WHAT WOULD IT TAKE FOR ZAMBIA'S TOURISM INDUSTRY TO ACHIEVE ITS POTENTIAL?

-JULY 2011-
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This note explores the prospects for growth in Zambia’s tourism industry, estimates the potential contribution of a larger, more competitive tourism industry (vis-à-vis jobs and prosperity), and identifies what it would take for the industry to achieve this potential.

1.1 Background

Tourism makes a significant contribution to Zambia’s economy. In 2005, nature tourism alone (when both direct and indirect effects are included) contributed nearly 16 percent of Zambian exports, 6.5 percent of GDP, 7 percent of government revenues, 10 percent of formal sector employment and nearly 6 percent of wages. Taking into account other types of tourism outside of nature tourism, the economic contribution of the industry is likely to be even greater.

Zambia accounts for a small share of the regional and global tourism markets. The number of visitors to Zambia increased eightfold between 1995 and 2007, when it reached 897,413 international visitors, although visitor numbers have since declined. In 2009 Zambia received 709,948 international visitors, equivalent to a 12.5 percent decline from 2008. Figure 1 shows the breakdown of 2009 visitors by region of origin and purpose of visit. Two-thirds of the visitors were from Africa, the majority of which were from other countries in southern and eastern Africa. Business/conference visitors accounted for almost half of arrivals, and holiday visitors for one-quarter.

Figure 1: Two-thirds of international visitors to Zambia come from Africa; almost half come for business/conferences (2009)
A large proportion of visitors to Zambia comes from neighboring countries for the purpose of trading goods. On a smaller scale, there are long-haul business visitors related to the copper industry and donor community. Few of these visitors engage in much leisure tourism but do spend money on accommodation and food/beverages.

To the holiday visitor, Zambia is positioned as offering low tourist density and unspoiled destinations. Zambia’s offering to holiday visitors is strongly oriented towards nature tourism, driven by two principal assets: the Victoria Falls and wildlife in the country’s national parks. Except for a few village visits and traditional ceremonies, Zambia’s cultural, archaeological and historical assets are rarely included in tourist itineraries. Due to the “pull” factor of the Victoria Falls, tourism activities around the nearby town of Livingstone are relatively well-developed compared to those in other regions in Zambia. The Victoria Falls itself only require a short stay and, therefore, can be visited as a weekend getaway or short side trip. As a result, Zambia is often a secondary destination added on to visits to other countries in the region, and, thus, has a shorter length of stay. Zambia’s leisure tourism is highly seasonal, as visits to national parks are mostly limited to the May to October dry season.

Zambia faces increased competition from its regional neighbors – and this is expected to intensify. South Africa is by far the largest market in the SADC region, accounting for 44 percent of visitor arrivals. Botswana, Tanzania and Namibia are the other major competitors in the Southern African Development Community, with Kenya an important competitor in the wider region. Recent economic and political difficulties have to some extent suppressed competition from Zimbabwe, the country that shares Victoria Falls with Zambia. However, Zimbabwe could easily revert to being a formidable competitor: Zimbabwe’s tourism products, which are similar in nature but better-developed, are competitively priced. In addition, Zimbabwe benefits from a strong skill base and effective infrastructure.

1.2 Industry Structure

The tourism industry is comprised of several types of enterprise, each of which faces different circumstances and cost structures. These include hotels, lodges, guesthouses, tour operators, activity and transport providers. Several large international chains/franchises are present in Zambia (including Intercontinental, Protea Hotels, Southern Sun, Sun International and Taj Group). In addition, there are a number of small luxury lodges (mostly foreign-owned) and many small, informal enterprises (mostly Zambian-owned). Zambia’s tourism sector, however, is dominated by small and medium sized operators that are not vertically integrated. Hence, they are largely reliant upon overseas providers for services such as representation, marketing and flights.
2 WHAT IS THE POTENTIAL FOR INDUSTRY GROWTH?

Zambia has the natural resources and other tourism assets needed to attract a significantly larger number of tourists. The country is home to the iconic Victoria Falls and also has some world-class national parks and other wildlife-related attractions, including 19 National Parks and 34 Game Management Areas covering over 22.4 million hectares. These attractions are well received by tourists. Zambia also has numerous natural, cultural and heritage assets away from these core areas (for example: lakes in northern Zambia—for beach and water activities; wetlands in northern Zambia—for birdlife; and various cultural ceremonies across the country). These assets are not yet fully developed or “market ready”, but they are receiving renewed interest, particularly from the government.

The global market offers enormous opportunities for Zambia’s tourism industry. Africa’s tourism industry is expected to continue growing at a rate above the world average. While visitor arrivals in other regions fell following the global financial crisis (e.g. by 4.3 percent in 2009), arrivals to Africa increased (e.g. by 3 percent in 2009). The demand patterns in both African countries and international source markets suggest that demand for the type of tourism products that Zambia has to offer is not a limiting factor in the medium term.

Zambia’s central “crossroads” position offers opportunities for stronger regional linkages and potential for self-drive tours. Bordered by eight other countries, Zambia is positioned at the heart of the region. In particular, the town of Livingstone—which, as well as being located next to the Victoria Falls, is close to the borders of Zimbabwe, Botswana and Namibia—offers significant potential for regional tourism circuits and joint marketing. Significant numbers of self-drive visitors tour Namibia, and could perhaps be encouraged to extend their journeys to Livingstone and other parts of Zambia. The geographical location of the capital city, Lusaka, mid-way between the established airline hubs of Nairobi and Johannesburg, could also help Zambia benefit from established regional tourist circuits.

Given the growing global demand and attractive supply of assets, there is a strong opportunity to expand Zambia’s tourism industry. Assuming other conditions are right, Zambia can capitalize on its tourism assets and take advantage of the favorable market prospects. In this way, Zambia’s tourism industry can expand.
### WHAT MIGHT BE THE IMPACT OF A LARGER, MORE COMPETITIVE INDUSTRY?

Growth in tourism could raise prosperity and provide more jobs for Zambians, especially the rural poor. Second only to agriculture in its potential impact on the poor and, due to its labor-intensive nature and potential for backward linkages (local sourcing of inputs), the growth of Zambia’s tourism industry could have a significant impact on formal and informal employment and incomes, particularly in rural areas.¹⁰

A scenario analysis helps to illustrate the medium-term potential value of boosting the competitiveness of the tourism industry.¹¹ There are three main ways to increase the revenue from tourists: (1) Increase the number of tourists; (2) Increase the length of time tourists stay in the country; and (3) Increase the amount of money tourists spend during their stay.

Table 1 presents estimates of the revenue that Zambia’s tourism industry could generate in three scenarios: low, medium and high. If Zambia could:

- Attract 1.8 million visitors by 2015 (up from 812,000 in 2008);
- Raise the average length of stay from 6 days in 2008 to 7.5 days in 2015;¹² and
- Raise the average expenditure per tourist per day from US$35.70 in 2008 to US$83.50 in 2015.¹³

Then tourism revenues could reach US$1.1 billion and the industry could employ 600,000 people in the formal sector (and even more if the informal sector is included).¹⁴ With the economic multiplier effects estimated at approximately double the direct effects,¹⁵ the overall economic impact would be significant.

#### Table 1: A More Competitive Tourism Industry offers Substantial Rewards

<table>
<thead>
<tr>
<th></th>
<th>2008 (actual)</th>
<th>2015 (projected)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Source</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Visitors (million per year)</td>
<td>[A] 0.8</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Average length of stay (days)</td>
<td>[B] 6</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Expenditure per day (US$)</td>
<td>[C] 35.7</td>
<td>35.7</td>
<td>35.7</td>
</tr>
<tr>
<td>Revenue (US$ million per year)</td>
<td>[D] 174</td>
<td>275</td>
<td>358</td>
</tr>
</tbody>
</table>

Notes: The above numbers relate to visitors overall. It is important to bear in mind that rates of growth in visitor numbers, lengths of stay and expenditure per day can vary significantly between different types of visitor. For example, while for nature-based tourism the average length of stay is around 6.9 days¹⁶, business visitors are likely to spend much less time (perhaps an average of 3 days) in Zambia; similarly, those visiting friends and relatives and/or visiting from neighboring countries for the purposes of cross-border trade are likely to spend closer to US$50 a day, as against the US$1,100 or so daily expenditure of nature tourists.¹⁷
Zambian tourism is underperforming, both in relation to other countries in the region and in relation to its own potential. Zambia receives significantly fewer tourists than might be expected, given its fundamental endowments. Despite having strong nature tourism attractions, Zambia trails many competing nations in the number of visitors, average length of stay and average visitor expenditure. Neighboring Botswana has around three times the number of visitors of Zambia, and Zimbabwe more than twice as many. Zambia’s average visitor stay, which is at the low end of the range, is also in decline. As shown in Figure 2, Zambia’s shorter length of stay translates into lower gross receipts per tourist trip (excluding airfares) than for regional competitors.

**Figure 2: Short Visits Reduce Revenue per Tourist Trip**

Based on 2006 data
**WHAT WOULD IT TAKE FOR THE INDUSTRY TO ACHIEVE ITS POTENTIAL?**

By achieving some or all of the following results, Zambia’s tourism industry could come closer to reaching its potential, through increased investment (both domestic and foreign), visitor numbers, length of stay and expenditure. This could provide more jobs and contribute to increased prosperity. These results address (i) the supply-side, by influencing businesses’ decisions on whether/where to invest; (ii) the demand-side, by enhancing Zambia’s appeal to tourists and travel agents; and (iii) the enabling environment, by enhancing the regulatory and authorizing environments within which the industry operates (see Figure 3). A short description of each result, ordered by the supply-side, demand-side and enabling environment groupings (rather than its relative priority) is provided underneath the figure.

![Figure 3: Results Required for the Tourism Industry to Achieve its Potential](image)

### 5.1 Supply-side

**Operator and Investor Cost Considerations**

- **Supplies:** A lower cost of supplies could reduce the costs of establishing and operating tourist facilities.
- **Labor:** Improved labor productivity could contribute to lower operating costs.
- **Finance:** Easier access to and lower cost of finance could facilitate greater investment in and growth of the tourism industry.

### 5.2 Demand-side

**Decision factors for tourists and tour companies**

- **Start Up and Operating Costs**
  - **Awareness / Familiarity**
  - **Destination Attractiveness**
  - **Affordability / Convenience**

- **Marketing:** More extensive and more effective destination marketing could increase awareness and demand.
- **Product:** Upgrading and diversifying Zambia’s attractions and locations could help to attract more tourists and extend their length of stay.
- **Travel Options:** Travel to and within Zambia could be made cheaper and more convenient, thereby increasing demand.

### 5.3 Enabling Environment (Authorizing and Regulatory Environments for the Industry)

- **Regulatory Stability:** A more stable and predictable regulatory environment could reduce risks for investors and operators.
- **Competitive Environment:** Greater competition in tourism and related and supporting industries could generate innovation, improve productivity and reduce costs and prices.
- **Public Support:** Stronger support from government and the wider population could make it easier to do business in Zambia’s tourism industry.
5.1 Supply-Side

A lower cost of supplies could reduce the costs of establishing and operating tourist facilities. In Zambia, a large proportion of the tourism industry’s supply requirements are met through imports, mainly from South Africa, with roughly half of purchases being locally produced.24 Zambian operators pay high premiums (largely related to customs and excise duties) for imports over what the goods cost in South Africa.25,26 This puts the operators at a competitive disadvantage, and the situation for small and rural operators, which are faced with additional transportation costs and/or unable to buy in bulk, is even worse. As an example, one of the major cost components for a tourism investor is construction, and the price of cement in Zambia is 80 percent higher than in Kenya, mainly due to a lack of competition.27 Similarly, many luxury items demanded by high-end foreign tourists must be imported and face high excise duties.28 For example, there is a 125 percent duty on wine and spirits imported to Zambia, which is significantly higher than that in other countries in the region.29

One means of reducing the cost of inputs is through local sourcing of items for which capacity exists (or can be developed) to supply high-quality and reasonably priced goods and services. Developing greater backward linkages in this way could not only reduce costs to operators but also benefit local producers. Lower costs of key inputs such as food and beverages may also translate into lower prices and improved value-for-money for tourists, thereby influencing the demand side of the equation as well.30,31

Improved labor productivity could contribute to lower operating costs. As a human resource-intensive industry, labor is a major component of the costs of operating tourism enterprises.32 The ultimate ‘cost’ of labor to the employer can be thought of in terms of the cost per completed task. Cost is thus a function of the financial remuneration paid to an employee in the form of basic wages and additional allowances, as well as an employee’s efficiency/productivity in getting tasks done. On average, basic wages on their own are reasonable compared to those in other countries in the region. However, high allowances/benefits remove the cost advantage that low basic wages might otherwise provide. At 9 percent, non-wage costs in Zambia are among the highest in the region. Only Tanzania has a higher share (16 percent), while it is 4 percent or lower in Kenya, South Africa, Botswana, Namibia, Zimbabwe, and Malawi.33 Higher remuneration costs are further compounded by low labor productivity, particularly for small operators. Labor productivity in Zambia as a whole lags the best international standards but is reasonable compared to other countries in the region. There is a vast productivity gap between large and small businesses, however, with MSMEs much less productive. A lack of motivation caused by an inadequate link between pay and performance, and weak skills due to a lack of both training and exposure to international service standards, are two key factors underlying poor labor productivity.34

Easier access to and lower cost of finance could facilitate greater investment in and growth of the tourism industry. For Zambian non-agricultural firms, including those in the tourism industry, access to banking services is associated with 44 percent higher productivity. Yet, while large businesses have near-universal access to banking services and nearly half use financial credit, MSMEs (particularly those that are locally owned), rarely have such access.35 Without credit, small enterprises must instead grow at a slower pace supported by cash flow from operations, and this limits the growth of the sector. In relation to finance, the tourism industry faces a number of problems including: (i) high interest rates; (ii) high collateral requirements; (iii) lack of the long-term finance that would facilitate the large upfront capital investments in facilities that have a long payback period; and (iv) banks’ limited understanding of the industry.
5.2 Demand-Side

More extensive and more effective destination marketing could increase awareness and demand. While the opportunity for tourism (especially in Africa) is large, global and regional competition is strong and accelerating. Hence, unless Zambia can create a compelling brand and a much greater awareness of the country worldwide, it will have difficulty competing with other, better-known destinations in the region. Despite this, the Government’s expenditure on tourism marketing has traditionally been low relative to other countries in the region. In 2004, the Government was spending US$1.5 million annually on destination marketing, just a quarter of the next lowest regional competitor (Namibia) and one twelfth of Tanzania’s investment. Although the Government budget allocation to tourism marketing has recently experienced a tenfold increase, the absolute amount remains low relative to other countries. Hence, the private sector undertakes much of the marketing itself. The efficacy of marketing is as important as the level of spending: the quality of marketing materials and campaigns is vital to achieving a return on the marketing investment. Zambia’s existing tourism brand—“Zambia, The Real Africa”—is thought to be outdated and detrimental to the country’s image, hence a new brand will shortly be launched. In addition, Zambia does not know enough about its existing and potential tourism source markets to support effective marketing and sector growth, and its products and “unique selling points” are not well-defined. This suggests a need for more market research on the tourist customer and on tour agent behavior. The latter is particularly important, as accessing international tourist source markets depends heavily on general sales agents and foreign tour operators.

Upgrading and diversifying Zambia’s attractions and locations could help to attract more tourists and extend their length of stay. In order to penetrate new markets, attract more returning customers, and increase tourists’ length of stay, Zambia will need a sufficiently diverse and appealing tourism product base. This will mean broadening the range of attractions Zambia offers, with an emphasis on moving beyond nature-based tourism, as well as diversifying the geographic locations within Zambia that tourists can visit. The latter will be particularly important in bringing the economic benefits of tourism to new, rural parts of the country. Although Zambia has high-quality nature offerings and a world-class site in Victoria Falls, several other countries in the region have national parks and safari options of comparable quality to Zambia’s, and Victoria Falls is shared with Zimbabwe. While Zambia has potential tourism assets outside of the well-developed Victoria Falls/Livingstone area, these have not been developed sufficiently. Offerings that build off Zambia’s cultural and other non-wildlife assets in outlying areas can help diversify both the type and the location of tourism, but will require investment in building a critical mass of supply and ensuring the availability of sufficient infrastructure and facilities to meet tourists’ needs.

Travel to and within Zambia could be made cheaper and more convenient, thereby increasing demand. Domestic transportation accounts for a substantial share of tourists’ in-country expenditures (18 percent for nature tourists). Inadequate and/or inconvenient travel options constrain tourists’ choices of itineraries and long travel times reduce the time spent seeing sights or participating in activities. Therefore, in order for tourists to be enticed to stay longer and travel to outlying areas of the country, improvements in the affordability and convenience of domestic travel (both air and road) are crucial. Domestic airfares in Zambia are more expensive than in several other countries in the region, estimated at double those in Kenya and Botswana. Zambia has only one domestic airline (and therefore no competitive pressure on price) and a limited number of routes and flights (adversely impacting convenience). High costs of jet fuel, the use of small aircrafts and a lack of economies of scale (both due to limited demand) also contribute to higher domestic airfares. However, domestic travel faces a ‘chicken-egg’ problem: with a lack of competition contributing to high airfares, tourists are discouraged. At the same time, the small number of tourists may not, at this point in time, justify a need for an additional domestic airline.
For long-haul tourists, the cost and convenience of international flights to Zambia is also important. A sample of pricing data suggests that international airfares to Zambia are mid-range in the region, but consistently higher than those to Kenya, Tanzania and South Africa (which compete with Zambia as safari destinations). To improve convenience, tourism operators would like to see more direct international flight options from key source markets in the United States and Europe.

The poor quality of domestic roads also constrains both supply and demand, particularly in remote areas. Poor all-weather road infrastructure limits the operating season for lodges and other tourism facilities in many areas. As a result, the period in which operators can earn revenues can be significantly less than twelve months (for some areas, as little as six months). This has a negative impact on profitability and/or may result in prices that are higher than they would otherwise be (to allow operators to cover their fixed costs over a shorter, seasonal, operating period). While neighboring countries such as South Africa and Namibia enjoy a significant volume of self-drive tourists (both domestic and international), Zambia’s poor road infrastructure severely limits its attraction to self-drive visitors.
5.3 Enabling Environment

A more stable and predictable regulatory environment could reduce risks for investors and operators. Given substantial investments in land, equipment and facilities and the time taken to generate demand and revenues, tourism investments tend to have long payback periods. At the same time, prices to international tour operators are set, and reservations made, well in advance of a tourist’s actual arrival. Sudden changes can have a large impact on returns because many tourism businesses cannot easily adjust their prices accordingly. Similarly, changes not anticipated at the time an investment was made, but which occur during the long period before which the operation starts to yield a positive return, can damage profitability. Such changes have been problematic for tourism operators in Zambia in recent years. For example, an announcement made in January 2010, with less than one week’s notice and no public commentary, substantially raised fees for businesses operating around the Victoria Falls. Frequent regulatory changes may in part be due to a lack of coordination among the multiple governing agencies whose regulations impact the tourism industry. The Government recently introduced the Business Licensing Reform Program, which is designed to reduce compliance costs for licensing businesses and encourage the regulatory—as opposed to the revenue generation—function. The Tourism and Hospitality Act is also being revised as part of this process, thereby creating an opportunity for improvements to the legal and regulatory environment.

Greater competition in tourism and related and supporting industries could generate innovation, improve productivity and reduce costs and prices. Lack of competition contributes significantly to Zambia’s high cost base and, therefore, the prices ultimately paid by tourists. Dominant market positions and/or monopolies exist in key support industries such as domestic air travel and cement manufacture, as well as in certain sub-sectors of the tourism industry itself (e.g. only a few - high-end - lodges operate in Lower Zambezi National Park). As mentioned above, the lack of competition in the domestic airline and cement industries is thought to add a significant premium to prices faced by tourism operators and tourists in Zambia. Political economy factors and rent-seeking suppress the political will and public pressure for increased competition. While competition legislation is in place, it has not achieved the desired outcome of improving the quality, coverage and cost of goods and services. In Zambia, many large companies possess a share of the market larger than their productivity would warrant, and the lack of competition stifles innovation, price reductions and quality improvements that might otherwise enhance Zambia’s tourism product.

Stronger support from Government and the wider population could make it easier to do business in Zambia’s tourism industry. While Government has identified tourism as one of four industries essential to economic development in Zambia, the level of actual investment (in Kwacha terms) and support (as measured by legislation/actions that would ease the process of starting/growing a tourism business) have been low. Perceived by some as an exploitative industry dominated by white foreigners, tourism has yet to be embraced in a substantive manner. The general population also does not fully appreciate the potential benefits that the industry offers. The perceived economic impact of the industry seems to be significantly less than the actual impact and the extent of leakages also tends to be overestimated. As a consequence, actions are taken—or not taken—that undermine the potential of the industry to grow and flourish. An example of such an action is the short-termism associated with the 2008 major increase in visa fees, introduced with very little notice and later reversed. Since, on a regional and global basis, the tourism industry is highly competitive, low levels of support translate into low arrivals and revenues—as is evident from regional comparisons. Once government and the population recognize that the industry’s potential economic and social contributions far outweigh the perceived costs (as has been proven in Mauritius, Namibia and elsewhere), they will have an incentive to improve the enabling environment.
There is large potential to expand Zambia’s tourism industry, and industry growth could provide jobs, greater prosperity and improved livelihoods for many Zambians. Zambia has a good asset base with which to attract significantly more tourists. Taking into account the enormous opportunities offered by the global tourism market and, in particular, the growing demand for nature-based and African tourism products, there is an opportunity to expand Zambia’s tourism industry. Growth of the industry could have a significant pro-poor impact, raising prosperity and providing more jobs and better livelihoods for many Zambians, especially in rural areas.

However, Zambia’s tourism industry is underperforming relative to those of other countries in the region, as well as to its own potential. By achieving a number of results, the industry can come closer to reaching its potential.

These results include:
- A lower cost of supplies;
- Improved labor productivity;
- Easier access to and lower cost of finance;
- More extensive and more effective destination marketing;
- Upgrading and diversifying Zambia’s attractions and locations;
- Cheaper and more convenient travel to and within Zambia;
- A more stable and predictable regulatory environment;
- Greater competition in tourism and related/supporting industries;
- Stronger support for the tourism industry from Government and the wider population.

The scope for and potential benefits from improved industry productivity are substantial. They are also much needed as, despite sustained macroeconomic growth, poverty levels in rural Zambia remain high. Given the potential of the tourism industry, and the strong commitment of Government, business, civil society and donors to improve industry performance, there is a real opportunity for stakeholders to chart an effective way forward and to monitor their progress over time. This note and the detailed technical reports that accompany it are tools that can be used by stakeholders throughout this process. Specifically, by benchmarking productivity levels against other countries (and within Zambia), stakeholders can evaluate their performance and hold each other accountable for improving performance. Increased productivity is key to competitiveness, which in turn, can fuel jobs and prosperity and a better livelihood for all Zambians.
Assessing the Economic Impact of Competition

A recent report (Overseas Development Institute. May 2010. Assessing the Economic Impact of Competition) found that Zambia, in which one company has a near monopoly in the cement industry, had cement prices 1.8 to 5 times higher than the other countries covered in the study (Bangladesh, Vietnam, Ghana and Kenya).

Nevertheless, based on a number of separate pieces of analytical work there seems to exist a general consensus that mutual reinforcement. Factors on the supply side will also have an impact on the demand side (e.g. the establishment of new facilities may itself enhance destination attractiveness).

The separation into these categories has been used for illustrative purposes, and there may be some overlap and/or underestimate the contribution (Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia).

For every nature tourist, 0.307 full-time equivalent jobs are created in the formal sector. Compared to other economic sectors in Zambia, the hotel/restaurant sector has one of the highest levels of direct and indirect employment generation per unit of final expenditure (Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia).

Although Zambia experienced a 7 percent increase in visitors between 2006 and 2008, this resulted in a 7 percent reduction in visitor days, because the average stay length reduced from 6.9 days to 6.0 days.

Revenue per tourist per day is the other factor in the equation. At US$34 per day, Zambia is at the low end of the scale, comparable to Namibia (US$28) and Botswana (US$32), but far below Tanzania (US$93) and South Africa (US$86).

In comparison, in Kenya around 87 percent of the industry’s purchases are locally produced. Even the half for Zambia may be an overestimate, as it is thought to include goods purchased locally but which were manufactured in other countries.

Although many large hotels now receive duty exemptions for certain direct imports; both small and large operators purchase many imported products locally. These products incur duties which are likely to be reflected in the prices paid by operators.

The Zambia price premium is difficult to estimate precisely and varies significantly depending on the type of good involved and exchange rates used. Estimates range from 30-100 percent above prices in Johannesburg or Kenya. Nevertheless, based on a number of separate pieces of analytical work there seems to exist a general consensus that Zambian operators face a significant cost disadvantage.

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However, it is possible that the labor intensity of nature-tourism is different to that of other types of tourism. For every nature tourist, 0.307 formal, full-time equivalent jobs are created (see note 10) applies to the whole industry.

Estimates of tourism’s economic contribution vary, but research suggests that Government data may significantly underestimate the contribution (Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia).

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Data for the year 2008 are used since at the time of writing this note full data for 2009 were not available.

Average length of stay was 9 days in 1997 and 8 days in 1998, hence 7.5 days seems to be a feasible target.

Derived from the World Economic Forum 2009 Travel & Tourism Competitiveness Report sub-Saharan Africa mean expenditure per trip, as used in Pope, A. November 2009. Tourism Sector Study.

Full-time equivalent jobs, compared to a labor force of 5.4 million in 2008. This estimate assumes that the finding that for every nature tourist, 0.307 formal, full-time equivalent jobs are created (see note 10) applies to the whole industry. However, it is possible that the labor intensity of nature-tourism is different to that of other types of tourism.

According to World Tourism Organization data, Zimbabwe received almost 2 million tourists in 2008, more than twice as many as Zambia. However, unlike for other countries (including Zambia), the data for Zimbabwe also include day visitors and it is not clear what share of the 2 million is day visitors.

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In comparison, in Kenya around 87 percent of the industry’s purchases are locally produced. Even the half for Zambia may be an overestimate, as it is thought to include goods purchased locally but which were manufactured in other countries.

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Notes

1. That is, including linkages to the wider economy.
2. Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia. “Nature tourists” are taken to be the subset of visitors to Zambia that visited the country to experience its natural assets such as the Victoria Falls, wildlife and nature-based adventure activities.
3. Estimates of tourism’s economic contribution vary, but research suggests that Government data may significantly underestimate the contribution (Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia).
4. Zambia presently receives less than 1 percent of global visitor arrivals and a smaller proportion of global visitor revenues. In 2008, it received 4.4 percent of all visitors to ADC.
6. According to the Tourism Council of Zambia, out of an estimated 4,000 guesthouses and lodges in Zambia, only 1,000 are registered with the Hotel & Catering Association of Zambia – this may indicate that the majority of Zambia’s guesthouses/lodges are informal enterprises.
7. In 2005, 90 percent of surveyed nature-based tourists visiting Zambia were “satisfied” or “very satisfied”, and 84 percent indicated that they would return (G. Sinyenga. November 2005. Nature-Based Tourism Demand in Zambia).
9. Angola, Botswana, the Democratic Republic of the Congo, Malawi, Mozambique, Namibia, Tanzania and Zimbabwe have borders with Zambia.
10. For every nature tourist, 0.307 full-time equivalent jobs are created in the formal sector. Compared to other economic sectors in Zambia, the hotel/restaurant sector has one of the highest levels of direct and indirect employment generation per unit of final expenditure (Natural Resources Consultative Forum. 2007. The Real Economic Impact of Nature-Based Tourism in Zambia).
11. Data for the year 2008 are used since at the time of writing this note full data for 2009 were not available.
12. Average length of stay was 9 days in 1997 and 8 days in 1998, hence 7.5 days seems to be a feasible target.
14. Full-time equivalent jobs, compared to a labor force of 5.4 million in 2008. This estimate assumes that the finding that for every nature tourist, 0.307 formal, full-time equivalent jobs are created (see note 10) applies to the whole industry. However, it is possible that the labor intensity of nature-tourism is different to that of other types of tourism.
17. See note 15.
19. According to World Tourism Organization data, Zimbabwe received almost 2 million tourists in 2008, more than twice as many as Zambia. However, unlike for other countries (including Zambia), the data for Zimbabwe also include day visitors and it is not clear what share of the 2 million is day visitors.
20. Although Zambia experienced a 7 percent increase in visitors between 2006 and 2008, this resulted in a 7 percent reduction in visitor days, because the average stay length reduced from 6.9 days to 6.0 days.
21. Revenue per tourist per day is the other factor in the equation. At US$34 per day, Zambia is at the low end of the scale, comparable to Namibia (US$28) and Botswana (US$32), but far below Tanzania (US$93) and South Africa (US$86).
23. The separation into these categories has been used for illustrative purposes, and there may be some overlap and/or mutual reinforcement. Factors on the supply side will also have an impact on the demand side (e.g. the establishment of new facilities may itself enhance destination attractiveness).
24. In comparison, in Kenya around 87 percent of the industry’s purchases are locally produced. Even the half for Zambia may be an overestimate, as it is thought to include goods purchased locally but which were manufactured in other countries.
25. Although many large hotels now receive duty exemptions for certain direct imports; both small and large operators purchase many imported products locally. These products incur duties which are likely to be reflected in the prices paid by operators.
26. The Zambia price premium is difficult to estimate precisely and varies significantly depending on the type of good involved and exchange rates used. Estimates range from 30-100 percent above prices in Johannesburg or Kenya. Nevertheless, based on a number of separate pieces of analytical work there seems to exist a general consensus that Zambian operators face a significant cost disadvantage.
27. A recent report (Overseas Development Institute. May 2010. Assessing the Economic Impact of Competition) found that Zambia, in which one company has a near monopoly in the cement industry, had cement prices 1.8 to 5 times higher than the other countries covered in the study (Bangladesh, Vietnam, Ghana and Kenya).
Notes

At the time of research, the excise duty on wine was 8.3 percent in Swaziland; 15 percent in Zimbabwe; 23 percent in South Africa; 35 percent in Kenya; and 70 percent in Uganda (Anna Morris. Benchmarking Prices, Costs & Productivity: How Does Zambia’s Tourism Industry Compare? (draft) May 2010).

Other cost components such as labor and overhead also play a role in prices.

While Zambia has aimed primarily at a high-end market which is relatively unresponsive to prices, high prices may discourage other types of tourists.

Based on a small sample of hotels and safari lodges in Zambia, labor costs account for as much as one-third of operating costs.

For example funeral, transport and lunch allowances as well as Christmas bonuses.

A mandatory 10 percent service charge in the tourism and hospitality industry which, by law, must be passed on to employees, regardless of performance, may reduce workers’ motivation (and also raises the prices paid by tourists).

Only 11 percent of MSMEs use banks for transactions; less than 1 percent have insurance services; fewer than 8 percent use savings instruments; and only 2.3 percent receive financial credits (Clarke et al. June 2010. The Profile and Productivity of Zambian Businesses).

Diversity of offerings will become increasingly important with the predicted resurgence of tourism in Zimbabwe, which could otherwise adversely impact Zambia’s market share in the region.

Historically, the development of peripheral clusters has had limited success due to insufficient demand; large travel distances; deteriorating infrastructure; lack of all-weather roads; high cost of air travel; and difficult access to goods and services.

Zambia could also diversify within existing clusters by investing in facilities that appeal to the ‘meetings, incentives, conferencing and exhibitions’ segment, or by expanding budget accommodations to target the backpacker segment. Innovative packaging of tours with neighboring countries may also offer an opportunity to diversify the attractions without necessitating significant upfront investment in new locations or attractions.


Prolight Air Services and Zambezi Airlines have an agreement under which they fly exclusively domestic and regional routes, respectively. This lack of competition is estimated to add a 40 percent premium to the cost of domestic travel versus Zambia’s comparator countries.

Anna Morris. May 2010. Benchmarking Prices, Costs & Productivity: How Does Zambia’s Tourism Industry Compare? (draft), based on data from World Bank - Africa Financial and Private Sector Development Unit. 2010. Sub-Saharan Africa Tourism Database. It is important to note that this sample of prices was taken for only two points in time (average of high and low season fares for June and December 2009) and that, due to airlines’ revenue/yield management techniques, airfares are constantly changing.

This includes parts of Kafue National Park, Lower Zambezi National Park, portions of Western and Eastern Provinces, and much of Northern Province, whose “Northern Corridor” is often discussed as the next great destination in Zambia.

Safety and security are other key aspects of the enabling environment that both tourists and investors take into account. They – as well as some other aspects of the enabling environment – are not covered here since the analytical work did not identify these as being binding constraints on Zambia’s tourism industry.

The new fees under Statutory Instrument No. 6 (2010) were enacted by the National Heritage Conservation Commission with three days’ notice to stakeholders. The Victoria Falls entry fees increased from US$10 to US$20 per person; boat cruise fees to US$20 per person; and helicopter license fees from US$0 to US$15,000 per year, plus a per passenger charge. The new charges and fees are in addition to those already imposed by the Zambia Wildlife Authority.

The Zambia Competition Commission, the body empowered to prevent anti-competitive and restrictive business practices, has handled 252 merger, acquisition and takeover cases since 2000, but has ruled against only 1.


While, compared to the cost of a luxury safari package, the amount may be considered small, consultations suggest that it is the uncertainty and the feeling of “yet another add on” that upsets tourists and tour operators.
What would it take for Zambia’s tourism industry to achieve its potential?

Zambia’s tourist attractions, combined with a growing global market for nature-based and African tourism products, provide a good opportunity for Zambia’s tourism industry to expand. By 2015, Zambia could attract up to 1.8 million visitors per year, yielding over US$1 billion per year in revenue. Given the nature of the industry, such an expansion could have a significant pro-poor impact, providing more jobs and better livelihoods for many Zambians, especially in rural areas.

However, Zambia’s tourism industry is underperforming relative to those of other countries, as well as to its own potential. The number of visitors, average length of stay and average receipts are lower than those of other countries in the region. Action to improve the regulatory environment, the marketing of the country to potential tourists, the cost of key inputs, and the transportation system, among others, is critical if the industry is to improve its competitiveness and achieve its potential.

This note explores the potential contribution that a larger, more competitive tourism industry could make to jobs and prosperity in Zambia and identifies what it would take for the industry to achieve that potential. It provides a summary of the analysis contained in two reports: Adam Pope, Tourism Sector Study (draft, November 2009); and Anna Morris, Benchmarking Prices, Costs & Productivity: How Does Zambia’s Tourism Industry Compare? (draft, May 2010).

This note and the detailed reports from which it is drawn were produced under the Jobs and Prosperity: Building Zambia’s Competitiveness Program, a joint venture between the Government of Zambia, the Zambian private sector, civil society and cooperating partners. For more information on the issues raised in this note, please contact Mr. Jumbe Ngoma, Communications Officer, World Bank - Zambia Country Office, jngoma@worldbank.org.