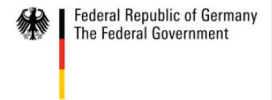




SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.



A CASE STUDY ON SUNBIRD TOURISM

FEBRUARY 2013

FIRM OVERVIEW

Name	Sunbird Tourism
Nationality	Malawi
Sector	Tourism
SADC countries where doing business	Hotels are based in Malawi – tourists come from all of SADC

BACKGROUND

Sunbird Tourism Limited has seven strategically located hotels and resorts across Malawi which provide accommodation for business and leisure travelers, space for meetings and convention facilities, and food and beverage services. Sunbird Tourism is 71% Malawi owned and the largest hospitality enterprise in Malawi.

BARRIERS ENCOUNTERED

- **Tax:** As well as the new taxes introduced under the Zero Deficit Budget, the Government of Malawi collects a 1% tourism levy on all client bills from tourism enterprises in Malawi. The revenue is intended to aid funding of destination marketing and the promotion of domestic tourism. However the results of this government endeavour, relative to the \$40 million per annum which is collected under the levy, appears insufficient.

- **Access to finance:** The current economic conditions in the region, coupled with risk averse investors, has made access to finance through international investors difficult.
- **Access to skills:** Sunbird finds it difficult to recruit general managers and senior staff from within Malawi. However Malawi is generally well placed in terms of lower level skills in the hospitality sector, and actually exports this skill base to other parts of the region. For example, many South African tourist companies benefit from the use of skilled Malawians in their tourist operations. Sunbird therefore faces the challenge of competing with other hospitality firms in the region for scarce skills.
- **Electricity and Water Supply:** The Sunbird hotels are subject to frequent power cuts and water shortages necessitating generator back up and water tanks.

IMPACT OF BARRIERS

- **Tax:** The Tourism Levy significantly increases the price of tourism services in Malawi to customers.

Another major tax drain for Sunbird Tourism is the turnover tax, which was introduced under the Zero Deficit Budget. This new tax far exceeds profit tax and means that margins are much tighter than they used to be. This is a serious threat to business survival for many small companies.

The tourism industry used to have duty free status on imports, but this privilege has been removed. Additionally, the government removed import tax incentives. This presented financial implications for projects that were already underway. For instance, the extra cost of duties on raw materials for completing the renovations to Sunbird Mount Soche in 2011 cost the company an estimated extra \$3 million. This could never have been predicted in the project budget.

- **Access to finance:** The increased difficulty of gaining international investment has meant that Sunbird Tourism has had to access increased funding from local sources by diversifying away from traditional access routes such as equity capital on the stock exchange and negotiations with commercial banks.
- **Access to skills:** Malawi has a fairly effective hospitality training course in Mzuzu in the North of Malawi which produces well trained staff and Sunbird Tourism endorses this training. Whilst it is difficult for the company to find Malawian staff for the general managers and senior staffing levels they currently only have two expatriates in these positions.
- **Electricity and water supply:** Power outages interfere with the general operations of the hotels and are increasing costs through having to buy fuel for the generators. To cope with water shortages the hotels in each location have reserve water tanks. Mount Soche in Blantyre has 15,000 litres of water stored on the roof in reserve. In the rare event of this supply running out, a tanker provides additional water.

FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS

Sunbird has explored alternative routes to access the finance required for the business. A successful option has been through local pension funds. This has resulted in better access to finance for Sunbird.

Sunbird runs its own internal Trainee Management Programmes to build the capacity of employees. This has resulted in improvements in the skills levels of staff.

Sunbird has invested in generators and back-up water supplies to cope with the shortages in these areas. This has been at a cost to the company but has provided a short-term alleviation of the barrier.

Sunbird has not engaged with regional organisations in SADC to discuss its challenges.

ADDITIONAL COMMENTS AND SUGGESTIONS

1. Sunbird is considering lobbying the Government of Malawi for more transparency as to how the tourism levy revenues are being spent and for action to be taken to make the tax regime and economic operating environment more favourable.