

The costs and pricing of tourism in Zambia

The case of Livingstone

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Acronyms

SI	Statutory Instrument
VAT	Value Added Tax

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EXECUTIVE SUMMARY

Tourism is potentially one of Zambia's best prospects for economic diversification and growth. The tourism sector has the potential to play an increasingly important role in stimulating economic growth by contributing to job creation, foreign exchange earnings, entrepreneurial development, infrastructural development, improvements to rural areas and communities, and more.

There are questions, however, over the effectiveness of public sector policy and strategic interventions in fostering the realisation of the potential of tourism. In this regard, there are two opposing views of the realities of Zambia's tourism industry. The operators argue that the business environment is exceptionally difficult in terms of both the odious costs of doing business and the variability of regulations in the industry. In sum, they say, it is a struggle to generate decent profits. Their critics, however, say that such claims are unfounded. They believe that the operators have been deliberately creating information asymmetries, causing immense loss of government revenue and benefitting from considerably higher prices for tourism service packages than do their competitors in the region. It is possible that both arguments contain some truth. Until we gain a better understanding of the cost and price structures and their differences with regional competitors, the mistrust between the government and the private sector will persist.

This study seeks to make a modest contribution to informing tourism policy and strategies by taking a disaggregated look at the cost and price structures of tourism service operations in one of Zambia's key tourism destinations and comparing them with the structures in a proximate competitor region. By benchmarking tourism services in Livingstone against those in Victoria Falls town (on the other side of the Zimbabwean border), it captures detailed data on prices, inputs (labour, main service ingredients), food and beverages, overheads and other establishment performance indicators. The services considered include: accommodation (hotels and lodges); food and beverages (restaurants, diners, pubs/bars, cafes, etc); adventure tourism (water rafting, water cruises, micro flights); and wildlife safaris (nature walks, game drives, safaris).

The study recommends the following measures to address the constraints on the sector's development:

- Tourist figures should be disaggregated to take into account different types of visitors.
- Education and training should be prioritised by both the government and the private sector.
- Destination marketing should be made more extensive and effective to increase awareness and demand in the tourism sector.
- Entry barriers such as the yellow fever certificate requirements and the relatively high visa fee should be urgently addressed.

- The police must enhance their responsiveness to crime in the Livingstone area.
- Banking challenges need to be addressed, especially regarding the provision of long-term finance and lower interest rates.

With regard to the pricing and cost structure in the sector, the study recommends the following measures:

- The government should adopt appropriate strategies to reduce the cost of doing business in the sector. For instance, interventions aimed at reducing the cost of maintenance and repairs as well as reducing the cost of energy should be targeted.
- Interventions aimed at increasing the wages of staff in the sector should be targeted at the skilled manual workers trained in-house who the worse off in terms of remuneration.
- International tourists should be given some flexibility in making payments using convertible currencies. This should be within clearly defined limits that would still encourage the use of the domestic currency.
- Financial intermediaries such as banks and bureaux de change should be encouraged to expand their coverage and operating hours. In addition, the payment system should embrace electronic payments in all transactions.
- The government should consider a sector-specific revision of the minimum wage based on the existing regulation and performance of the sectors. In particular, the existence of service charge in the tourism sector positions wages higher than in other sectors.

1 INTRODUCTION

1.1 A primer on tourism opportunities and challenges

Tourism is potentially one of Zambia's best prospects for economic diversification and growth. The tourism sector has the potential to play an increasingly important role in stimulating economic growth by contributing to job creation, foreign exchange earnings, entrepreneurial development, infrastructural development, improvements to rural areas and communities, and more. But this potential has to be carefully nurtured and regulated.

Tourism is not without challenges. One of the key challenges, related to a common criticism of tourism, is the belief that it leaves little in the host country. This is reportedly due to the high import content of the industry, the prominence of foreign investors and managers with motives to repatriate profits, and the modes of payment whereby package deals are fully paid for overseas in advance (IMF et al. 2006). In cases where tourism establishments are foreign owned, the potential for strong preferences for foreign inputs in terms of skilled labour, foods, beverages and other ingredients can be high, limiting the development of local industries.

On the other hand, with the high costs of doing business, onerous regulations, some level of mistrust among players in the industry, poor infrastructure (roads, airports, telecommunication), inadequate support services (finance, healthcare, tourism training), and stiff competition from tourism destinations in neighbouring and nearby countries, the profitability and competitiveness of the Zambia tourism sector is likely to be highly constrained.

Ultimately, the extent to which economic gains accrue to a country will depend on how the industry is managed, regulated and nurtured. For instance, the capacity of local farmers, fishermen and other suppliers to supply to hotels and other tourism service providers usually needs to be explicitly supported. It does not always grow automatically through the operation of the "invisible hand" of the market. Training programmes can accelerate the process of improving local skills and capacity and replacing expatriate staff with nationals.

There is a wealth of research available that shows how local labour and capital benefits either directly or indirectly from tourists purchasing food and lodging, souvenirs, transport and excursions, and other services (see IMF et al. 2006). It suggests the challenge is not insurmountable, but does require the right management.

1.2 A core issue for tourism in Zambia

A core issue for Zambia is the effectiveness of public sector policy and strategic interventions in fostering the realisation of tourism's potential. In particular, there are two opposing views of the realities of Zambia's tourism industry. Tourism service operators argue that the business environment is exceptionally difficult in terms of both the odious costs of doing business and

the variability with regulations in the industry. Their bottom-line argument is that they struggle to generate decent profits.

Their critics, on the other hand, say that such claims are unfounded. They believe that the operators have been deliberately creating information asymmetries, causing an immense loss of government revenue, and benefitting from prices for tourism service packages that are considerably higher than among regional competitors. They feel this is why many operators are not transparent with their financial books; it is not to avoid having their market intelligence information stolen and used to undercut their markets, but rather to hide the massive profits they are making.

There may be elements of truth in both arguments. Unless some of these issues such as the cost and price structures and their differences with regional competitors are understood, some level of mistrust between the government and the private sector will persist. Without this, it will be difficult for the government to formulate and implement policy and strategies that promote a thriving tourism industry led by the private sector

1.3 Study objectives

This study seeks to make a modest contribution in informing tourism policy and strategies by taking a disaggregated look at the cost and price structures of tourism service operations in one of Zambia's key tourism destinations and comparing them with a nearby competitor. Specifically, the study seeks to:

- Benchmark prices and costs in Livingstone (Zambia) against prices and costs in Victoria Falls town (Zimbabwe) on comparable tourism services.
- Assess the extent and nature of any price and cost differences between the two areas.
- Investigate the factors underlying any price and cost differences, including price escalation, business environmental factors.
- Identify the implications on Livingstone's competitiveness as a tourist destination and what it would take to improve its appeal through reductions in any significant price differentials relative to Victoria Falls town.

1.4 Methodology

1.4.1 Overview of methods and data

The following methods of data collection and analysis were applied, drawing on specific data sources:

1. *Sampling frame from key informant consultations.* The study undertook to consult private sector associations and renowned tourism service operators with a physical or remote presence in Livingstone.

2. *A purposive sampling procedure.* The sample points (or entrepreneurial units) are systematically selected from a population list of units as defined based on the key informant consultations. The study defines groups of tourism service providers according to the type of tourism products they offer. Four service types are targeted: (1) accommodation related services (hotels, lodges, motels, etc.); (2) food and beverage services (whether within or outside accommodation services); (3) adventure tourism (water sports, water cruises, micro-flights, etc); and (4) wildlife safaris.
3. *Benchmarking prices in Livingstone and Victoria Falls town.* This component determines the price differentials, price decompositions and major cost differentials between the two competing tourist destinations. It is based mainly on a primary data collection survey of tourism service providers in Livingstone and Victoria Falls town. Secondary data was also sought from sources in the public domain.

Given that the benchmarking survey collects largely cross-sectional data, the analytical approach involves *comparative statistical analysis*. The different price, input cost and other economic characteristics are summarised and related based on descriptive statistics. The analysis also identifies the main implications for Zambia's tourism competitiveness and development given the differentials in costs, prices and performance compared to Victoria Falls town. That is, it investigates the extent to which the identified price differences may adversely affect Livingstone's tourism appeal relative to that of Victoria Falls town.

Where Livingstone prices are higher and significantly less competitive than in Victoria Falls town, the study also determines (through consultation with key stakeholders) what it would take to bring prices more in line with those prevailing across the border.

1.4.2 Scope

This study takes tourism as one case of economic diversification. In keeping with the objectives, the study captures the price and (input) cost differentials of tourism goods and services in Livingstone, benchmarking them against comparable prices and costs in Victoria Falls town, Zimbabwe, a competing destination for tourism.

The study can be described as a case study in the sense that it focuses on Livingstone district as the case study area. Greater Livingstone has received significant attention in recent times and was identified in the Sixth National Development Plan as one of the most important tourism locations in the country. As an entry port (the international airport and Victoria Falls border crossing combined), it accounted for over 21% of all international arrivals into Zambia in 2008 compared to 8% on average across Zambia's 12 official entry ports (MoTENR 2009). However, the tourism capital's position is not guaranteed. In 2010, Livingstone's share of total international arrivals into Zambia fell to 18% (MoTENR 2011). The attractiveness of Livingstone as a tourism destination depends and will continue to depend on the price, variety and quality of tourism products available vis-à-vis what is happening across the border in Zimbabwe or elsewhere in Zambia.

The specific tourism products that predominate tourism establishments and enterprises in Livingstone (and Victoria Falls town) include those in the following areas:

- Accommodation (hotels, lodges, motels, guest houses, etc)
- Food and beverages (restaurants, diners, pubs/bars, cafes, etc)
- Adventure tourism (water rafting, water cruises, micro flights etc)
- Wildlife safaris (nature walks, game drives, safaris etc).

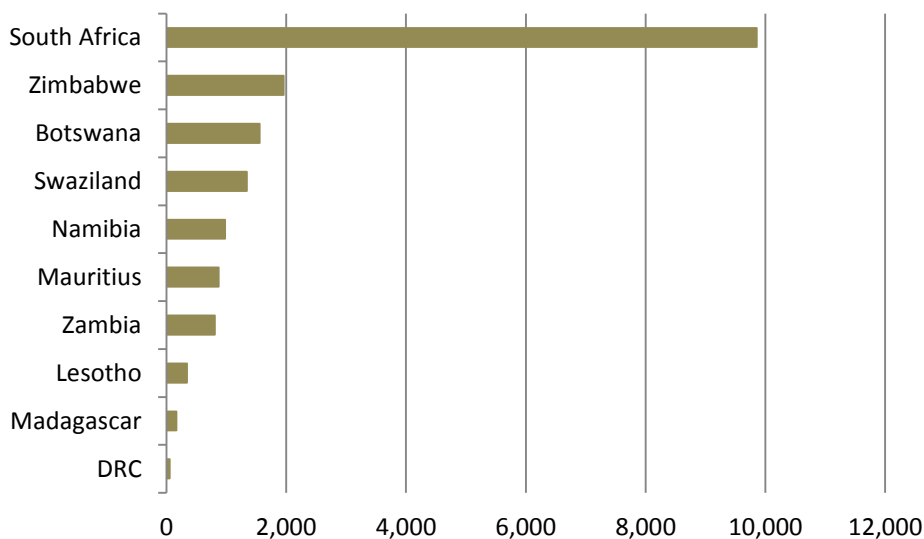
The various tourism products listed above are not mutually exclusive and can operate as packages. For instance a hotel may offer accommodation, food and beverages, and safaris. Furthermore, the list is obviously not exhaustive, but it does provide a useful guide to the supply of tourism products in Livingstone.

2 A SECONDARY PERSPECTIVE ON TOURISM PERFORMANCE AND TOURISM DEVELOPMENT CONSTRAINTS

Tourism is often considered as travel for recreational, leisure or business purposes. The full United Nations World Tourism Organisation (UNWTO) definition is: “the activities of persons travelling to and staying in places outside their usual not more than one consecutive year for leisure, business and other purposes” (UNWTO 1995, 1).

However, the UNWTO definition poses some measurement biases in capturing tourism statistics in most countries. Specifically, most countries consider the UNWTO measure as a suitable measure of tourist arrivals related to leisure and holidays, but in essence the definition ascribes to a broader measure of travel and related activities. Zambia follows the UNWTO tourist definition approach, but it is worth noting that, in Africa, where there are large numbers of cross-border movements in informal trade, a desegregation of the “tourist” figures would be useful. Figure 1 below highlights the visitor arrivals for selected countries in the SADC region in 2009.

Figure 1: Visitor arrivals '000' in selected SADC countries; 2009



Source: RETOSA 2012

With Zambia seventh on the list of ten selected countries in the SADC region, it is evident that the country is faced with stiff regional competition in attracting more visitor arrivals. The country's proximity to highly competitive players in the region – Botswana, Namibia and Zimbabwe – confronts tourism operators with price and quality comparison barriers. This has important implications on the number of tourists visiting the country. It is therefore important

that the country strives to remain competitive in the quality of services provided and the price of the products or services offered.

Further, Zambia's geographical location provides challenges in monitoring tourist arrivals. While tourist arrivals are recorded at airports by immigration authorities, very little attention is given to the number of these arrivals that proceed into neighbouring countries using the border posts. This omission has potential to overestimate tourist arrivals against actual arrivals in the country. It is therefore important that the monitoring of tourist arrivals is adjusted to include information on transits made through the border posts.

2.1 Contribution to economic development

Tourism plays an important role in the economic development of Zambia. Over the years, the industry has grown steadily to become one of the most important economic segments in the country as a source of foreign exchange. Its contribution to real GDP was 0.2% in 2011 and 2010. Not surprisingly, the Zambian government has also embarked on a policy of economic diversification prioritising the sector for creating jobs and wealth.

The potential of tourism development as a tool to contribute to economic growth and poverty reduction is derived from several unique characteristics of the tourism system (UNWTO 2002). Firstly, tourism represents an opportunity for economic diversification, particularly in marginalised areas with few other export options. Tourists are attracted to remote areas with high values of cultural, wildlife and landscape assets. The cultural and natural heritage of developing countries is frequently based on such assets, and tourism represents an opportunity for income generation through the preservation of heritage values. Therefore, tourism enables communities that are poor in material wealth but rich in history and cultural heritage to leverage their unique assets for economic development (Honey and Gilpin 2009). Tourism is the only export sector where the consumer travels to the exporting country, which provides opportunities for the poor to become exporters through the sale of goods and services to foreign tourists (Richardson 2010).

In Zambia, the tourism industry has grown steadily over the years. The country has the natural resources and other tourism assets needed to attract a significantly larger number of tourists. Figure 2 below highlights the growth of the tourism sector in Zambia between 2008 and 2011.

Figure 2: Growth of the tourism sector in Zambia 2008–2011



Source: Ministry of Finance Annual Economic Report, 2011

The tourism sector registered a growth of 7% in 2011 compared to 9.6% in 2010 and a decline of 13.4% in 2009 linked to global developments related to the financial crisis (MoFNP 2011). The country's recovery was in part reflected by an increase in the number of tourists visiting major national parks and Victoria Falls.

Table 1: Tourist entries into Zambia's national parks by origin, 2009–2011

	2009	2010	2011	% change
North America	9,886	8,138	9,930	22
Europe	22,117	20,020	19,689	-1.7
Australasia	3,302	3,463	3,857	11.4
South America	765	768	1,000	30.2
Zambia	23,010	18,129	22,186	22.4
Rest of Africa	5,681	7,472	7,145	-4.4
Total	64,761	57,990	63,807	10

Source: Zambia Wildlife Authority

Important implications can be drawn from the growth in tourist arrivals and composition of source countries for tourists seen above. First, it is clear that the emerging markets are beginning to drive up visitor demand in Zambia as can be seen from the growth in tourist entries, which is likely to continue. In addition, the steady and considerable growth in visitors from all parts of the world also suggests that Zambia has tourism products that are attractive on the global level.

The overall economic impact of tourism is maximised through enhancing linkages with other local economic sectors. Strong economic linkages with tourism and other sectors (such as agriculture and small enterprises) will enhance the multiplier effect, thus contributing to increased revenue retention and creation of employment opportunities for local people (Akama and Kieti 2007).

The enhancement of economic linkages through tourism development results in a greater demand for local goods and services, the creation of more jobs, and the development of more opportunities for local businesses. However, effective linkages depend in part on the quality and reliability of local products for the tourism market. It is therefore necessary to enhance Zambia's strategies to assist the development of local capacity.

It is often argued that people are the lifeblood of a tourism destination. The delivery of a high quality customer service experience is essential to the sustainability and profitability of any tourism business or destination. A visitor's experience in a destination can be greatly influenced by the quality of the services and the personal interactions with the employees throughout their stay. So the quality of human resource is an essential component of the sector's productivity and competitiveness.

Most of Zambia's tourist establishments are in rural areas. The quality of human resources in these areas is poor, with very low education attainment levels and limited skills. This presents productivity challenges for operators, who are forced to train staff in-house. But this is also an opportunity for the country, and it is not surprising that the government has recognised the sector as an important driver for economic growth and job creation in its industrialisation and job creation strategy. The sector is highly labour intensive and contributes significantly to employment creation in both rural and urban areas.

But while the tourism industry has immense potential to create employment, the right skills are needed to facilitate productivity and competitiveness. Education and training should be prioritised by both the government and the private sector as one of the fundamental pillars for the development of the tourism industry. Specifically, the private sector should be encouraged to increase its commitment to training through in-house training programmes while the government should consistently invest in tourism education and training.

2.2 Constraints on tourism development

While Zambia is reckoned to have abundant high-quality tourism assets, the industry remains fragmented and faced with a number of constraints to growth. The promotion of tourism is inadequate and the sector's development is constrained by perceptions of emerging crime, poor infrastructure and entry barriers for tourists.

2.2.1 Infrastructure

Infrastructure plays an important role in unlocking an area's investment potential. The type of infrastructure necessary for the development of the tourism sector ranges from energy, roads, water facilities and telecommunication. Most operators in the sector express concern about the state of the road and airport infrastructure. Having adequate infrastructure of this sort would enhance access to tourism facilities and help ease the movement of tourists from their host countries into Zambia.

The capacity and reliability of key utilities such as water and electricity remains a concern for most tourism operators in the country. Some operators continue to face challenges in

connecting to the national grid, and most face interruptions in supply caused by “load shedding”. Access to treated water remains negligible with most operators incurring the extra costs of sourcing and treating water themselves. These challenges not only constrain further investment in the sector but also prevent established operators from attracting more tourists.

2.2.2 Regulatory policy

Most operators in the tourism sector express concern on the licensing and administrative requirements needed to operate in Zambia. While it is critical that the government provides oversight to ensure that quality and standards are maintained, it remains an area of concern if the cost of compliance is high in monetary terms as well as the time needed to process the licenses. Worse, with numerous regulatory bodies collecting fees from the operators, there is a platform for “double dipping” (charging tourism operators more than once for the same service). In the ensuing chapters, this study attempts to highlight the regulatory burden faced by operators in the sector.

2.2.3 Marketing

More extensive and more effective destination marketing could increase awareness and demand in the tourism sector. The traditional source markets for tourists (Europe, United States of America and Australia) are expected to be slow with most new prospects being from the emerging economies. Some operators argue that the involvement of the private sector in destination marketing is limited and the amounts of money allocated to it are an area of concern. As regional competition is accelerating, unless Zambia can create compelling brands and create much stronger awareness of the country’s tourism assets, competing will be difficult (Pope 2009).

2.2.4 Effective public private partnerships

Effective partnerships between the government and the private sector are critical to the development of the tourism sector. However, there is a general concern in the private sector about the government’s engagement on issues relating to the sector. This presents challenges for the government to understand the working of the sector as well as to develop policy that responds to the needs of the operators. In this regard, it is important that both the public and private sector establish an effective partnership that aims at enhancing the functioning of the sector. Operators in the sector should be given an opportunity to engage with government on initiatives that can move the industry forward while remaining receptive to public sector opinions.

2.2.5 Entry barriers

The development of the tourism sector depends to a large extent on the number of tourists visiting the country. It is imperative, therefore, that entry into the country is made as easy as possible. There are two notable barriers to entry. The first is the yellow fever certificate requirement for tourists visiting Zambia and connecting via South Africa. The yellow fever

vaccination is a relatively expensive vaccine which is not a requirement for most of the countries in the region. Some tourists also avoid the vaccine for fear of developing side effects. The second is the relatively high visa fee. Table 2 shows the visa fees applied to tourists from some traditional source countries compared with the visa fees of other countries in the region.

Table 2: Visa fees for selected Southern African countries

	Zambia		Botswana		Namibia		Zimbabwe		South Africa	
	Sing.	Multi.	Sing.	Multi.	Sing.	Multi.	Sing.	Multi.	Sing.	Multi.
UK/Ire.	50.00	80.00	0.00	0.00	0.00	0.00	55.00	70.00	0.00	0.00
EU	50.00	80.00	0.00	0.00	0.00	0.00	30.00	45.00	0.00	0.00
Canada	50.00	80.00	0.00	0.00	0.00	0.00	75.00	-	0.00	0.00
USA	50.00	80.00	0.00	0.00	0.00	0.00	30.00	45.00	0.00	0.00

Source: Author's own compilation

It is evident that Zambia charges higher visa fees compared to the selected countries in the region. It is particularly interesting to note that some countries do not charge any visa fee for tourists from the places listed. The high visa fees have potential to minimise Zambia's ability to attract more tourists relative to its neighbours in the region.

2.2.6 Cost of financing

Tourism operators are faced with limited access to long-term financing and a high cost of capital. Specifically, the tourism industry faces a number of challenges relating to finance which include (1) high interest rates, (2) high collateral requirements, (3) lack of the long-term finance that would facilitate the large upfront capital investments in facilities that have a long payback period, and (4) banks' limited understanding of the industry. The challenges relating to finance are critical to the growth of the tourism sector in Zambia. They also have implications for the competitiveness of the pricing of tourism products and services relative to operators in the region who have access to long-term finance and lower costs of capital. More access to long-term finance and a lower cost of finance could facilitate greater investment and growth in the tourism industry.

2.2.7 Emerging crime

While Zambia is generally perceived as a safe country, there are reports of emerging crime in certain locations which if not curtailed could have negative implications for tourism. Tourists want to feel safe and operators would like to ensure that their investments are secure. Some operators express concern on the emerging crime in some tourist locations and the impact it may have on tourist arrivals as well as the additional costs incurred to ensure that their investments remain safe. It is therefore important that crime prevention and response efforts by the government are enhanced.

2.3 Recommendations

This section provided a perspective on the performance of the tourism sector in Zambia. The following recommendations were made:

- Tourist figures should be disaggregated to take into account different types of visitors.
- Backward and forward linkages in the sector should be developed through the enhancement of local capacity – focused in part on enhancing the quality and reliability of local products for the tourism market.
- Education and training should be prioritised by both the government and the private sector. Specifically, the private sector should be encouraged to increase its commitment towards training through in-house training programmes while government should consistently invest in tourism education and training.
- Destination marketing should be made more extensive and effective to increase awareness and demand in the tourism sector.
- Entry barriers such as the yellow fever certificate requirements and the relatively high visa fee should be urgently addressed.
- Financial challenges need to be addressed, especially regarding the provision of long-term finance and lower interest rates. It is important that both the private sector and the government combine efforts aimed at enhancing commercial banks' understanding of the tourism sector.
- The police must enhance their responsiveness to crime in the Livingstone area.

3 BASELINE COSTS AND PRICES OF TOURISM IN LIVINGSTONE

This section provides a baseline of costs and prices of tourism products and services in Livingstone. The results are at firm level and were based on a survey of tourism operators in July–August 2012. A stratified sample of respondents was interviewed on the basis of the tourism services they provided at the time of the interview. These respondents included: *accommodation providers* (hotels, lodges, motels, guest houses, etc); *food and beverage providers* (restaurants, diners, pubs/bars, cafés, etc); *destination management operators*; and *non-accommodation leisure services* (game viewing safaris and water based activities). A total of 30 respondents in the Livingstone area were interviewed. In addition, key informant interviews with tourism industry experts and the local tourism association were also conducted.

The results of the baseline survey are important for providing an overview of the pricing and cost structure of the tourism sector. In addition, the results of the baseline survey provide a basis for future evaluation on the price/cost impact of proposed policy initiatives in the sector.

3.1 Accommodation

The survey collected information on prices from accommodation providers in Livingstone including hotels, lodges, backpackers and inclusive lodges. The accommodation providers interviewed had a range of products to suit their different clients, including among others, presidential suites, family rooms, and double and single rooms.

3.1.1 Presidential suites

The most luxurious accommodation products were the presidential suites offered mainly by hotels and lodges targeting high-end clients. Only 13% of the accommodation providers interviewed provided this service. The highest price of a presidential suite recorded in the survey was ZMK 9,325,000 per night while the lowest price was ZMK 2,225,000 per night. The average price of a presidential suit recorded was ZMK 5,775,000.

3.1.2 Family rooms

Most (60%) of the accommodation providers interviewed provided family room facilities with a capacity of 2–8 occupants. Inclusive package lodges obviously had the highest average price of a family room (ZMK 4,837,500) owing to the activities and meals offered with the product. Family rooms as lodges were more expensive than at hotels: average prices were ZMK 983,333 and ZMK 923,333 respectively. Similarly, the minimum price of a family room recorded at a lodge (ZMK 600,000) was more than the minimum price from a hotel (ZMK 450,000). Only one backpacker establishment offered family rooms, this at a lowest price of ZMK 375,000.

Table 3: Price of family rooms ‘ZMK’ by type of provider

	Packages***	Hotel	Lodges	Backpacker
Average price	4,837,500	923,333	983,333	375,000
Minimum price	3,475,000	450,000	600,000	
Maximum price	6,200,000	1,390,000	1,500,000	

*** Inclusive lodges

3.1.3 Double rooms

The study revealed that most (80%) of the establishments that provide accommodation for tourists offer double rooms. Owing to the activities and meals incorporated in fully inclusive packages, the establishments offering the service had the highest average price of a double room at ZMK 2,458,333. The average price of a double room at a hotel (ZMK 848,333) was higher than the average price of a double room at a lodge (ZMK 482,800). Lodges provided the lowest minimum price of a double room at ZMK 200,000, compared to ZMK 450,000 at a hotel. Only one backpacker provided double rooms to its clients (ZMK 312,000 per night).

Table 4: Price of double rooms by type of provider (ZMK)

	Packages***	Hotel	Lodges	Backpacker
Average price	2,458,333	848,333	482,800	312,000
Minimum price	2,125,000	450,000	200,000	
Maximum price	3,100,000	1,295,000	900,000	

*** Inclusive lodges

3.1.4 Single rooms

A minority of establishments offering accommodation to tourists provided single rooms. Only 33% of the accommodation providers interviewed offered single rooms. The average price of a single room at hotels was ZMK 730,000, compared to ZMK 335,000 at a lodge. The highest price recorded for a single room at a hotel was ZMK 1,140,000, compared to ZMK 650,000 at a lodge.

Table 5: Price of single rooms by type of provider (ZMK)

	Hotel	Lodges
Average price	730,000	335,000
Minimum price	300,000*	150,000
Maximum price	1,140,000	650,000

3.2 Food and beverages

In identifying the baseline costs and prices of tourism products and services, the study undertook to investigate the costs and prices of food and beverages prevailing in selected tourism establishments. These included restaurants, hotels and lodges offering the products.

3.2.1 Food

The average price of the cheapest starter at a restaurant was ZMK 25,125 while the average price of the most expensive starter at a restaurant was ZMK 41,000. The price of a starter at the restaurants considered was between ZMK 5,000 and ZMK 105,000. The average price of the cheapest main course meal at a restaurant was ZMK 30,990 while the average price of the most expensive main course meal at a restaurant was ZMK 72,800. The price of a main course meal at the restaurants considered in the survey ranged between ZMK 10,000 and ZMK 173,000. The average price of the cheapest desert at a restaurant was ZMK 20,625 while the average price of the most expensive desert at a restaurant was ZMK 47,357. Based on the foregoing, the average price a tourist would spend on a three-course meal in Livingstone is approximately ZMK 120,000.

Table 6: Prices of food at tourism establishments (ZMK)

	Cheapest starter	Most expensive starter	Cheapest main course meal	Most expensive main course	Cheapest desert	Most expensive desert
Average price	25,125	41,000	30,990	72,800	20,625	47,357
Minimum price	5,000	15,000	10,000	40,000	6,000	20,000
Maximum price	58,000	105,000	52,400	173,000	30,000	100,000

3.2.2 Beverages

The average price of the cheapest hot beverage at a restaurant was ZMK 6,150 per cup while the average price of the most expensive hot beverage was ZMK 9,600 per cup. The prices of hot beverages gathered in the survey range between ZMK 2,000 and ZMK 17,000. On the other hand, the average price of the cheapest beer/lager was ZMK 8,417 per bottle while the average price of the most expensive beer/lager was ZMK 13,750 per bottle. The prices for beer/lager gathered in the survey ranged between ZMK 5,000 and ZMK 24,000. The average price of the cheapest wine offered by an establishment was ZMK 13,091 per glass while the average price of the most expensive wine offered at an establishment was ZMK 103,300 per glass. The prices of wine range between ZMK 5,000 per glass and ZMK 873,000 per glass.

Table 7: Prices of beverages at tourism establishments (ZMK)

	Cheapest hot beverage per cup	Most expensive hot beverage per cup	Cheapest beers/lagers per bottle	Most expensive beers/lagers per bottle	Cheapest wine per glass	Most expensive wine per glass
Average price	6,150	9,600	8,417	13,750	13,091	103,300
Minimum price	2000	5,000	5,000	8,000	5,000	9,000
Maximum price	15,000	17,000	14,000	24,000	30,000	873,000

3.3 Adventure tourism

Livingstone offers a wide range of adventure activities to tourists. The adventure activities are mainly associated with the natural resources available, such as rivers and wildlife. These activities include but are not limited to boat cruises, water rafting, elephant rides, micro flight tours and helicopter flight tours. The availability of such activities and their cost has important implications for both attracting tourists and increasing their length of stay in the country.

Information on the prices of activities offered by some of the major suppliers of the services in Livingstone is reflected in Table 8.

Table 8: Prices of adventure activities at tourism establishments (ZMK)

	Average price
Water rafting	800,000
Elephant rides	750,000
Micro flights (15 minutes)	700,000
Helicopter flight (15 minutes)	725,000
Boat cruise	300,000

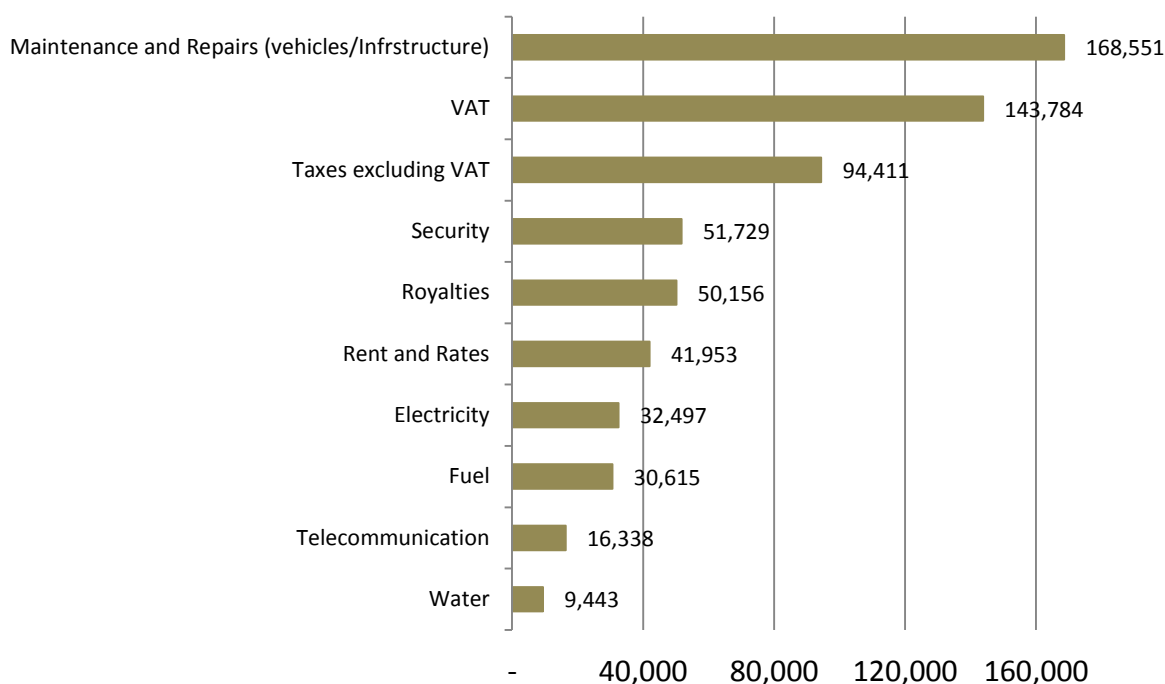
It was also noted that the activities could be sourced through agents like hotels, lodges or tour operators with a commission of between 5% and 10%.

3.4 Operating costs

The study undertook to investigate the various operating costs faced by tourism operators in Livingstone. These costs included but were not limited to electricity, water, fuel, taxes and maintenance. The most significant proportion of the total costs faced by tourism operators was associated with repairs and maintenance (26% of the average total costs). This was explained by the need for the operators to maintain high standards in the midst of local and regional competition.

It was further noted that a significant proportion of the total operating costs faced by tourism operators goes into taxes. On average, VAT constitutes 22% of the total costs faced by operators, while other taxes constitute 15% of the total costs. Notable among the proportions of the total costs is the cost of energy associated with fuel and electricity, each accounting for 5% of the total cost. The cost of energy is considered very high relative to other facilities such as water and telecommunications, which combined contribute 4% of the total operating cost.

Figure 3: Average total operating costs for Livingstone tourism operators (USD)



3.5 Wages

Labour is an important ingredient in the capacity of tourism operators to provide their products and services as well as the quality with which they are provided. The study undertook to investigate the costs of labour incurred by tourism operators in Livingstone for all categories of employees. These included but were not limited to managerial/administration staff, professional (trained in-house) staff and manual staff.

Table 9: Average cost of labour by category of staff (ZMK)

	Average annual total cost	Percentage of total cost	Average number of staff	Annual average cost per worker
Foreign managerial/admin	567,334,741	22%	5	113,466,948
Local managerial/admin	457,099,048	18%	2	228,549,524
Local professional (trained outside)	433,705,690	17%	9	48,189,521
Local unskilled manual	423,725,717	16%	25	16,949,029
Local skilled manual (trained In-house)	420,016,818	16%	38	11,053,074
Foreign professional (trained outside)	303,051,200	12%	1	303,051,200
Total	2,604,933,214	100%	80	32,561,665

The study revealed that on average it costs a tourism establishment in Livingstone ZMK 2.6 billion a year to maintain its labour force. Foreign managerial/administrative staff employed in the sector account for the largest proportion of the wage cost incurred by operators followed

by managerial/administrative staff employed locally. The smallest proportion of the average annual wage bill was attributed to the foreign professionals who had been trained outside and employed by the establishments.

In addition, it was noted that on average a tourism establishment in Livingstone employs 80 staff a year. The largest portion of staff members are skilled manual workers trained in-house by the establishment (48% of the total staff on average).

3.6 Licensing and regulation

Compliance with licensing and regulatory requirements is mandatory for any business or establishment. It was widely held by most of the operators interviewed that the regulation of the tourism sector is necessary for its effective operation. However, most operators in the tourism sector are beset by a large number of licences and permits issued by the different authorities who have a role in the regulation of the sector. Acquiring the licences was said to be demanding in terms of time and cost for most operators. The licences and permits in the sector included but were not limited to the following: tourism enterprise licence, hotel manager's licence, health certificate, food handlers' licence, Zamcops copyright licence, boat licence, helipad licence and fishing licence.

Because most operators provide more than one service – typically accommodation, food and beverages, and adventure activities – the number of licences needed for their operation was high. The high number of licences required by operators may in part be a result of the lack of coordination among the multiple regulatory agencies. Further, most operators believed that the cost of the licences did not reflect a design to encourage compliance but instead served to mobilise revenue for the regulators.

3.7 Other costs

The survey noted that a mandatory 10% service charge in the tourism and hospitality industry exists, which by law (Section 46 of the Tourism and Hospitality Act 2007) must be passed on to employees. Service charge in essence entails that 10% of an establishment's turnover must be passed on to the employees over and above the salaries provided. While this has positive implications on the welfare of staff in the sector, service charge raises the price of products and services paid by tourists. In addition, the service charge is not based on performance and thus has no impact on productivity or quality of service provided.

On average most of the establishments interviewed paid a monthly service charge to their staff ranging between ZMK 500,000 and ZMK 2,000,000. The purpose of this legislation was unclear to most operators as wages in the tourism sector converge with other sectors such as retail and manufacturing.

3.8 Recommendations

In summary, the following recommendations arose from this section of the study:

- The government should adopt appropriate strategies to reduce the cost of doing business in the sector. For instance, interventions aimed at reducing the cost of maintenance and repairs as well as reducing the cost of energy should be targeted.
- Interventions aimed at increasing the wages of staff in the sector should be targeted at the skilled manual workers trained in-house who constitute the majority of staff and are the worse off in terms of remuneration.

4 PRICE AND COST BENCHMARKING OF TOURISM IN LIVINGSTONE AND VICTORIA FALLS TOWN

This section takes a disaggregated look at the cost and price structures of tourism service operation in one of Zambia’s key tourism destinations (Livingstone), comparing them with the same structures in a proximate competitor region (Victoria Falls town, Zimbabwe).

The analysis enables an assessment of the extent to which the following contribute to the price and establishment performance differences in Livingstone and Victoria Falls town:

- Differences in input costs (wages, food and beverage costs, service charges, overheads (rent, water, electricity, etc), taxes and pensions, etc)
- Differences in factor productivity, particularly labour productivity, and in production (turnover)
- Competition or market force issues influencing how operators set their prices
- Issues and processes internal to the firm (e.g. operational issues, firm organisation, scale/size, turnover, employment, etc).

The analysis also establishes the extent to which the identified price differences might adversely affect Livingstone’s tourism appeal relative to that of Victoria Falls town.

The section concludes with comments on the policy implications of the current state of play and the options for resolving some of the challenges and impasses among key stakeholders.

4.1 Accommodation, food and beverages

4.1.1 Presidential suites

The most luxurious accommodation products in both Livingstone and Victoria Falls town are the presidential suites offered mainly by hotels and lodges targeting high-end clients. The highest price of a presidential suite recorded in the Livingstone was \$1,865 per night compared to \$570 in Victoria Falls town. The lowest price recorded in Livingstone was \$445 per night compared to a similar location in Victoria Falls town at \$458. The average price of a presidential suit recorded in Livingstone was \$1,155 while the average price of a similar facility in Victoria Falls town was \$503.

Table 10: Price of presidential suites in Livingstone and Victoria Falls town

	Livingstone***	Victoria Falls town
Average price	\$1,155	\$503
Maximum price	\$1,865	\$570
Minimum price	\$445	\$458

*** \$1 = ZMK 5,000

It is clear that the price of presidential suites is higher in Livingstone than in Victoria Falls town. This presents a competitive advantage on the pricing of presidential suites in Victoria Falls town over Livingstone. In addition, the smaller range in price observed in Victoria Falls town allows for more rooms to be occupied as there is very limited differentiation between the maximum and minimum prices compared to Livingstone.

4.1.2 Double rooms

Most establishments in both Livingstone and Victoria Falls town offer double rooms. Owing to the activities and meals incorporated in fully inclusive packages, the establishments offering the service had highest average prices in both locations. However, the average price of a double room at a fully inclusive lodge in Livingstone (\$492) was higher than a similar room in Victoria Falls town (\$350). In addition, the average price of a double room at a hotel in Livingstone (\$518) was higher than the price of a similar room in Victoria Falls town (\$275).

Table 11: Comparison of prices of double rooms in Livingstone and Victoria Falls town

	Packages *		Hotels	
	Livingstone	Victoria Falls town	Livingstone	Victoria Falls town
Average price	\$492	\$350	\$518	\$275
Minimum price	\$425	\$320	\$495	\$230
Maximum price	\$620	\$380	\$541	\$320

* *Inclusive lodges*

The price of double rooms in Livingstone, then, was higher than the price of similar rooms in Victoria Falls town at both inclusive lodges and hotels. Packages and hotels are the main providers of accommodation to tourists visiting both countries and thus the price differentials on the product can have important implications on where tourists decide to visit.

4.1.3 Food

The study undertook to benchmark prices of food offered at tourism establishments located in Livingstone and Victoria Falls town. The benchmarking involved a comparison of prices of starters, main course meals and deserts for establishments in Livingstone and Victoria Falls town. The study did not find any major difference in food prices for starters and deserts offered both locations. However, the average prices for main course meals were higher in Victoria Falls town in Livingstone.

Table 12: Average prices of meals in Livingstone and Victoria Falls town

	Cheapest starter	Most expensive starter	Cheapest main course meal	Most expensive main course	Cheapest desert	Most expensive desert
Livingstone	\$5	\$8	\$6	\$15	\$4	\$9
Victoria Falls	\$5	\$10	\$13	\$22	\$6	\$9

This presents some degree of competitive advantage for operators offering meals in Livingstone over those in Victoria Falls town. For instance, the average price of the cheapest main course meal at a restaurant was twice the price in Victoria Falls town than in Livingstone. However, as these restaurants are usually embedded within hotels or lodges it would be more realistic to attract more tourists to stay at an establishment while having the flexibility to vary the price of food offered.

4.1.4 Beverages

The beverages considered in the study included hot beverages, beers/lagers and wines. There was very limited variation in the prices of the beverages in Victoria Falls town and Livingstone. For instance, the average price of the most expensive beer/lager in both locations was the same at \$3, while the average price of the most expensive hot beverage at a tourism establishment in Livingstone and Victoria Falls town was \$2 and \$3 respectively.

Table 13: Average prices of beverages in Livingstone and Victoria Falls town

	Cheapest hot beverage per cup	Most expensive hot beverage per cup	Cheapest beers/lagers per bottle	Most expensive beers/lagers per bottle	Cheapest wine per glass	Most expensive wine per glass
Livingstone	\$1	\$2	\$2	\$3	\$3	\$21
Victoria Falls	\$2	\$3	\$3	\$3	\$5	\$16

4.2 Adventure tourism

Adventure activities are an important constituent for tourism in both Livingstone and Victoria Falls town. The activities not only have an important role to play in not only increasing a tourist's average daily expenditure but also in increasing their average length of stay.

The price of adventure tourism activities in the two locations was marginally different. Adventure activities were higher in Livingstone than in Victoria Falls town. For instance, the average price of water rafting in Livingstone was \$160 while the average price of the same activity in Victoria Falls town was \$120. Similarly, the average price of a 15-minute helicopter flight in Livingstone was \$145 while the price of the similar activity in Victoria Falls town was \$130.

Table 14: Average prices of adventure activities in Livingstone and Victoria Falls town

	Livingstone	Victoria Falls town
Water rafting	\$160	\$120
Elephant ride	\$150	\$130
Micro flight (15 minutes)	\$140	-
Helicopter flight (15 minutes)	\$145	\$130
Boat cruise	\$60	\$45

The average price of adventure tourism activities, then, was marginally higher in Livingstone than Victoria Falls town. This has important implications for the competitiveness of the tourism sector in both locations. Particularly, tourists may decide to visit Victoria Falls town instead of Livingstone on the basis of the competitive prices offered for adventure activities. The high cost of adventure activities may also have adverse implications on the length of stay for tourists.

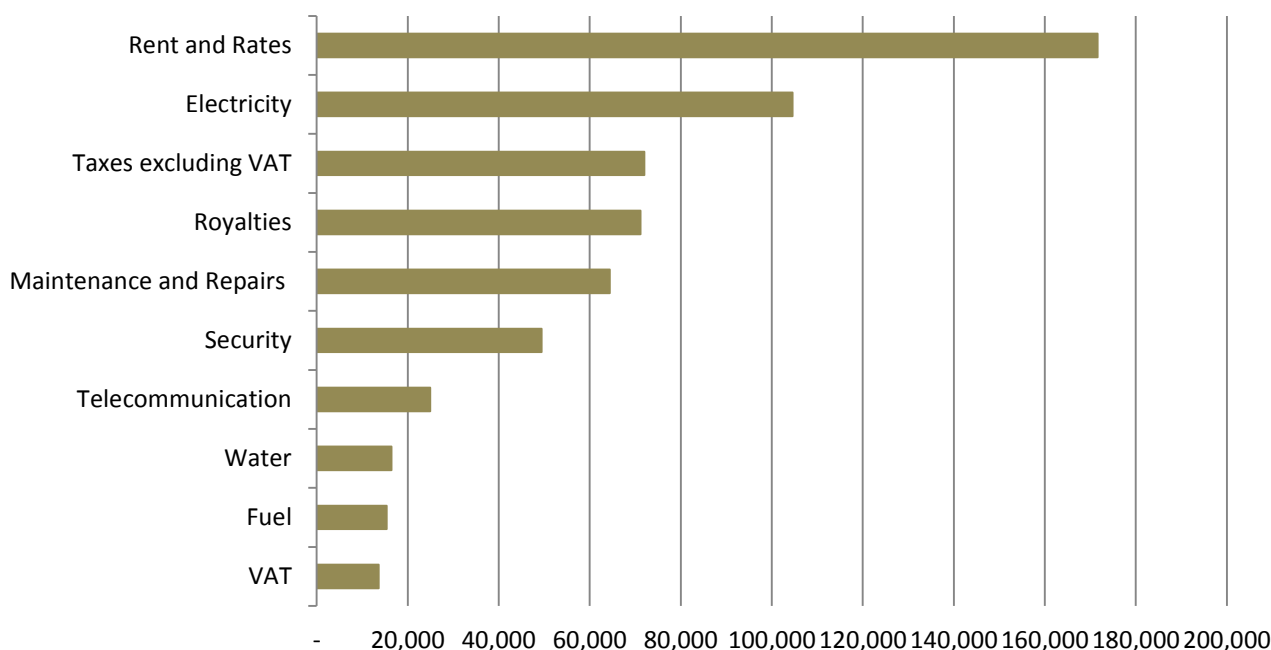
4.3 Input costs

The study undertook to investigate the various operating costs faced by tourism operators in both Livingstone and Victoria Falls town. These costs included but were not limited to electricity, water, fuel, taxes and maintenance. It was earlier observed (see

Figure 3) that the most significant proportion of the total costs faced by tourism operators in Livingstone were associated with repairs and maintenance, constituting 26% of the average total costs. It was further noted that taxes constitute a significant proportion of the total operating costs faced by tourism operators (VAT constituting 22% of the total costs, other taxes constituting 15%). Fuel and electricity each account for 5% of the total cost.

Operators in Victoria Falls town, on the other hand, had rent and rates as the largest proportion of their costs –28% of the average total cost. The cost of electricity is also a significant proportion of the average total cost in Victoria Falls town (17%). Other notable contributors to the average total cost were taxes excluding VAT, royalties and costs of repairs and maintenance. The cost associated with VAT and fuel were the smallest contributors to the average total operating costs (2% and 3% respectively). Figure 4 below highlights the structure of the average total operating costs for tourism establishments in Victoria Falls town.

Figure 4. Average total operating costs for tourism establishments in Victoria Falls town (USD)



The analysis of the cost structures of the two locations provides important insights for the underlying differences in the costs and pricing for the two locations. There are notable differences in the main drivers of the operating costs in Livingstone and Victoria Falls town as highlighted above. Addressing some of the key differences in the cost structure, such as the high costs of fuel and repairs and maintenance, could enhance the competitiveness of the Zambian sector through better pricing.

4.4 Labour productivity

The study undertook to compare the productivity of labour for the tourism sector. The average room occupancy rate in both locations is higher in the period between May and October (51%) than in the period between November and April (39%). Similarly, the average room occupancy

rate in Victoria Falls town is 50% between May and October compared to 42% between November and April. Because the bed capacity for Victoria Falls town is higher than in Livingstone, there are more tourists taking up accommodation in Victoria Falls town than Livingstone.

Table 15: Average room occupancy rate

	May–October	November–April
Livingstone	51%	39%
Victoria Falls town	50%	42%

The average annual turnovers for Livingstone and Victoria Falls town are not considerably different. The annual average turnover for a tourism establishment in Livingstone was \$2,323,538 compared to \$2,231,007 in Victoria Falls town (based on the 2011 financial year). In addition, the average monthly turnover for a tourism establishment in Livingstone was \$208,505 compared to \$377,809 (based on the May 2012 figures). Similarities in the average annual turnover between the two locations indicate that the price differential compensate for the differences in the number of tourists visiting the two locations. Specifically, the higher prices charged on accommodation in Livingstone level the revenues between the two areas.

Table 16: Average turnover (USD)

	Annual	Monthly
Livingstone	2,323,538	208,505
Victoria Falls town	2,231,007	377,809

Average labour productivity (estimated by the contribution of each worker to the annual turnover) was higher in Livingstone than in Victoria Falls town. The average labour productivity for Livingstone was 29,044 compared to 16,902 in Victoria Falls town. This is because Victoria Falls town employs more staff on average per establishment. Table 17 highlights the differences in labour productivity for tourism establishments between Livingstone and Victoria Falls town.

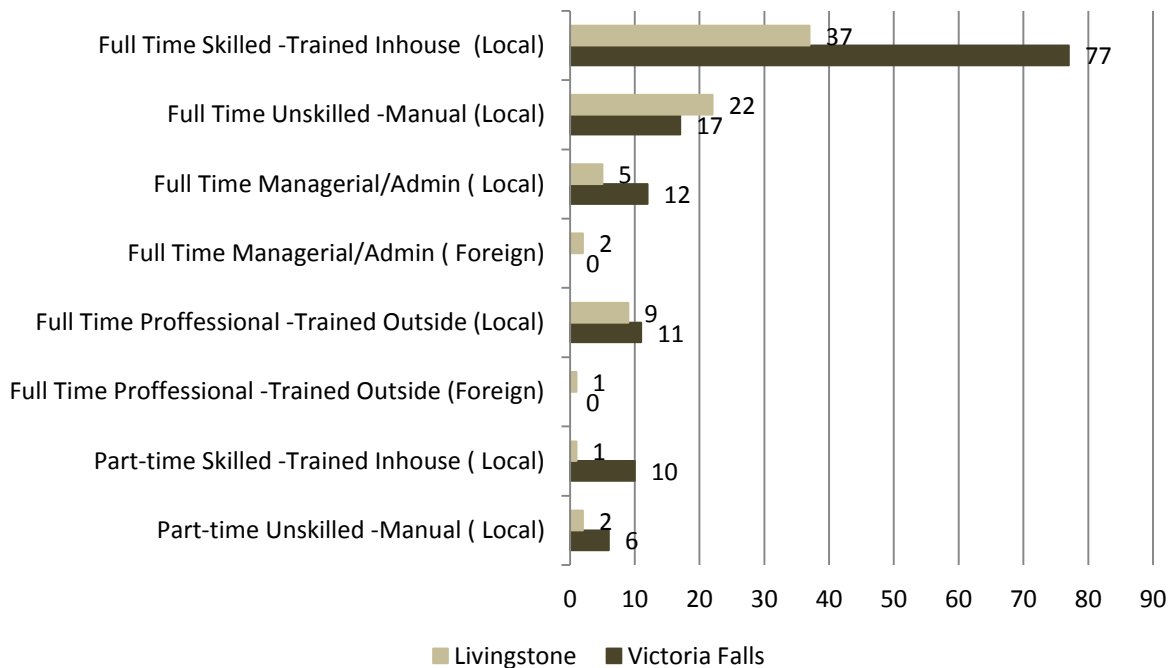
Table 17: Average labour productivity for tourism establishments

	Average turnover	Average number of staff	Ratio
Livingstone	2,323,538	80	29,044
Victoria Falls town	2,231,007	132	16,902

It was observed that on average a tourism establishment employs 132 people in Victoria Falls town compared to 80 people in Livingstone. The majority of the staff employed in both Livingstone and Victoria Falls town is skilled and trained in-house. However, establishments in Livingstone employ relatively more skilled staff who are trained in-house. Also important to

note is that establishments in Zimbabwe have a higher number of staff engaged as managerial staff compared to establishments in Livingstone. Figure 5 highlights the differences in the structure of the labour force at an average tourism establishment in Livingstone and in Victoria Falls town.

Figure 5. Structure of the labour force at an average tourism establishment



4.5 Recommendations

The key recommendations from this section of the report were as follows:

- The cost competitiveness of Zambian tourism should be addressed. The areas where there are key differences in the cost structure – such as fuel and repairs and maintenance – should be the focus of attention
- Operators should consider the scope for more employment opportunities in the tourism sector in Zambia which could contribute to the enhancement of the quality of services offered to tourists. Specifically, there is scope to enhance the number of staff employed and trained in-house. A greater participation of locals in managerial and administrative functions would further enhance employment in the sector.

5 EMERGING ISSUES IN THE TOURISM SECTOR

5.1 Introduction

Recently, Zambia has seen the introduction of a number of policy initiatives that have a bearing on industrial and commercial operations. For instance, Statutory Instrument (SI) number 33 of 2012, which became effective on 18 May 2012, prohibits the use of foreign currency on domestic transactions in Zambia. Its objective is to reinforce the use of the kwacha as the sole legal tender for domestic transactions (Bank of Zambia 2012). The policy pronouncement also has a broader objective of enhancing the effectiveness of monetary policy. The consequences of SI no. 33 for businesses and households, however, are not well understood. The differential impact of the new initiative on different sectors and geographical locations has also received little attention at the microeconomic level.

Another recent policy shift is represented by SI no. 46 of 2012, the Minimum Wages and Conditions of Employment (General) (Amendment) Order 2012, which was issued on 6 July 2012 and which provides for the upward revision of wages for general workers.¹ It is expected that the new minimum wages will ensure that employees have access to an enhanced standard of living thus contributing to the broader objective of poverty reduction in the country. For employers, however, an increase in the minimum wage could signal an increase in operating costs. This is particularly true for employers who had been paying their workers wages that were below the revised minimum wage.

Often overlooked in the formulation of such policies are the possible implications for the micro-economy. This section presents a short investigation of the potential effects of some of the recent policy pronouncements on tourism as a particular sector and on economic agents in Livingstone as a particular geographical location. The investigations are at firm level and were based on a survey in July–August 2012. The study focuses on the two above-mentioned policy shifts, SI no. 33 of 2012 and SI no. 46 of 2012, and it reflects on the economic behaviours that are likely to emerge in view of tourism operators' perceptions of these policies.

The anticipated effects of these policies on the tourism sector should obviously be viewed within the broader range of emerging issues surrounding industrial and commercial operations across different sectors in the country. Nonetheless, the study provides a useful benchmark for further studies that could be replicated in different geographical locations and/or focusing on other sectors.

¹ For instance, the new minimum wage for a general worker, cleaner, handy person or an office orderly is ZMK 3,646 per hour or ZMK 700,000 per month, while a person engaged as a receptionist will now be entitled to a minimum wage of ZMK 5,656 per hour or ZMK 1,085,919 per month. For persons engaged as drivers, the new minimum wage has been put at ZMK 5,220 per hour or ZMK 1,002,386 per month.

5.2 Implications of SI no. 33 of 2012 for tourism in Livingstone

The salient features of the SI no. 33 are provisions 4 and 6. Provision 4 states that, “A person shall not quote, pay or demand to be paid or receive foreign currency as legal tender for goods, services or any other domestic transactions”. Provision 6 states that “A person who contravenes these Regulations commits an offence and is liable, upon conviction, to a fine not exceeding One hundred thousand penalty units or to imprisonment for a period not exceeding ten years or both”.

The main challenge that is likely to arise from the new statutory instrument is that the majority of tourism services are mainly demanded and consumed by foreign tourists who earn and hold their income in foreign currency and who are more familiar with foreign currency pricing (notably US dollars). For suppliers or tourism service providers, the anticipated risk of SI no. 33 is the huge exposure to foreign exchange losses arising from the volatility of the exchange rate.

In the following sub-sections we consider the implications of SI no. 33 on the different members of the tourism supply chain.

5.2.1 Implications for tourists

The implications of SI no. 33 of 2012 on domestic tourists and international tourists are likely to be varied. Domestic tourists who have easier access to the Zambian kwacha are likely to be encouraged to consume tourism products. Pricing in foreign currency was a potential barrier for residents who earn kwacha. It can be anticipated, therefore, that the new legislation would further enhance the growth of domestic tourism.

International tourists, on the other hand, could face challenges in consuming tourism products without the flexibility paying in convertible currencies such as the US dollar. Most international tourists plan their visits over months based on the rates provided by the operators or agents. With the volatility of the exchange rate in Zambia, the price of tourism products will fluctuate, making planning difficult and increasing exposure to foreign exchange losses.

Zambia is a landlocked country with entry points for international tourists at border posts and airports. While some border posts are situated in urban areas, most border posts are in the rural areas with very few financial intermediaries such as banks or currency exchanges. Most tourism establishments are also located in rural areas. Survey respondents perceived that these challenges provide a platform for the proliferation of a parallel money market. The proliferation of this parallel market could create leakages in the country’s foreign exchange earnings. Most tourism operators, though, are formal establishments that hold accounts with commercial banks where foreign exchange could be deposited if received.

“One of the experiences my clients had was that as they were crossing the border into Zambia, they were met by a group of Zambians flashing Zambian kwacha and saying ‘No United States dollars here’”

Livingstone lodge operator

It was also reported that where banks are available, they are not open 24 hours a day at either airports or border posts. Automated Teller Machines in some locations also have long down times. These issues have potential to add to the proliferation of a parallel market in light of SI no. 33 of 2012. Tourists may be encouraged to engage with the parallel market in order to make transactions or opt not to purchase a product or service. Therefore, the SI may present a barrier for tourists accessing tourism products which in turn could result in them spending less in the country.

“Finance bank in Shoprite is the only place to change money legally during the weekend (shopping hours) and after hours only on the streets. In addition ATMs & bureaux often run out of kwacha. Bureaux de Change have a limited amount of kwacha/dollar business they can do a day while an individual can only change \$1000 a day from the bureau.”

Livingstone tourism operator

The understanding that the Zambian kwacha is the legal tender and that it is illegal NOT to accept it for transactions is the important message that should be communicated to the tourism operators. This is important for encouraging the growth of domestic tourism. However, SI no. 33 of 2012 has potential to act as a barrier for international tourists making a decision on where to go. In addition, the financial system does not seem to be ready to support implementation. It thus carries the threat of the development of a parallel money market.

5.2.2 Implications for tourism operators

Following the issuance of SI no. 33 of 2012, most operators in the tourism sector have reportedly had challenges relating to pricing. The pricing of tourism products or packages is usually advertised internationally 6–18 months in advance through international agents. This is usually done in a convertible currency such as the US dollar for easy comparison and to hedge against exposure to foreign exchange risks. With the emergence of SI no. 33, survey respondents perceive that tourism operators will constantly lose or gain money as the Zambian kwacha appreciates or depreciates under volatile conditions.

In order to hedge against this risk, some operators maybe forced to increase the price of their products to cover against the risk of an exchange rate loss.

“I have 15% loss of income this month due to the exchange rate fluctuation”

Lodge operator

Following the issuance of SI No. 33 of 2012, the Bank of Zambia has also issued a clarification statement to the legislation. Among the many provisions of the clarification is that, “Hotels will continue to buy a limited amount of foreign currency from their residents”. Some operators have argued that the clarification should have been within the legislation to give it more impetus, and it remains unclear on what a “limited amount of foreign currency” is. In this regard, some operators have decided not to take any foreign currency from their clients to avoid the substantial punitive measures stipulated in SI no. 33 of 2012. Some operators

reported that this has resulted in some tourists opting not take up some of their services on the insistence that they pay in the local currency.

For operators who mainly receive domestic tourists, it is unlikely that they will experience any adverse effects from the introduction of SI no. 33 of 2012. Their operations are expected to remain normal with prospects for increasing their domestic tourism volumes. On the other hand, SI no. 33 of 2012 may limit prospects for increasing the share of international tourists at their establishments in the absence of supportive foreign exchange management policies.

5.2.3 Implications for tourism agents

Tourism agents play an important role in packaging local tourism products and marketing the products to potential tourists. They are in essence a conveyor between the tourism operators and their clients. They partner with local operators to market and sell tourism products using their well-established distribution channels and extensive market knowledge.

In practice, tourism agents present tourism packages that constitute various tourism products offered by different operators to their clients. Tourists issue payments to the tourism agents who in turn redistribute the funds net of their commission and overheads to the different operators providing the service. These tourism agents could either be based locally in the country or abroad. Where the agents are based abroad, fund transfers are made from abroad, which would essentially be an international transaction. Local agents, on the other hand, have to redistribute funds to the operators locally despite their clients coming from abroad. This would essentially make the transaction between the local agent and the operators a domestic transaction, which means local tourism agents have to assume the risk of any foreign exchange fluctuations following the introduction of SI no. 33 of 2012. In addition, the cost of foreign currency embedded in the spread between the buying and selling price is borne by the local travel agents who receive foreign currency and redistribute the payments in the domestic currency. Therefore, the new legislation has potential to make local travel agents uncompetitive compared to international travel agents. Some operators would even prefer to start dealing with international clients directly, putting the local agents out of business.

“The activity third party companies are going to close as they are losing too much and taking too much risk on the exchange rate. A Zambia–Zambia transaction cannot take dollars”

Tourism agent

A notable implication of the anticipated adverse effects of the legislation on tourism agents would be that local tourism operators with in-depth knowledge will become uncompetitive. As operators would prefer to either deal with international agents or directly with their clients, commissions would be retained by firms outside the country, which could hurt jobs locally.

5.3 Implications of the minimum wage policy on tourism in Livingstone

In practice there is a lot of potential for misunderstandings regarding the minimum wage policy. It is not clear to employers if they are being required to use the normal practice of lump-sum month-end payments at a fixed amount (basically interpreting wages as salaries) or if they are free to use a proper interpretation of the law, matching wages with work-hours and (if necessary) varying payments accordingly.

From the interviews held with operators in Livingstone, most of the operators did not anticipate job losses in the short term. It was reported that they would mainly have to adjust the wages of their unskilled staff, who form a majority of the staff in the sector. This would in turn increase operating costs. However, the sector demands a high level of quality and standards, which would be difficult to meet if staff were laid off. Most operators are therefore ready to assume the extra labour cost in order to remain competitive on quality of service. But they do anticipate that the increased cost of labour will adversely affect profits since they cannot pass on the higher cost of labour to the tourists given the high level of competition in tourism regionally and internationally.

Regarding the anticipated increase in the cost of labour, most operators believe it would be higher than the adjustment on the workers that previously were earning below the new minimum wages. This is explained by the subsequent earnings adjustments that operators would follow if the lower staff earnings were adjusted upwards. Some establishments argued that they may have to increase salaries for all their staff to ensure that the salaries are reflective of the experience and skills of their staff.

Some operators plan to change their employees' engagement terms from full-time to part-time (or casual) in order to control costs. This would entail employing more staff during peak periods and cutting down on staff during low periods. While this may be a plausible solution to controlling costs on labour, it may have adverse effects on employees' wellbeing. Tourism is largely a seasonal sector with most activities occurring in the period between May and October. The proposed strategy could, therefore, result in seasonal jobs or labour casualisation for the sector.

“Staffing will ultimately have to be reduced but will make it very hard to keep the service standards up. We are going to cut the hours to ensure no one loses their job.”

Tourism operator

Inevitably, some operators reported that they would have to cut down on labour to ensure they control their costs. This is particularly true for smaller establishments and unskilled staff with little or no experience. The operators argue that they would rely on more experienced staff that would be more efficient and capable of multi-tasking in the event of labour cuts.

However, for most of the more established and larger establishments in Livingstone, the new legislation is not likely to have any significant adverse effects on labour. Most of the operators interviewed from the larger establishments argued that they already paid their staff way above the new minimum wage.

5.4 Recommendations

In summary, the recommendations from the analysis presented in the final section of this report are as follows:

- International tourists or non-residents should be given some flexibility in making payments using convertible currencies. This should be within clearly defined limits that would still encourage the use of the domestic currency. The current clarification by the Bank of Zambia does not provide clear guidance on the amount of foreign currency operators are allowed to accept.
- The Bank of Zambia should enhance its exchange rate management policies to minimise volatility so as to improve tour operators' and tourists' planning abilities. It is imperative for the Bank of Zambia to enhance its participation in the foreign exchange market (buying and selling foreign currency from/to financial intermediaries) so as to smooth out frequent short-term fluctuations. This is particularly important for the private sector as it will ease the implementation of SI no. 33 by providing stable prices in kwacha and US dollars for their tourism services, without having to frequently make price revisions. The stable prices will support better tourism planning for both consumers and producers.
- Financial intermediaries such as banks and bureaux de change should be encouraged to expand their coverage and operating hours. In addition, the payment system should embrace electronic payments in all transactions. This will further mitigate prospects for the proliferation of a parallel market.
- All transactions emanating from abroad should be invoiced and redistributed in a convertible currency such as the US dollar to hedge against any foreign exchange losses that the domestic agents may incur. This will ease planning for the domestic agents and make them as competitive as their foreign counterparts, notably Zimbabwe with its fully dollarised economy.
- The government should consider a sector-specific revision of the minimum wage based on the existing regulation and performance of the sectors. In particular, the existence of service charge in the tourism sector positions wages higher than in other sectors.
- The government should adopt a policy monitoring and evaluation mechanism that considers the implications of policy at the micro economic level (i.e. household and firm) in different geographical locations. In this regard, further studies for a cross-section of sectors in different locations could help inform effective policy formulation. A study of the impact of SI no. 33 of 2012 and SI no. 46 of 2012 could be carried out using the baseline obtained in this study.

6 REFERENCES

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ANNEX 1: TOURISM SURVEY QUESTIONNAIRE 2012

1. GENERAL INFORMATION

1. In which year did this establishment start operating?
2. What is the main tourism service your establishment provides? (Define main service as service with the largest annual turnover) [Encircle one only]
 - a. Accommodation (e.g., hotel, motel, guest house, lodge, etc)
 - b. Food and beverages (restaurants, pubs/bars, food cafés, etc)
 - c. Adventure tourism (water sports, water rafting, water cruises, micro-flights, etc);
 - d. Wildlife safaris (eco-tourism safari/nature walks/nature drives, game viewing drivers/walks)
 - e. Other (please specify):
3. Please indicate the top five (5) tourism services and products (highest revenue earning) that your establishment provides, including the main service mentioned above: [Enter all that apply in space provided, using the examples as guides].

	Tick (√)	Specific tourism service(s) described
Accommodation (e.g., hotel, motel, guest house, lodge, etc)		
Food and beverages (restaurants, pubs/bars, food cafés, etc)		
Adventure tourism (water sports, water rafting, water cruises, micro-flights, etc)		
Wildlife safaris (eco-tourism safari/nature walks/nature drives, game viewing drivers/walks)		
Other (please specify)		

4. Who are the main clients of your establishment?

___ % local (Zambian)

___ % foreign on recreation and leisure

___ % foreign on business

___ % foreign visiting friends and leisure

Other (please specify).....

5. What was the total number of full-time employees and of part-time employees (including casual workers) as at 31st December, 2011? [Each box is meant for only one digit]

Staff Category	Full-time		Part-time	
	(ii) Local	(iii) Foreign	(iv) Local	(v) Foreign
Managerial/ Admin				
Professional(Trained Outside)				
Skilled (Trained In-house)				
Unskilled (Manual)				

6. Does your establishment have a formal in-service training program for its staff members? [Encircle one] 1 = Yes / 2 = No [If No, skip to Q.8]
7. If Yes, Please provide a copy of the establishment's formal training curriculum (e.g., training manual, service guidelines, etc) [To Enumerator: Encircle if training curriculum is provided and attach to the end of the questionnaire: 1 = Yes / 2 = No]
8. What are the opening and closing times of your establishment's front desk/reception?
- Opening time [e.g., 07.30hrs]:.....
 - Closing time [e.g., 17.30hrs]:.....
 - Other [e.g., Open 24hrs a day 7 days a week]:
9. What was the total annual sales revenue or turnover (total value of sales net of vat, service charge and Commission) of the establishment for calendar year 2011? [Record the amounts in full]
- [state currency]
10. What was the total annual sales revenue or turnover (total value of sales net of vat, service charge and Commission) of the establishment for May 2012? [Record the amounts in full]
- [state currency]
11. Does this establishment directly source any of its inputs from outside the country for the services it provides (excluding labour inputs)? [Encircle one] 1 = Yes / 2 = No

2. ACCOMMODATION [only if establishment offers this product or service; otherwise skip to next section]

12. Please describe the number and cost (state currency) of rooms in your establishment, by accommodation type:

Room type	(i) Number of Rooms	(ii) Unit cost (per room per night)in lowest season	(iii) Unit cost (per room per night) in highest season
Presidential suit (1 occupant or			

more plus special accessories)			
Queen suit (1 occupant or more plus limited special accessories)			
Family room (2-8 occupants)			
Double room (2 occupants)			
Single room (1 occupant)			
Double chalet (2 or more occupants)			
Single chalet (1 occupant)			
Self-catering condominium/condo(1-8 occupants)			
Pool lodging (backpackers)*			
Camping quarters (tent, cabin, etc) –Single			
Camping quarters (tents, cabin, etc) – Multiple (2-8 occupants)			
Other 1 (specify):			

*State unit price per bed-space

13. Please provide information on the room occupancy rates, by accommodation type

Room type	Total number of nights all rooms were occupied in 2011
Presidential suit (1 occupant or more plus special accessories)	
Queen suit (1 occupant or more plus limited special accessories)	
Family room (2-8 occupants)	
Double room (2 occupants)	
Single room (1 occupant)	
Double chalet (2 or more occupants)	
Single chalet (1 occupant)	
Self-catering condominium/condo(1-8 occupants)	
Pool lodging (backpackers)*	
Camping quarters (tent, cabin, etc) –Single	
Camping quarters (tents, cabin, etc) – Multiple (2-8 occupants)	
Other 1 (specify):	
Other 2 (specify):	

*State days each bed-space or all bed-spaces were occupied

14. What is the room occupancy rate as a percentage over the year?.....%

15. What is the estimated average stay per guest?
16. Is Value Added Tax (VAT) included in the price of the rooms? [Encircle one] 1 = Yes / 2 = No
17. If yes, what is the VAT rate that is charged on each room? [Indicate exact percentage, e.g., 15.5%]:%

3. FOOD AND BEVERAGES (RESTAURANT AND BAR) [only if establishment offers this product or service; otherwise skip to next section]

18. How many restaurants and diners operate in this establishment? [Indicate exact number]
19. Please describe the prices (state currency) of meals in at most two of the restaurants and diners in your establishment, by type of meal:

	Starter		Main course/meal		Dessert	
	(ii) Cheapest	(iii) most expensive	(iv) cheapest	(v) most expensive	(vi) cheapest	(vii) most expensive
Cheapest restaurant						
Most expensive restaurant						

20. Is there a service charge that is charged to customers per meal? (Encircle one): 1 = Yes / 2 = No
21. If yes, what percentage of the meal price is the service charge? [Enter percentage]:%
22. Is Value Added Tax (VAT) included in the meals? [Encircle one] 1 = Yes / 2 = No
23. If yes, what is the VAT rate that is charged on each meal? [Indicate exact percentage, e.g., 15.5%]:%
24. How many bars, pubs, cocktail lounge and/or cafeterias operate in this establishment? [Indicate exact number]
25. Please describe the prices (state currency) of beverages per glass/cup/tot in at most two of the bars, pubs, cocktail lounge and/or cafeterias in your establishment:

	Hot beverage per cup		beers/lagers per bottle		Wine peer glass		Spirit per shot/tot	
	(ii) Cheapest	(iii) most expensive	(iv) Cheapest	(v) most expensive	(vi) Cheapest	(vii) most expensive	(viii) Cheapest	(ix) most expensive
Cheapest bar/pubs/ cocktail lounge/								

cafeteria								
Most expensive bar/ pubs/coc ktail lounge/ cafeteria								

26. What is the opening time of the first bars, pubs, and/or cafeterias to open in this establishment? [Enter exact time to the nearest ½ hour, e.g., 16.30hrs; if open 24hrs indicate “Open 24hrs” and skip to next section]:

27. What is the closing time of the last bars, pubs, and/or cafeterias to close in this establishment? [Enter exact time to the nearest ½ hour, e.g., 23.30hrs]:
.....

4. ADVENTURE TOURISM [only if establishment offers this product or service; otherwise skip to next section]

28. Please describe the prices (state currency) of all the adventure tourism services offered by your company:

Type of Adventure Tourism service	Unit Cost

29. Is there a service charge that is charged to customers per service? (Encircle one): 1 = Yes / 2 = No

30. If yes, what is the percentage of the service charge? [Enter percentage]:%

31. Is Value Added Tax (VAT) included in the price of the service? [Encircle one] 1 = Yes / 2 = No

32. If Yes, what is the VAT rate that is charged on each service? [Indicate exact percentage, e.g., 15.5%]:%

5. SAFARIS [only if establishment offers this product or service; otherwise skip to next section]

33. Please describe the prices (state currency) of all the safaris services offered by your company:

	Type of Safaris service	Unit Cost

34. Is there a service charge that is charged to customers per safaris service provided?

(Encircle one): 1 = Yes / 2 = No

35. If yes, what is the percentage of the service charge? [Enter percentage]:%

36. Is Value Added Tax (VAT) included in the price of the safaris service? [Encircle one] 1 = Yes / 2 = No

37. If yes, what is the VAT rate that is charged per safaris service? [Indicate exact percentage, e.g., 15.5%]:%

6. TOURISM PACKAGES [only if establishment offers this product or service; otherwise skip to next section]

38. Please describe the prices (state currency) of all the tourism packages offered by your company:

	<i>Type of Tourism Package</i>	<i>Unit Cost</i>

39. What activities are contained in each tourism package you provide?

	<i>Type of Tourism Package</i>	<i>Services included</i>

40. Is there a service charge that is charged to customers per tourism package provided?

(Encircle one): 1 = Yes / 2 = No

41. If yes, what is the percentage of the service charge? [Enter percentage]:%

42. Is Value Added Tax (VAT) included in the price of the Tourism package? [Encircle one] 1 = Yes / 2 = No (if No, skip to next section)

43. If Yes, what is the VAT rate that is charged per safaris service? [Indicate exact percentage, e.g., 15.5%]:%

7. OPERATING COSTS

44. As a proportion of the total value of your inputs (excluding labour) into your production of tourism services, what proportions of inputs is sourced locally (Zambian) and what proportions of inputs is imported directly?

- a. Local inputs:%
- b. Imported inputs:%

45. Please list and indicate the total annual costs of all your major production inputs (excluding labour) for the tourism services you provided last year (2011)?

Input description (Cost of Sales) (e.g., food, beverage, transport/travel for clients, etc)	Total Cost of Input in 2011 (State Currency)
.....	
.....	
.....	
.....	
.....	

46. Please indicate the total annual costs of your overheads last year (2011) on the following recurrent cost items?

Overhead	Total annual cost (State Currency)
Electricity	
Telecommunication	
Maintenance and repairs (vehicles and/or infrastructure)	
Water	
Fuel	
Rent & Rates	
Royalties (A payment to an owner for the use of property, especially patents, copyrighted works, franchises or natural resources)	
Taxes	
Other (Specify):	

47. What was the total cost (wage and salary expenditure) of your labour last year (2011) in each of these categories?

Staff Category	Total Annual Cost (State Currency)	
	Local	Foreign
Managerial/ Admin		

Professional (trained from outside)		
Skilled manual (trained in-house)		
Unskilled (manual)		
Total		

48. Is your establishment currently a beneficiary of any form of tax or other incentives from the Government? [Encircle one]: 1 = Yes / 2 = No [If No, skip to Q50]

49. If Yes (re: Q48), do these incentives include of tax incentives? [Encircle one]: 1 = Yes / 2 = No

50. Does your establishment experience any challenges accessing or applying incentives? [Please explain]:

.....

.....

.....

.....

.....

.....

8. LICENSING AND REGULATION

51. Please describe the type, numbers, costs per unit and renewal times of the licenses and permits that your establishment needs for the operation of its tourism business?

License or permit description	Number required	Cost per license/permit	Renewal times
.....			
.....			
.....			
.....			
.....			
.....			
.....			
.....			

52. Generally, what are the top five (5) challenges that you experience in operating your business? [please explain]:

.....

.....

.....

.....

.....

53. What do you think Government can do to assist your business operate more efficiently?
[please explain]:

.....
.....
.....
.....

/ends