the participants. The interview guide focused on the challenges and opportunities of hotel investment, capturing detailed insights.

An observation checklist was used to examine visible factors, such as the state of infrastructure, the condition of existing hotels, and environmental challenges.

Secondary data were obtained from government reports, academic studies, the Afar Region Culture and Tourism Bureau, and investment records from the Afar Region Investment Commission.

Method of Data Analysis

The study employed both descriptive and thematic analysis techniques. Quantitative data collected through questionnaires and reports were analysed using descriptive statistics, including frequency, percentage, mean, and standard deviation. These were presented in graphs and tables and, processed using the Statistical Package for Social Sciences (SPSS) Version 26 and Excel software. Thematic analysis was employed to examine the qualitative data obtained from the observations and interviews. The results were interpreted by triangulating the findings to provide comprehensive insights into the research questions and objectives. Triangulation is a technique used in mixed methods research to validate findings by cross-verifying data from multiple sources or methods. In this study, methodological triangulation was used, combining quantitative data (survey results, statistical analysis using SPSS), qualitative data (interviews, thematic analysis, observations), and secondary data (reports from Afar Region Culture and Tourism Bureau, Investment Commission, and academic literature).

Reliability and Validity Test

To examine reliability in this study, Cronbach's alpha values were calculated for the questionnaire items, yielding a value of 0.792, indicating acceptable internal consistency, which indicates that the items in the survey are reliably related to each other. Therefore, it is included that the administered instrument (questionnaire) for primary data collection is acceptable to measure the variables under study.

Reliability Test

Table 3

Trend of the Hotel Investment Climate in Afar Region

Objectives	Variables	No. of items	Cronbach's alpha Value
Trends		4	.758
Challenges	Financial and Economic Factors	7	.684
	Infrastructure-related Factors	6	.761
	Socio-cultural Factors	5	.694
	Administrative and Policy-related Factors	4	.815
	Nature of Hotel Business Factors	3	.764

Objectives	**Variables**	**No. of items**	**Cronbach's alpha Value**
	Market-related Factors	3	.692
	Geography and Environmental Factors	4	.694
	Land Accessibility Factors	3	.654
	Overall challenge's reliability	35	.775
Opportunities		7	.710
Processing Summary		**N**	**%**
Cases	Valid	146	94.2
	Excluded a	9	45874
	Total	45	100.0
	Cronbach's Alpha	46	.792

Source: Own Survey (2024)
Note: *This indicates good internal reliability, based on average inter-item correlation*

Validity Test

Before the development of the questionnaire, the researcher conducted an extensive hotel investment challenges and opportunities literature review, which was done by different researchers. After developing the questionnaire and interview questions, the first draft was given to the senior researcher for its clarity and simplicity. Certain parts of the instrument were modified considering the feedback received. Then, the instrument was ready for its suitability and validity and distributed to the main respondents. The researcher sought feedback from colleagues and experts to ensure that the data collection instruments covered the relevant aspects related to hotel investment.

Findings and Discussion

Trends in Hotel Investment in the Afar Region

Attractiveness of the Hotel Market for Hotel Investment

Table 4
Sample Size and Respondent Distribution.

Perception Level	***Frequency***	***Percentage***
Not attractive	6	3.9
Moderate	37	23.9
Attractive	78	50.3
Very Attractive	34	21.9
Total	155	100.0

Source: Author Compilation, 2024

As depicted in Table 4 Approximately78% of respondents rated the Afar Region as "attractive" or "very attractive" for hotel investment, citing government incentives such as duty-free imports and tax breaks. However, inconsistent capital flows and limited promotion hinder sustainable investment.

In the interview conducted with the Director of Investment, Promotion, and Information at the Region Investment Commission, the interviewee stated that

"Investors in the hotel business can import vehicles, large equipment, beds, tables, chairs, and clothes with no import tax. Thus, the duty-free policy implemented by the government has played a very critical role in encouraging local investors in hotel businesses. The Afar Region Investment Commission, along with the federal government, offers tax breaks and duty-free privileges, further enhancing the attractiveness of the Afar Region as an investment destination."

This reduces the cost of importing necessary supplies and equipment, making the hotel investment more profitable. Therefore, the interview data above, which are government incentives, are also highlighted as a contributing factor that Afar Region has a positive investment climate for hotel investment. Attractive investment trends and government incentives make the study area an attractive destination for hotel investors.

Initial Investment Capital Flow for Hotel Projects in the Afar Region

According to the data from the Afar Region Investment Commission, the trend of the initial investment capital flow for hotel projects in the Afar Region over 11 years from 2014 to 2024 shows fluctuations rather than a consistent upward or downward path. Even though the total investment capital flow for hotel investment is increasing from time to time, there was a slight decrease observed in 2017 and a significant decrease in 2022 while there was a slight increase from 2014 to 2016 and again from 2023 to 2024 and a substantial increase from 2018 to 2021. In general, there was no significant trend of sustainable increase of investment flow in the hotel sector due to the lack of a strong institutional framework like the region investment commission, which can play a central role in facilitating consistent investment in the sector, and the lack of promotion of the Afar region as a hotel investment destination. As a result, this and other factors have contributed to the fluctuation of the initial capital for hotel investment.

One hotel investor said:

"We face extreme difficulty in securing bank loans. "The interest rates are too high, and financial institutions do not provide enough support for hospitality-related investments."

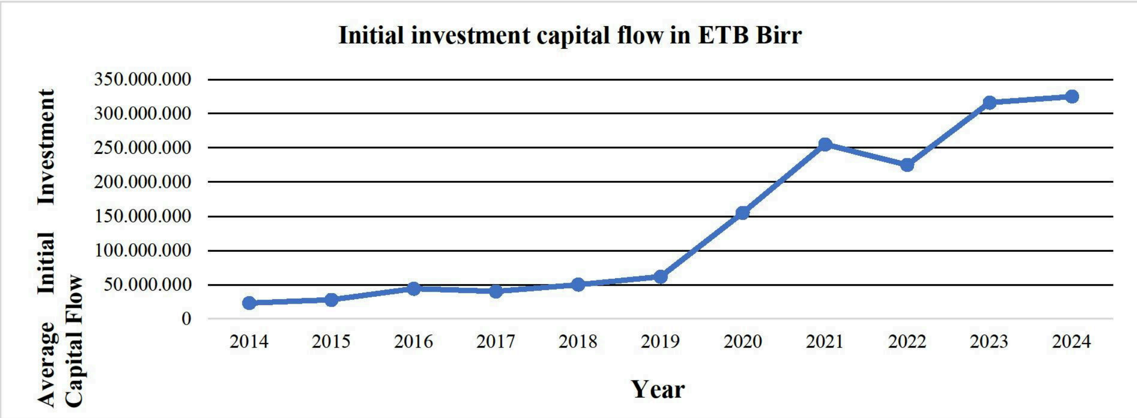
A government official added:

"Despite government policies, access to foreign currency remains a major challenge." "Investors struggle to import necessary materials."

This impacted the investors' confidence. International hotel investors often require foreign currency for imports, loan repayments, and profit repatriation. If they struggle to access foreign exchange, they may hesitate to invest in Ethiopia and look for alternative destinations.

Figure 2

Trend of Average Initial Investment Capital in The Hotel Industry From 2014-2024.



Source: Compiled By the Researcher Based on The Investment Report of Afar Region Investment Commission (2014–2024).
Note: ETB is the Ethiopian Birr

Tourist Arrivals and Receipts in the Afar Region

According to the data from the Afar Region Culture and Tourism Bureau (2023), the number of international tourist arrivals has fluctuated over the years. There have been periods of increase and, decrease, and now an apparent improvement in international tourists with some delays in 2021 and 2022 due to the conflict in Northern Ethiopia, while the number of domestic tourists has shown a relatively consistent increase over the years, except for a slight decrease observed in 2019 and 2020 due to the outbreak of COVID-19 (ARCTB, 2023). This suggests a growing interest among domestic travellers to explore destinations within the Afar Region.

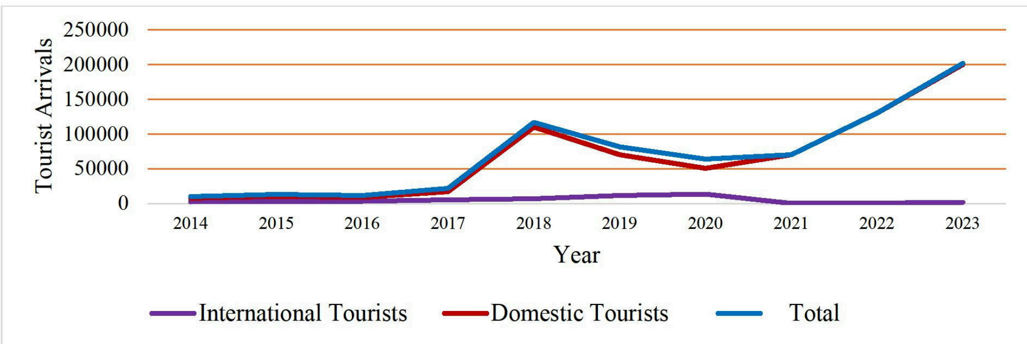
Regarding tourist arrivals in the Afar Region a destination development expert from the Culture and Tourism Bureau stated:

"International arrivals have fluctuated due to political instability and COVID-19, but domestic tourism has shown a steady rise."

Moreover, A tour guide who is working in the Danakil Depression mentioned:
"Many international tourists do not stay long due to a lack of high-standard hotels in the region."

Figure 3

International and Domestic Tourist Arrivals in the Afar Region From 2014 to 2023.



Source: Afar Region Culture and Tourism Bureau (ARCTB) (2014-2023)

Number of Established Hotels in the Afar Region

The Afar region is the home to both natural and cultural tourist attractions and is ideal and suitable for hotel and tourism investment activities (Mekonnen *et al.*, 2022). Many existing hotels, except star-rated hotels lack standardisation and primarily offer food and beverage services, with some providing basic accommodation (Afar Region Culture and Tourism Bureau, 2023).

Table 5

Sample Size and Respondent Distribution.

No	Standard	Number of hotels	Number of Rooms
1	Five Star	1	98
2	Four Star	2	136
3	Three Star	4	201
4	Two Star	10	136
5	One Star	-	-
6	Not Classified	110	361
	Total	127	932

Source: Afar Region Culture and Tourism Bureau, 2024
Note: "- "indicates no data filled

According to the data presented in Table 5 above, the total number of hotels in the Afar Region is 127 out of which only the 17-star-rated hotels deliver full service of food and accommodation for customers even if there were problems in the way of service delivery. Hence, the available number of standardised hotels relative to the flow of customers in the region is insufficient.

According to an interviewee from the Afar Region Culture and Tourism Bureau expert regarding the number of hotels explained as follows:

> *"Relative to the flow of international and domestic tourists into the Afar region the number of hotels serving customers coming to the region is insufficient to accommodate and has the problem of providing a variety and quality of services. There is a situation where guests are sent to other nearest regions like Amahara and Somalia Region because there are not enough hotels available to accommodate, especially during large meetings and special events."*

Furthermore, A tour guide who works in Danakil depression added the following point via telephone interview:

"Visitors to the Afar Region tend to have short lengths of stay because of the lack of comfortable and adequate hotels in the region and in other destinations. This has reduced the interest of foreign tourists to visit the region."

Therefore, this limited number of hotels, tied with high accommodation demand, creates a significant opportunity for investment in establishing standard hotels in the Afar Region.

Hotel Occupancy Rate in the Afar Region

Table 6 and Figure 4 provide data on the average room occupancy rates of star-rated hotels in the Afar Region from 2016 to 2023. There was a significant increase from 2016 (36.6%) to 2018 (78.6%), demonstrating a rising demand for hotel rooms due, to increased tourism and business activities. Occupancy rates fluctuated in the subsequent years (2019 to 2021), indicating variability in the factors influencing hotel room demand due to COVID-19 and the seasonality nature of the hotel business.

According to the respondents, the occupancy rates of non-classified hotels are generally above 50% (based on estimates and not calculated from a base year), reflecting positive trends and increased market conditions within the hotel sector in the Afar Region.

The occupancy rates increased again in 2022 (82.9%) and 2023 (87.4%), reaching the highest levels observed in the period covered by the data. This demonstrates a strong and growing demand for hotel accommodations the city in recent years, possibly driven by increased conference tourism. This data is supported by the previous research conducted by Pratiwi *et al.* (2015), who stated that hotel development (investment) is recommended when the overall occupancy rate in the region is more than 50%.

The hotel owner said:

"Our occupancy fluctuates". "We see full bookings during government conferences but struggle during off-peak seasons."

A tourism bureau expert added:

"Hotels report high occupancy rates (above 80%) during peak events, but the average annual occupancy remains inconsistent."

Table 6

The Average Occupancy Rate of Star-Rated Hotels in Afar Region (2016-2023).

Year	Year Occupancy rates (%),
2016	36.6
2017	54.3
2018	78.6
2019	56.9
2020	49.8
2021	53.7
2022	82.9
2023	87.4

Source: Compiled By the Researcher Based on The Data of Afar Region Culture and Tourism Bureau and Hotels Themselves (ARCTB) (2016-2023).

Figure 4

Compiled By the Researcher Based on The Data of Afar Region Culture and Tourism Bureau and Hotels Themselves (ARCTB) (2016-2023)

Source: The Average Hotel Room Occupancy Rate of Star-Rated Hotels from 2016-2023.

Source Markets in the Afar Region

There are four main customer segment types in Afar Reion: government conferences, NGOs (because different international and national NGOs are working on different humanitarian projects in the Afar region), domestic travellers, and foreign tourists. Most hotel owners said that above 70% of our customers were from government conferences, which were ranked first by most hotel owners. Therefore, conference tourism is increasing in the study area and it is a major source of hotel business. This implies that hotel investment is a profitable business. NGOs and domestic travelers were ranked second by the majority of the respondents.

Foreign tourists were the lowest and last-ranked customer segment type. Understanding the source market is crucial for hotel management and marketing strategies as it helps in targeting specific customer segments and tailoring services to meet their needs.

Survey Question Asked Hotel Owners like “Who are your primary customer groups”?

Response options (closed-ended):

- NGOs
- Government conference attendees
- Domestic travellers
- Foreign tourists

Table 7

Sample Size and Respondent Distribution.

Customer Segment	% of Respondents Ranking as Primary Customers
Government conferences	70%
NGOs	15%
Domestic travellers	10%
Foreign tourists	5%
Total	100%

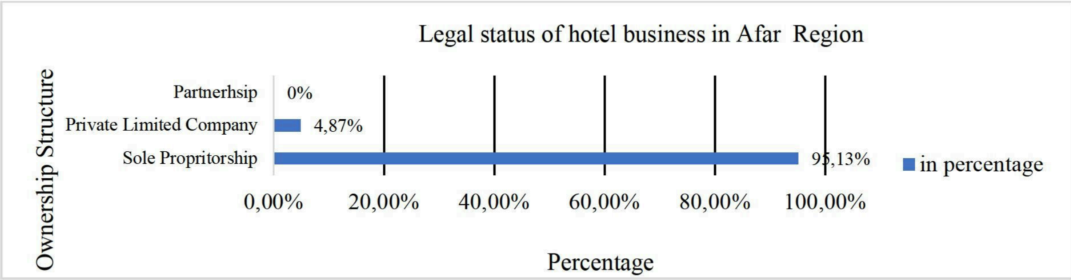
Source: Author Compilation, 2024

Legal Status of Hotel Business (Ownership Structure) in the Afar Region

Figure 5 shows the legal status of the hotel business and reveals that most hotels in the Afar region operate in a sole proprietorship legal form. There were no hotels that operated as a partnership in the study area. Only two star-rated hotels are operating as private limited companies; Kuriftu Resort and Spa (now Mohammed Lallo Hotel and Resort) and Ruftana Hotel. The legal status of the hotel business analysis will help prospective hotel investors identify the most suitable structure, considering factors like liability protection, tax regulations, and ease of operation.

Figure 5

Legal Status of The Hotel Business.



Source: Filed Survey (2024)

Descriptive Statistics Analysis of Hotel Investment

Challenges Faced for Hotel Investment

Hotel Business Dynamics Factors Affecting Hotel Investment

Table 8

Hotel Industry Dynamics Factors Affecting Hotel Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Seasonality	155	3.85	.910	2
Competitive nature of the hotel business (level of competition within the hotel)	155	2.22	.988	3
Ongoing operational cost (capital-intensive nature of hotel investment)	155	3.93	.959	1

Source: Author Compilation, 2024

The findings in Table 7 highlight the key hotel business dynamics influencing hotel investment in the Afar Region. Notably, ongoing operational costs (M = 3.93, SD = 0.959) emerged as the most significant challenge. The capital-intensive nature of hotel investment demands substantial financial resources for construction, maintenance, and day-to-day operations. Interviewees emphasised this issue, with one hotel owner stating, *"The initial investment is high, and maintaining quality service requires continuous spending on staff salaries, facility maintenance, and guest amenities."* This aligns with global trends, where high operational costs serve as a major barrier to hotel investment, particularly in emerging tourism destinations.

Seasonality (M = 3.85, SD = 0.910) ranked as second most significant challenge. The tourism flow in the Afar Region fluctuates throughout the year, affecting occupancy rates and revenue stability. A hotel manager noted, *"During peak seasons, our rooms are fully booked, but in the off-season, occupancy drops drastically, making it hard to sustain profitability."* Seasonality often impacts cash flow management, requiring hotels to strategize their pricing and marketing efforts to mitigate revenue losses.

Conversely, the competitive nature of the hotel business (M = 2.22, SD = 0.988) ranked lowest among the identified factors, suggesting that competition does not pose a major challenge to hotel investors in the region. The relatively low level of competition could be an opportunity for new investors to establish hotels with unique offerings.

As one investor stated, *"Unlike other major tourist destinations, competition here is low, so new hotels can attract guests if they provide quality services."*

Overall, these findings underscore that while high operational costs and seasonality pose significant investment challenges, the low competition level presents a favourable environment for new hotel ventures in the Afar Region.

As supported by the Interviewee Hotel owner, this finding shows as:

"The ongoing operational cost is one of the main challenges because the cost of power, water, and other utilities is increasing every year, making it hard for us to sustain our business." (Hotel Owner, Semera, 2024).

A hotel owner in Awash City noted:

"Running a hotel in Afar is expensive. Due to the extreme temperatures, the air conditioning must operate continuously, increasing the electricity costs. This makes operational costs unsustainable without consistent revenue."

Rivalry among existing competitors is one of *Porter's five forces* model of analysis (Porter, 2008), but there is very little rivalry among existing hotels in the study area. Therefore, there is a very significant opportunity to invest in the hotel industry in the study area and presents an advantage for new entrants looking to invest in the hotel industry. Even if there is high competition among existing hotels, it would be advantageous.

Infrastructural-Related Factors Affecting Hotel Investment

Table 9

Infrastructural Factors Affecting Hospitality Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Access and quality of the telecommunication service	155	3.05	.999	6
Access to a health facility	155	3.88	.714	3
Transport availability	155	3.95	.705	2
Access and quality of appropriate IT infrastructure	155	3.29	.782	5
Access to an electric facility	155	3.32	.934	4
Interruption of the Water Supply	155	4.41	.631	1

Source: Author Compilation, 2024

Table 8 presents the infrastructural challenges affecting hotel investment in the Afar Region. The descriptive analysis indicated that water supply interruption was the most critical challenge, with a mean score of 4.41, ranking first among all infrastructural factors. Transport availability (M = 3.95) and access to health facilities (M = 3.88) also emerged as major concerns, significantly affecting hotel investment. Other factors, including telecommunication services (M = 3.05), electricity access (M = 3.32), and IT infrastructure quality (M = 3.29), represent moderate challenges.

Findings from the qualitative interviews reinforce these results. One hotel investor stated, *"Water supply is unreliable and often disrupted for days. We are forced to buy water at high costs, which affects our profitability."* Another respondent noted, *"The lack of proper roads and transport services makes it difficult for guests and supplies to reach our hotel on time."* Similarly, a hotel manager emphasised the challenge of health services, saying, *"Many tourists worry about the lack of nearby health facilities, which affects their decision to stay longer."*

These findings align with previous research by Gatsinzi and Donaldson (2010) on infrastructural challenges in Kigali and Zemenu (2020), reinforcing the impact of inadequate infrastructure on hotel investment in developing regions. Observational data further confirmed these challenges, with visible interruptions in water supply and inadequate road infrastructure affecting hotel operations (Observation, April 2024).

The study identified critical infrastructural barriers, particularly in water supply, transportation, and health facilities. The severe water supply interruptions significantly impact hotel operations, increasing costs and reducing service efficiency. This aligns with previous studies on infrastructure constraints in emerging tourism markets, where inadequate basic services deter investment.

Land Accessibility Factors Affecting Hotel investment

Table 10

Land Accessibility Factors.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
The land management system	155	3.34	1.1013	1
Bureaucratic procedure	155	2.37	.888	3
Availability and cost of land (Lease price)	155	3.05	.973	2

Source: Author Compilation, 2024

As shown in Table 9, the land management system presented the most significant challenge, with a mean score of 3.34 (SD = 1.013), indicating a moderately high level of difficulty in accessing land for hotel development. Investors often face inefficiencies and inconsistencies in land administration, making it difficult to acquire and use land effectively.

Similarly, the availability and lease price of land is another notable factor, scoring 3.05 (SD = 0.973), reflecting a moderate challenge. The rising cost of lease agreements and the scarcity of prime locations for hotel development have created barriers for potential investors. A star-rated hotel owner in Semera City emphasised, *"The difficulty of obtaining additional land for hotel expansion is a serious problem. Land is either unavailable, too expensive, or tied up in administrative issues."* This statement aligns with the quantitative findings, highlighting the impact of land constraints on hotel growth.

On the other hand, bureaucratic procedures appear to be less of a challenge, with a mean score of 2.37 (SD = 0.888), suggesting that regulatory processes, while present, do not pose a major obstacle for investors. This can be seen as a relative opportunity, as smoother bureaucratic processes could encourage further investment in the sector.

A star-rated hotel owner in Semera City, the region's capital, highlighted the difficulty of obtaining additional land for hotel expansion due to the unavailability of land and its management system issues.

> *"I requested the regional land administration bureau to obtain land for an expansion for my hotel services like a night club and spa and wellness centre, but it is difficult to get due to the problem of land management system and lease price."*

Moreover, one licenced hotel investor said:

"Securing land for hotel investment is not easy due to the lengthy bureaucratic process and unclear regulations." (Licenced Investor, Semera).

These findings align with those of Wang *et al*. (2018), who also identified land accessibility as a major investment barrier for hotel investment, including complex land management systems and government control of land.

From the survey, the researcher was able to understand that the majority of hotel investors, specifically licenced hotel investors, are dissatisfied with the services provided by the land administration bureau and have even criticiced strong opinions about the issue of land management and lease prices. This in turn impacts on the investment flow into the city.

Furthermore, the researcher has observed that the study area has no land reserved for hotel investment and there is no land use classification system used for different sectors (Observation, April 2024).

While bureaucratic procedures are not as challenging as expected, the high lease price and unclear land management policies present significant hurdles. The interview data demonstrate that investors find it difficult to acquire land for expansion, limiting growth potential.

Market-Related Factors Affecting Hotel Investment

Table 11

Market-Related Factors Affecting Hotel Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Raw materials supply (availability of essential supplies)	155	4.05	.805	1
Location of the Afar Region	155	2.49	0.883	3
Cost of the construction material	155	3.88	.900	2

Source: Author Compilation, 2024

As shown in Table 10, market-related factors play a significant role in shaping hotel investment in the Afar Region. The study identified raw materials supply (availability of essential supplies) as the most critical market-related challenge, with a mean score of 4.05 (SD = 0.805), ranking first among the factors. This indicates that hotel investors face serious difficulties in accessing essential supplies such as food, beverages, and cleaning materials, which are crucial for smooth hotel operations. The scarcity of these materials not only increases operational costs but also affects service quality and customer satisfaction.

The cost of construction materials emerged as another major constraint, with a mean score of 3.88 (SD = 0.900), ranking second. The high costs of cement, steel, wood, and other building materials pose significant financial burdens on hotel developers. This challenge is further exacerbated by inflation and foreign currency shortages, making it difficult for investors to plan and execute hotel projects efficiently. Many respondents emphasised that the rising prices of construction inputs discourage new investments and slow down ongoing projects.

In contrast, the location of the Afar Region was perceived as a relatively minor challenge, with a mean score of 2.49 (SD = 0.883). This suggests that while the region's remoteness and harsh climatic conditions may pose some difficulties, they are not considered as severe as the challenges related to raw materials and construction costs. Some investors recognise the region's strategic location near Ethiopia's major tourism sites, such as the Danakil Depression, which still offers potential for investment despite the logistical hurdles.

A hotel investor shared:

"It is difficult to get quality furniture or construction materials locally. We must transport them from Addis Ababa, the country's capital, which increases costs."

This finding is supported by the findings of Idoko (20121) conducted on Hotels Real State: Analysing Location Factors, which stated that location is one of the most critical factors in hotel real estate and considers other key factors like competition, proximity to tourist attraction, transportation, and market segmentation.

Geography and Environmental Factors Affecting Hotel investment

Table 12

Geography and Environmental Factors Affecting Hospitality Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Climate and weather conditions	155	47209	.814	1
Topography conditions of the region	155	34001	1067	3
Waste management and regulations in the region	155	11749	1011	2
Laws regulating environmental pollution such as air and water	155	21582	.894	4

Source: Author Compilation, 2024

As depicted in Table 11, climate and weather emerged as the most critical geographic and environmental challenges for hotel investment in the Afar Region, with a mean score of 4.29 (SD = 0.814), ranking first among all factors. This indicates that the extreme climatic conditions, characterised by high temperatures, arid conditions, and limited rainfall, create significant operational difficulties for hotels. The harsh weather affects not only the comfort of guests but also increases operational costs, particularly for cooling systems, water supply, and food storage. As one hotel manager stated, *"The extreme heat discourages long stays, and we have to invest heavily in air conditioning, which raises energy costs significantly."* The waste management rules and regulations in the region also pose a moderate challenge, with a Mean score of 3.32 (SD = 1.011), ranking second. The enforcement of environmental laws regarding waste disposal is inconsistent, leading to sanitation issues that negatively impact hotel operations and guest experiences. One hotel owner noted, *"We struggle with waste disposal because proper systems are lacking, and this creates hygiene concerns for guests."*

The topography condition of the region, with a mean score of 2.63 (SD = 1.067), ranked third, indicating that while it is a challenge, it is not as significant as climate-related concerns. The rugged terrain and lack of well-developed infrastructure make transportation and accessibility difficult, particularly for tourists travelling to remote areas. However, some investors see opportunities in adventure tourism, leveraging the region's unique landscape for niche markets. Lastly, laws regulating environmental pollution, such as air and water, ranked fourth with a mean score of 2.59 (SD = 0.894). This suggests that while some investors acknowledge the importance of environmental protection, the impact of these regulations on hotel investment is perceived as relatively low compared to other infrastructural and geographical challenges. However, compliance with these laws can add to the operational costs and investment barriers.

The interviewee added that

"The climate of the region is very difficult and it requires investing in expensive technological infrastructure like AC (air-conditioning) and ventilators for each room, meeting hall, lobby area, and restaurant of the hotel."

The mean scores of the topography condition and waste management rules and regulations in the city were 2.63 and 3.32 respectively; this indicates that respondents consider these factors as moderately challenging factors for hotel investment. On the other hand, laws regulating environmental pollution such as air and water have a mean score value of 2.59; this indicates that this environmental factor is a little challenge for hotel investment in the study area.

This study supports the conclusions of (Ortiz et.al, 2025), confirming that geography is a key determinant in hospitality investment.

Socio-cultural Factors Affecting Hotel Investment

Table 13

Socio-Cultural Factors Affecting Hotel Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Community working habits	155	3.32	.687	1
Community beliefs, and socio-cultural norms	155	2.39	.737	4
Society's level of education	155	3.024	10604	2
Gender-driven problems	155	2.59	1048	3
Ethnic conflict among residents of the region	155	1.59	.948	5

Source: Author Compilation, 2024

As the statistical results in Table 12 depicted, the mean scores of community work habits and society's level of education are 3.32 and 3.024, which are above three and indicate that the majority of the respondents agree that those factors have moderate challenge on hotel investment in the study area. On the other hand, community beliefs and sociocultural norms and, gender-driven problems are a little challenging for hotel investment with a mean score value of 2.39 and 2.59, respectively. The mean value of ethnic conflict among residents of the region was 1.59, indicating no challenge to hotel investment in the study area. The mean score value of those socio-cultural factors is below three, which indicates that respondents do not consider these as challenges for hotel investment.

The hotel manager noted:

"Finding well-trained hospitality staff locally is difficult. Most employees require extensive training before they can provide professional service."

Moreover, the Dean of the School of Tourism and Hospitality Studies at Samara University said: *As we know, the hotel industry is a labour-intensive industry". So, Hotel owners in Semera City are struggling to gain skilled and professional human power in tourism and hotel now, but our university Samara has launched a new hotel and tourism program to address this skill gap in the city and around the region. This initiative can help address the future workforce needs of the hotel sector.*

Findings of earlier studies in different parts of the world support the findings of this study. For instance, this result is directly in line with the previous study conducted by Abebe *et al.* (2021), which identified community attitudes as socio-cultural challenges for hotel investment.

Financial and Economic Factors Affecting Hotel Investment

Table 14

Financial and Economic Factors Affecting Hotel Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Credit extension service provided by the financial institution	155	3.12	.748	5
High level of interest rate on loan	155	3.27	.867	4
Unavailability of foreign currency	155	4.07	.932	2
Exchange rate fluctuation	155	3.95	.999	3
High inflation	155	4.37	.623	1
High cost of hotel investment	155	3.95	.835	3
Lending bureaucracy	155	2.80	1.077	6

Source: Author Compilation, 2024

As depicted in Table 13, the study identifies several financial and economic challenges that can hinder hotel investment in the study area. They are macro-economic variables that have a countrywide effect such as high inflation, unavailability of foreign exchange reserves, high cost of hotel investment and exchange rate fluctuations are the main challenges hindering the hotel investment activities in the study area having mean scores of 4.37, 4.07, 3.95 and 3.95 respectively, which are very highly challenging and highly challenging factors respectively. This means the most hotel investors agree that those financial and economic-related factors significantly discourage their investment activities.

Other variables, which include a high level of interest rate on loans and, credit extension services provided by financial institutions, are all moderately challenging for hotel investment practices in the Afar region, with a mean value of 3.27 and 3.12, respectively. Compared to the previous three finance and economic-related factors, they have a lesser influence on hotel investment activities in the study area. On the other hand, the bureaucracy of lending institutions that give loans has a mean value below three (2.8), which indicates that the factor is not challenging hotel investment and is considered an opportunity available for hotel investors in the Afar Region.

The study's findings are consistent with the study conducted by Newell & Seabrook (2006) and Sanjeev *et al.* (2012), which identified the financial factors mentioned above as significant challenges for hotel investment and also highlighted that hotels are capital-intensive projects, they dependent on banks for the financing of their projects.

On the other side, an owner of a star-rated hotel specified:

"The hotel business in the Afar Region has a good profit. He justified that there is an increasing flow of tourists because of diversified tourism sites in the Afar region. As a result, the hotel showed higher sales volume and profit, however it is somewhat difficult for prospective hotel investors due to large initial investment and lack of loans from financial institutions."

A hotel investor commented:

"Foreign currency shortages make it difficult to import essential items such as beds and kitchen equipment."

Hotels rely on imported materials such as furniture, kitchen equipment, and construction materials.

A lack of foreign currency means that they must buy these items at higher black-market exchange rates, increasing operational expenses.

Regarding loan provision, another interviewee with a licenced hotel investor indicated that banks and credit institutions offer limited financing with no special considerations to loan requests for hotel investment

Administrative and Policy-related Factors Affecting Hotel Investment

Table 15

Financial and Economic Factors Affecting Hotel Investment.

Sub-factors	*Obs.*	*M*	*SD*	*Factor Rank*
Credit extension service provided by the financial institution	155	2.24	1.113	3
Level of Awareness of the Investment Commission employees on Investment laws	155	2.12	.900	4
Corruption in implementing investment policies	155	2.71	1.031	2
Poor tax administration and customs procedures	155	3.00	0.049	1

Source: Survey findings (2024)

As shown in Table 14, administrative and policy-related factors such as poor tax administration and customs procedures and corruption in implementing investment policies are moderately challenging factors for hotel investors, with a mean value of 3.00 and 2.71, respectively. The other policy-related factors such as licencing procedures by the investment commission and the level of awareness of the investment commission employees on investment laws have a mean value of 2.24 and 2.12, respectively, which are close to 2, indicating little challenge to hotel investors. Therefore, there is no time-consuming bureaucratic process to obtain an investment license and we can see that licencing procedures, corruption in implementing investment policies, and the level of awareness of the investment commission employees on investment laws are considered as opportunities for hotel investors in the study area.

A hotel investor stated:

"The delay in tax clearance and inconsistent customs procedures discourage investors from continuing their business activities." (Hotel Owner, Semera).

The results are consistent with (Menicucci and Paolucci, 2024), confirming that policy-related issues are the main factors affecting hotel investment.

Conclusions and Recommendations

The study reveals a positive trend in hotel investment in the Afar Region from 2014 to 2023. The region's unique tourist attractions, coupled with favourable government policies such as duty-free imports, make it an attractive destination for investors. However, significant challenges persist, including inadequate infrastructure, climate-related issues, and financial constraints such as high inflation and limited access to foreign currency. Despite these barriers, the opportunities outweigh the challenges, especially with the increasing demand for hotel accommodations driven by domestic and international tourism.

Based on the study's findings, several key recommendations are proposed. First, the Afar Regional Investment Commission should collaborate with financial institutions to provide loans for hotel investors, addressing both local and foreign currency needs. Second, addressing the inadequate infrastructure is essential, and the city administration, along with the regional government, should prioritise improvements in water, health, electricity, transportation, and other essential services to support hotel development. Third, the Land Administration Bureau must establish clear and transparent land-use policies and regulations to facilitate the acquisition of land for hotel projects. Furthermore, the Afar Region's Investment Commission, in partnership with the Culture and Tourism Bureau and the Ethiopian Investment Commission, should create a comprehensive marketing strategy to attract both domestic and foreign investors. This could include the development of an engaging website, targeted promotional campaigns, and stakeholder engagement initiatives. Lastly, regular meetings among the relevant bureaus and hotel investors should be organised to address investment-related issues, foster collaboration, and ensure the success of hotel projects.

To enhance the investment climate for hotel development in the Afar Region, leveraging digital tools and adopting innovative strategies is crucial such as, AI-driven hotel marketing, blockchain for investment transparency (Fatema et al., 2024), or online booking platform partnerships, implementing innovative strategies, such as implementing an integrated digital investment promotion platform (Zrnić & Božić, 2024), marketing strategies, and collaboration among stakeholders.

Implications

The findings of this study underscore several actionable recommendations for managers and policymakers to enhance the hospitality investment climate in the Afar Region.

For **hospitality managers**, addressing the infrastructural challenges is paramount. Hotel operators should prioritise partnerships with local suppliers to mitigate interruptions in essential services such as water and electricity. Proactive investment in renewable energy systems, such as solar panels, can provide a sustainable solution to frequent power outages while reducing operational costs. Additionally, investing in employee training programs will bridge the skill gap and improve service quality, enhancing guest satisfaction and occupancy rates. To address seasonality, managers could diversify offerings, such as promoting cultural events or adventure tourism during off-peak periods, to ensure a steady flow of visitors throughout the year.

Policymakers must adopt a multi-pronged approach to foster a conducive environment for hotel investments. First, enhancing infrastructure, particularly water supply, transportation, and health facilities through public-private partnerships can stimulate investment and improve regional accessibility. Second, creating tailored financial instruments, such as concessional loans or foreign currency facilities for hotel investors, will alleviate financial barriers and encourage long-term commitments. Policymakers should also streamline the administrative procedures for land acquisition and licencing to reduce bureaucratic delays. Implementing transparent policies will improve investor confidence and facilitate smoother project execution.

Moreover, regional authorities should intensify marketing efforts to promote Afar as a prime investment and tourist destination. Collaborative campaigns involving government agencies, tourism boards, and private stakeholders can attract both domestic and international investors. Finally, establishing an investment support desk within the Afar Region Investment Commission can provide one-stop advisory services, assisting investors with regulatory requirements and operational challenges.

By addressing these areas, the Afar Region can unlock its full potential as a hub for sustainable hospitality development, creating a win-win scenario for investors, policymakers, and local communities.

Limitations and Future Research Directions

This study provides valuable insights into the trends, challenges, and opportunities of hotel investment in the Afar Region of Ethiopia. However, it is subject to several limitations. First, the study primarily focuses on identifying the key challenges and opportunities, without delving into the potential solutions for these issues. Future research could explore specific interventions or strategies to mitigate the identified challenges, such as workforce development programs to address the region's skilled labour shortages.

Second, the study is geographically limited to the Afar Region, which may restrict the generalizability of its findings to other regions of Ethiopia or sub-Saharan Africa. Future studies could expand the scope to include multiple regions within Ethiopia or compare hotel investment trends across different African nations. This would provide a more comprehensive understanding of regional investment dynamics in diverse socio-economic contexts.

Third, while this research used expert interviews to gain in-depth insights, it did not explore the perspectives of local hotel customers or international tourists. Future research could incorporate consumer viewpoints to examine how local perceptions and visitor experiences impact hotel investment decisions. Additionally, researchers could explore the role of alternative data sources, such as hotel industry reports, travel agency data, and online booking platform statistics, to assess historical trends in hotel investments.

Lastly, this study did not examine specific hotel types or targeted tourist segments, such as budget hotels or adventure tourism. Future research could focus on specific segments of the hotel industry or niche markets, such as eco-tourism or luxury travel, to better understand investment preferences and demand within these areas.

These directions will help in address the gaps identified in this study and provide further clarity on the evolution of hotel investments in emerging markets like Afar. Future research can contribute to the development of actionable policies and frameworks for fostering sustainable hotel investments in regions facing similar challenges.

Peer Review	Externally peer-reviewed.
Conflict of Interest	The author declares that they have no conflict of interest.
Grant Support	The author declares that this study has received no financial support.
Ethical Approval	This study involved surveys and interviews with stakeholders in the hospitality industry (e.g., hotel owners, investors, government experts) to explore industry trends and challenges. As no vulnerable groups or sensitive personal data were involved, and no risk of harm was posed, formal ethics approval was not required. Nonetheless, ethical standards were upheld through informed consent, confidentiality, voluntary participation, and respect for all participants.
Informed Consent	Informed consent was obtained from all participants.

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