

BUSINESS ENVIRONMENT STRENGTHENING IN TANZANIA

(ADVOCACY COMPONENT)

ASSESSMENT OF TOURIST TRANSFER LEVY IN ZANZIBAR

Conducted

By



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LIST ABBREVIATIONS

| | |
|----------|---|
| CBC: | The Consulting and Business Centre Ltd |
| BEST AC: | Business Strengthening in Tanzania-Advocacy Component |
| TOR: | Terms of Reference |
| TRA: | Tanzania Revenue Authority |
| ZATO: | Zanzibar Association of Tour Operators |
| ZCT: | Zanzibar Commission for Tourism |
| ZRB: | Zanzibar Revenue Board |
| ZTC: | Zanzibar Tourism Commission |

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EXECUTIVE SUMMARY

Introduction

1. Zanzibar Association of Tour Operators (ZATO) would like to advocate against the law on a tourist transit levy imposed by the Zanzibar Government. ZATO's view is that this is not only an additional licensing requirement that adds to the cost of tour operation but also a nuisance to visiting tourists during inspection checks at road blocks mounted to enforce the legislation.
2. In order for BEST-AC to offer support to ZATO, the former wanted to obtain more facts on the issue through a quick survey concerning tourist transit levies in Zanzibar. BEST-AC engaged The Consulting and Business Centre Ltd to do the survey. This document is a result of that survey.

Findings

3. According to the survey the tourist transit levy in Zanzibar has:
 - ❖ Very marginal contribution to the government revenue, and is not specifically used to improve neither tourism in Zanzibar nor the tour operator business.
 - ❖ Added costs of operations to tour operator businesses, affecting 108 current operating businesses, has likely contributed to closing of 86 tour operator business among the 194 registered with ZTC, and could be a hindrance to the entry of new, especially small tour operators.
 - ❖ Provided an opportunity of unfair competitions in favour of unlicensed parties engaged in tour operator businesses who in turn deny the government revenue, which would have otherwise been provided by the tour operators, among others.
 - ❖ Hindered the growth of the tour operator member association, which is a crucial private sector partner to the government in the development of tourism industry.
 - ❖ Helped to enhance the security of tourists through a record tracking based system but is not the only way of doing it.
4. Based on the above ZATO has an advocacy issue because in its current set up and use, the tourist transit levy is not friendly to the tour operator business in Zanzibar and is not very useful to the tourism industry either, except for the tourist security protection which can be achieved by other suitable means.

Recommendations

5. We feel that ZATO has an advocacy case, and we recommend ZATO to use the following advocacy options:
 - a. Advocate for the complete removal of the tourist transit levy. And for the security of tourists let the government issue to licenced tour operators only:
 - (i) Tourist security protection stickers to those with tour operator vehicles, and
 - (ii) Tourist security protection forms or to those without tour operator vehicles
 - b. Advocate for a 50% reduction in the tourist transit levy, rename it as a tourist security protection levy and have its use restricted to tour operator licence holders only.

I. INTRODUCTION

Background

- 1.1 Zanzibar Association of Tour Operators (ZATO) was established in 1993 as an umbrella organization for tour operation businesses in Zanzibar. It provides support for its members and works in partnership with the Government. There is no doubt that tourism development can only be achieved in partnership, whereby the private and public sector play their roles in ensuring that services for the key tourism sector are maintained, and income generated is well utilized to improve tourism. However there is one major weakness in that tour operators are required to pay sh.1, 500 tourist transit fees for each tourist transfer made from one destination to another or Tshs. 100,000 per tour operator vehicle per year. This is in addition to fulfilling all other licensing requirements legislated by the government.
- 1.2 ZATO's view is that this is not only an additional licensing requirement that adds to the cost of tour operation but also a nuisance to visiting tourists during inspection checks at road blocks mounted to enforce the legislation. ZATO wants to get BEST-AC support to advocate against the law but enough data and information on impact to the economy to build a compelling advocacy case are lacking. To get a clear view on the scale of the problem, BEST-AC wanted to obtain more facts on the issue through a quick survey concerning tourist transit levies in Zanzibar. In this regard BEST-AC commissioned The Consulting and Business Centre Ltd (CBC) to do the survey under specific terms of reference (TOR).
- 1.3 The Consulting and Business Centre Ltd, is a private Tanzanian management consulting organisation specialising in private sector development. CBC Brief profile is provided in appendix 1.

Terms of Reference

- 1.4 Under the terms of reference mentioned above the overall objective of the assignment given to the consultant was to carry out a survey to assess the impact of tourist transit levies in the tour operation business in Zanzibar. More specifically, the consultant was required to:
 - ❖ Take a sample of 10 members out of ZATO members list which give a good representation of ZATO's membership.
 - ❖ Interview 10 members to obtain their views regarding how tourist transit levies affect their businesses
 - ❖ Interview Zanzibar Commission of Tourism officials to obtain government views on tourist transit levies
 - ❖ Gather data from Zanzibar Revenue Authority on tourist transit levies collections for the past 3 years and compare their contribution to Zanzibar's tax collection
 - ❖ Make analysis of how tourist transit levies impact tour operation business in Zanzibar
- 1.5 At the end of the assignment the consultant was required to deliver a report on:

- ❖ Member's views about tourist transit levies
- ❖ Government perspectives concerning tourist transit levies
- ❖ Tourist transit levies collection levels by the government
- ❖ Detailed analysis of the impact of tourist transit levies on the tour operation business in Zanzibar

The details of the TOR are provided in appendix 2.

II. TOURIST TRANSIT LEVY

What is the Tourist Transfer Levy

- 2.1 A tourist transfer levy is the levy paid in Zanzibar when making transfers of a tourist or tourists from one destination to another. This levy comes in a form of a permit to do tour operator services. Officially it is called a payment for a permit to do tour operator services.
- 2.2 The history of this the current tourist transfer levy can be traced to a fee initiated by ZATO (Zanzibar Association of Tour Operators) in 1990's. As a young association after its formation, ZATO was struggling to have sufficient funds to run the association. In the end they came up with the idea of charging a contribution from tourist transfers, and the plan worked. ZATO agreed to share the collections with Zanzibar Tourism Commission (ZTC) at a rate of 50% each of collection made.
- 2.3 After some months of collecting and sharing the tourist transfer fee at a rate of 50% each, as mentioned above, ZTC demanded and got a share of 90% of the collection. ZATO was forced to agree; and this mode of sharing worked for some time.
- 2.4 The worst scenario for ZATO, came when ZTC decided to take all (i.e.100%) of the collections. In response the tour operators protested and refused to pay because there was no legislation requiring them to do so. Faced with this situation the government passed a legislation requiring a payment for a permit for tourist transfers made. This payment is the tourist transfer levy in the terms of reference, which is known as a *permit for tour operator services* in the government.
- 2.5 The tourist transfer levy is different from the tour operator business licence. The tour operator business licence is a document provided by the Government giving mandate to operate a tour operator business in Zanzibar. The licence which costs Tshs. 300,000 is provided once in a year to registered tour operators only.
- 2.6 The *tourist transfer levy* is also different from the *tour operator levy*. The latter is a form of a sales tax being a 15% of sales made per month for tour operators not registered with VAT and 18% for VAT registered tour operators

Objectives for Levy

- 2.7 According to ZTC the current objectives of the tourist transfer levy are:
 - Boosting Government Revenue
 - Security protection to tourists
- 2.8 The government uses the tourist transfer fee as an additional income. It also argues that with the tourist transit levy payment it is easy to trace back who were involved if a tourist gets into problems. The government sees the safety of tourists being of prime importance to the government and the tour operators themselves.

Payment of Tourist Transit Levy

Who Pays and for What

- 2.9 Any one transferring a tourist from one point to another has to pay the tourist transit levy. The payment is made to obtain a permit of taking a tourist(s) from one location to another (: e.g. from airport to hotel; from hotel to an excursion tour, etc.)
- 2.10 The permit can be available to anyone. This means that apart from tour operators, other people who do not have tour operator business licences are included. Information collected shows that a list non-licensed tour operator getting permits include:

- ❖ Hotels
- ❖ Private car hire companies
- ❖ Taxi drivers
- ❖ Tour guides

- 2.11 In Zanzibar the total number of tour operators registered with ZTC is 108, while the number of those active in business and paying taxes is as shown below:

Table 2.1 Tour Operators in Zanzibar

| Index | Tour Operators | Number |
|-------|---|--------|
| 1. | Registered with ZTC | 194 |
| 2. | Active in Business (paying taxes& levies) | 108 |

The list of the names of those registered with ZTC and those active in business are provided in appendices 3 and 4.

- 2.12 ZATO claims that they have at the moment 35 members, but the list obtained on their website has only 27 members. The list of their names is provided in table 2.2 below while the details of their contacts, etc. are given in appendix 5.

Table 2.2: ZATO Active Members

| Index | Name | Index | Name | Index | Name |
|-------|---------------------------------|-------|-----------------------------|-------|---------------------------|
| 1. | African Leisure and Safaris Ltd | 13. | Active Tours and Travel Ltd | 25. | Marzouk Tours and Travel |
| 2. | Fisherman Tours and Travel Ltd | 14. | Grand Tours and Travel | 26. | Equator Tours |
| 3. | Exotic Tours and Safaris | 15. | Island Tours | 27. | Madeira Tours and Safaris |
| 4. | Grand Travel International | 16. | Maha Travel and Tours | | |
| 5. | Zanzibar Adventure | 17. | Monda Tours and Safaris | | |
| 6. | Dhow and Jeep Tours | 18. | Dynamic Motors- Safaris Ltd | | |
| 7. | Modesty Tours and Safaris | 19. | Sun Tours and Travel Ltd | | |
| 8. | Tabasam Tours and Travel Ltd | 20. | Tropical Tours and Safaris | | |

| | | | | | |
|-----|------------------------------|-----|------------------------------|--|--|
| 9. | Zanzibar Excursions Ltd | 21. | Trust Tours and Safaris | | |
| 10. | Safina Tours and Safaris Ltd | 22. | Zanzibar Tourist Corporation | | |
| 11. | Bora Tours and Travel Ltd | 23. | Zenith Tours and Travel Ltd | | |
| 12. | Sama Tours | 24. | Fernandes Tours and Safaris | | |

- 2.12 There are 127 hotels and guests in Zanzibar, whose summary is provided in table 2.3 below, while the details of their names and contacts are provided in appendix .

Table 2.3: A Summary Hotels and Guest Houses in Zanzibar

| Grade | * | * * | A | AA | No Grade | Total |
|-------------------------|---|-----|----|----|----------|-------|
| Number of Hotels | 8 | 23 | 43 | 4 | 49 | 127 |

- 2.13 Hotels operators get hotel licences in order to operate hotel businesses. Hotel licences forbid hotel operators to engage in tour operators business. However the Zanzibar Tourist Commission can allow them to transfer tourists through payment of tourist transfer levies. As pointed above the latter are permits to allow anyone, not necessarily having a tour operator business licence, to do tour operator business.
- 2.14 Only a few hotels engage themselves in tourist transfers. Hotels in Zanzibar which are known to engage in tourist transfers include:

- ❖ Hotel Lagema
- ❖ Dream of Zanzibar
- ❖ Hotel Mapenzi

These hotels also engage in “all inclusive” packages.

Rates for a Tourist Transit Levy

- 2.15 There are two modes for payment:
- a. Retail Payment (Permit)
 - b. Annual Payment (Sticker)
- 2.15 For the retail, each tourist transfer is paid for separately before the transfer is made. The payment required from tour operators differs from the ordinary business operators, such as taxis, car hire companies as shown below:

- ❖ Tour OperatorTshs. 1500/= per transfer
- ❖ Others, such as taxis, car hire companiesTshs. 2000/= per transfer

A copy of tourist transfer bought by a tour operator is provided in appendix 7.

- 2.16 For the annual payment, the payment is Tshs. 100,000 per tour operator vehicle per year. Both the retail and annual payments of the tourist transit levies are made to the Zanzibar Commission for Tourism, who collects it as an agent for the Zanzibar Government.

Annual Tourist Transit Levy Collected Recently

- 2.17 The amount of the tourist transit levy collected for the last three years is shown in table 4.1 below:

Table 2.4: Tourist Transfer Levy Collected By Government

| Year | 2007/8 | 2008/9 | 2009/10 |
|--------------|-------------------|-------------------|-------------------|
| Permit | 18,595,750 | 23,573,000 | 18,183,600 |
| Stickers | 8,700,000 | 12,400,000 | 12,400,000 |
| Total | 27,295,750 | 35,973,000 | 30,583,600 |

Source: ZTC

Other Tour Operator Related Levies Collected Recently

- 2.18 In addition to paying for a tour operator business licence and the tourist transfer levy (a permit for tourist operation services (i.e. tourist transfer levy) the tour operator has to pay for a tour operator levy. The latter is paid at a rate of 15% sales made or value added tax (VAT) at a rate of 18% of sales to the Zanzibar Revenue Board, in accordance with the Zanzibar Revenue Board Act. It is collected by the Zanzibar Revenue Board, not the Zanzibar Tourism Commission, as in the case of the tourist transfer levy.
- 2.19 The amount of the tour operator levies and VAT paid at the same period are summarized in table 4.1 below:

Table 2.5: Tour Operator Levy Collected by ZRB 2007-2009

| Year | 2007/8 | | 2008/9 | | 2009/10 | |
|--|--------------|-------------|-------------|-------------|-------------|-------------|
| | (Tshs.) | | (Tshs.) | | (Tshs.) | |
| | Estimate | Actual | Estimate | Actual | Estimate | Actual |
| Tour Operator Levy Collections (Tshs) | Not Provided | 216,658,950 | 548,083,000 | 424,203,209 | 585,000,000 | 409,695,341 |
| Tour Operator VAT (Tshs.) | | 195,710 | - | 237,580 | - | 307,500 |

Source: ZRB

General Business Taxes and Levies

- 2.20 Tour operators, as in the case of other business operators have to pay to the Zanzibar Central Government general business taxes and levies. The total revenue, collected from all businesses through various taxes in the last three years is given in table 2.6 below while the details are provided in appendix 9:

Table 2.6: ZRB Actual Revenue Collections 2008/9 – 2009/10

| Year | 2006/7 | 2008/9 | 2009/10 |
|--|----------------|----------------|----------------|
| Actual Collections | 59,207,927,610 | 84,957,036,700 | 89,278,689,867 |
| % Collection [Actual/Estimate x 100] | - | 101% | 93% |

Municipality Levies

- 2.21 In addition to the general taxes and businesses including tour operators have to pay the following levies to the Zanzibar Municipality:
- Levies to local government of Zanzibar Municipality and/or Pemba town at a rate of Tshs. 19,000/= for drainage
 - Stone town entry at Tshs. 10,000 per entry for a vehicle of one ton and above also paid to the Zanzibar Municipality
 - Corporation tax, income tax and payee to the Union Government of Tanzania, in accordance with the Tanzania Revenue Authority Act.

III. TOURIST TRANSIT LEVIES AND KEY STAKEHOLDERS' VIEWS

ZATO Member' Views on the Tourist Transit Levy

- 3.1 In order to get the views of ZATO Members on the tourist transit levies (*permit for tourist operation service*) 10 tour operators were selected as being representative of ZATO. ZATO assisted the consultant to select the tour operators. The list of the ten selected tour operators is provided in table 3.1 below:

Table 3.1: ZATO Tour Operators Interviewed

| Tour Operator | Address | Phone/Email | Respondent |
|-------------------------------------|---------------------------|------------------------------|--|
| 1. Exotic Tours and Safaris | P.O. Box 2427 Zanzibar | 024-2236392; 0777-481116 | Ali Abdulrahman Ali (General Manager) |
| 2. Island Tours | P.O. Box 2402 Zanzibar | 024-2238111; 0774-410180 | Mr. Hoko Kung, Managing Director |
| 3. Fernandes Tours and Safaris | P.O. Box 647, Zanzibar | 024-223 0666 | Mr. Fernandes (CEO) / S. P. Mokiwa (Operations Manager) |
| 4. Tropical Tours and Safaris | P.O. Box 325, Zanzibar | 024-2236794; 0777413454 | Mr. Ali, Owner Manager |
| 5. Modesty Tours & Safari Ltd. | P.O. Box 2331 Zanzibar | 0772-251999; 0784-251999 | Omary Said Shaaban |
| 6. Madeira Tours & Safaris Zanzibar | P.O. Box 251 Zanzibar | 024-2230406; 0777-415107 | Abdalla Rashid Asst. Director |
| 7. Fisherman Tours & Travels Ltd. | P.O. Box 3537 Zanzibar | 024-2238791; 024-2238792 | Ali Amour |
| 8. Monda Tours & Safaris | P.O. Box 2008 Zanzibar | 024-223 5434; 0777-478558 | Jabir M. Jabir Executive Director |
| 9.. Sun Tours & Travel Ltd | P.O. Box 484 Zanzibar | 024-2239695; 0777-414196 | |
| 10.Trust Tours& Safaris | P.O. Box 3254 Zanzibar | 024-2238 334; 0777-415173 | Omar Makame, Managing Director |

3.2 The respondents felt that imposing the payment of tourist transfer levy was:

- ❖ A Duplication of Business Licensing
- ❖ Double Payment of Sales Tax
- ❖ Additional Operation Cost
- ❖ Nuisance and Embarrassment to Tourists

Duplication of Business Licensing

3.3 ZATO members feel that imposing a payment of the tourist transit levy to tour operators when making tourist transfers amounts to double licencing. Tour operators, before engaging in business are required to have a **tour operator business** licence. This licence permits them to do tour operator activities including making tourist transfers. This is the same as what the tourist transfer levy is allowing them to do. The official name of what is called the tourist transfer levy in this document is the **Permit for Tourist Operation Services**.

Double Taxation

3.4 Tour operators see their businesses as businesses selling services. Each transfer they make is a sale of services. The levy is charged on services rendered. But at the same time the tour operators are paying a tour operator levy or VAT based on the same services on which the tourist transit levy is charged. Based on this argument, tour operators see the tourist transit levy as a second taxation, (i.e. double taxation.)

Additional Cost of Operation

3.5 Tour operators also see the payment of tourist transit levy by tour operators is an additional cost to tour operator businesses. At the end it results in businesses making losses, or getting reduced profits. In table 3.1 below are examples of actual tourist transfer levy payments made by one small tour operator and a large tour operator in the last three years.

Table 3.1: Tourist Transfer Levy Payments by a Small and Large Tour Operator (Tshs.)

| Year | 2007/8 | 2008/9 | 2009/10 |
|-----------------------------------|-----------|-----------|-----------|
| Small Tour Operator (No vehicle) | 135,500 | 159,000 | 288,000 |
| Large Tour Operator (30 Vehicles) | 3,000,000 | 3,000,000 | 3,000,000 |

Bringing in Unlicensed People in Tour Operator Business

- 3.6 In order to engage in tour operator business tour operators pay for and get tour operators business licence as pointed above. But to get a tourist transit levy it does not matter whether one has a tour operator business licence or not. It is available to every Tom, Dick and Harry. So what happens is that the tourist transfer levy, which is the *permit for tourist operation services*, allows unlicensed parties to do tour operator business. These unlicensed parties include hotels, taxi drivers, private car hires, beach boys, etc
- 3.7 Hotels are businesses which offers accommodation. In order to engage in a hotel business one has to pay for and obtain a hotel business licence. The hotel business licences does not cover making transfers. When hotels do tourist transfers they do so using the tourist transfer permit. That means once they pay for the tourist transfer fees, they do not pay for:
- a. Tour operator business licence
 - b. Tour operator levy
- 3.8 ZATO tour operators hold a view that for hotels break the law when they engage in tour operator business. The hotel business licences, which they hold have an article which restricts hotels from engaging in tour operator business activities. In addition for non-Zanzibari hotel operators (including those Tanzanians from mainland), when they engaging in tour operator business, they break another law. According to the Zanzibar Tourism Act 2009 section 9 (c) tour operators are reserved for Zanzibaris only.
- 3.9 ZATO tour operators also claim that for hotels engaging themselves with tour operations, sometimes they deny the government revenue, through package arrangement termed as “all inclusive packages. In an all inclusive packages everything (accommodation, meals, transfers, etc.) are paid for outside the country making it difficult for the government to collect taxes and/or levies.
- 3.10 For operators of taxis and private car hires, ZATO tour operators have the following views:
- (i) Operators of taxis and private car hires have their taxi and private car business licences respectively. These business licences do not cover tour operation services, but they do tourist transfers using the tourist transfer permit. That means once they pay for the tourist transfer fee, they do not pay for tour operator business licence nor tour operator levy.
 - (ii) The entering of private car hires, taxi drivers and “beach boys” as unlicensed people/parties in tour operator business as resulted in them engaging in tourist transfers and tour operator business:
 - With poor quality services and low prices, hence ruining the market.
 - Denying the government revenue for not paying for licences

Nuisance and Embarrassment

- 3.11 According to the ZATO tour operators the road blocks and checks which are made for compliance in holding tourist transit permits are a nuisance to tourists and embarrassment to tour operators. They degrade the confidence of tourist in the tour operators.

Bribery

- 3.12 To ensure compliance roads leading to tourist attractions have road blocks. ZATO tour operators feel that the use of tourist transit levies has created a loophole for traffic officer to demand bribes at road blocks, when one has no permit for tourist transfers. But sometimes when one has a genuine permit the traffic police demand bribes.

Government's Views on the Tourist Transit Levy

- 3.13 The study also obtained views from the government officials, specifically from the Zanzibar Tourism commission. The latter was represented by Mr. Tira Abdi Ndohele. Presenting the views of the government on the tourist transit levy Mr. Ndohele argued that the levy was there for:

- Boosting government revenue
- Security of tourists

Boosting Government Revenue

- 3.14 According to the government the revenue collected through the tourist transit levy is boosting the government revenue. The boost from the tourist transit levy was Tshs.36, 210,580 and Tshs. 38,891,100 for years 2008/9 and 2009/10 respectively. The details are provided in table 3.1 below:

Table 3.1: Tourist Transfer Levy Payments by a Small and Large Tour Operator

| Year | Tour Operator Levies | 2007/8 | 2008/9 | 2009/10 |
|--|--------------------------------------|------------|----------------|----------------|
| Tour Operator Contribution to Government | Tourist Transit Levy | 27,295,750 | 35,973,000 | 30,583,600 |
| | | | | |
| | VAT for Tour Operators | 195,710 | 237,580 | 307,500 |
| | Tour Operator Levy | | 424,203,209 | 409,695,341 |
| | Total Tour Operator Levy | | 424,440,789 | 410,002,841 |
| | Total | | 460,413,789 | 440,586,441 |
| Total Government Revenue | <i>Excludes tourist transit levy</i> | | 84,957,036,700 | 89,278,689,867 |

- 3.15 The tourist transit, which is collected by Zanzibar Tourism Commission is sent directly to the government treasury. It used, along other collections, by the government in general expenditure not specific to tourism development. When ZTC requires funds for expenditure, it requests it from the government.

Security of Tourists

- 3.16 The government also argues that with the tourist transit levy it is easy to trace back who were involved if a tourist gets into problems. The government sees the safety of tourists being of prime importance to the government and the tour operators themselves

IV. ANALYSIS OF TOURIST TRANSIT LEVY ON TOUR OPERATOR BUSINESS

Analysis

Tourist Transit Levy Contribution to Government Revenue

- 4.1 One of the objectives of the government to have in place the tourist transit levy was to boost government. An analysis of the government revenue shows that it collected **tourist transit levy** amounting to Tshs.36, 210,580 and Tshs. 38,891,100 for years 2008/9 and 2009/10 respectively. This is in addition to the **tour operator** levy collected amounting to Tshs. 216,658,950, Tshs. 424,203,209 and Tshs. 409,695,341 in years 2007/8, 2008/9 and 2009/10.
- 4.2 A further analysis of the government revenue shows that the contribution of the tourist transit levy was an addition of revenue by 0.034% and 0.034% of to the government revenue in years 2008/9 and 2009/10. The contribution is small as shown by the details in table 4.1 below:

Table 4.1: Contribution of Tourist Transit Levy to Total Government Revenue

| Year | Tour Operator Levies | 2008/9 | Percent of Total Budget | 2009/10 | Percent of Total Budget |
|--|---|-----------------------|-------------------------|-----------------------|-------------------------|
| Tour Operator Contribution to Government | Tourist Transit Levy | 35,973,000 | 0.042% | 30,583,600 | 0.034% |
| | VAT for Tour Operators | 237,580 | | 307,500 | |
| | Tour Operator Levy | 424,203,209 | | 409,695,341 | |
| | Total Tour Operator Levy | 424,440,789 | 0.500% | 410,002,841 | 0.459% |
| | Total Tour Operator Contribution | 460,413,789 | | 440,586,441 | |
| Total Government Revenue* | | 84,993,009,700 | | 89,309,273,467 | |

Additional Cost to Tour Operator Business

- 4.2 Tour operators feel that the payment of tourist transit levy is an unnecessary additional cost. It is double licencing. The levy permits them to do exactly what the licences they are holding have already given them the mandate to do.
- 4.3. The transit levy paid by tour operators was Tshs.36, 210,580 and Tshs. 38,891,100 for years 2008/9 and 2009/10 respectively. For 108 tour operators, this works out to be, an average payment of tourist transit levy of Tshs.335,283 and 360,102 per tour operator business for years 2008/9 and 2009/10 respectively. This amount is about the same as the cost of a tour operator business, which is Tshs. 300,000 per year. Making tour operator businesses pay for tourist transit is double licencing and additional cost.
- 4.4 ZATO claims that when the tourist transit was imposed:
- (i) Many ZATO members had to close their businesses. At the moment there 108 tour operator businesses operating against 194 registered with ZTC. It is likely but not certain that most the tour operator businesses not operating stopped because of the imposition of the tourist transfer levy.
 - (ii) ZATO collapsed because many members closed their businesses and the association lost income from members and tourist transit levy. This was confirmed by ZATO members. The association had to be revived 5 years later by the survivors.
- 4.5 In addition to payment of the tourist transfer levy, tour operators also pay tour operator levy. The 108 tour operators paid tour levies amounting to Tshs. 216,658,950, Tshs. 424,203,209 and Tshs. 409,695,341 in years 2007/8, 2008/9 and 2009/10 respectively as pointed above.
- 4.6 Hotels, private car hire, taxi drivers and beach boys, who also get into tour operator business, do not hold tour operator licences nor do they pay tour operator levies. That being the case they are more competitive in terms of operational costs.

Security, Nuisance and Bribery

- 4.7 The government put in place the tourist transit levy as a measure to protect tourists. Indeed it is in the interest of the government, and the tourism industry, including the tour operators, that tourists are secure in Zanzibar. No tourist would like to travel to unsecure places. Hence if security is inadequate the tourism industry will collapse. The survey did not get any figures of security incidences before and after the levy was in place. However it was reported by the tour operators that:
- (i) There are incidences when the beach boys have been involved in the security of some tourists, and/or their property loss.

- (ii) At one time the government involved police patrols to hunt and apprehend beach boys involved tour operator activities: transfers and/or excursions. But when the exercise stopped, the beach boys slowly came back one by one.

Base on the above, this quick survey believes that there is a security risk, though low level, that requires some measures to be taken.

- 4.8 In the process of enforcement of tourist transit levies the government has put road blocks and checks. ZATO members feel that the road blocks made for compliance in holding tourist transit permits are a nuisance to tourists and embarrassment to tour operators. They degrade the confidence of tourist in the tour operators. In an attempt to assess the road blocks, it was discovered that the road blocks are placed at exit points to excursions. There are no roadblocks from the entry points to town or within the town itself. This being the case the impact of nuisance to the tourist or embarrassment is not that big. In addition it was reported that checking of the tourist transit levy does not take long. It can therefore be argued that the nuisance to the tourist could be mainly a feeling rather than the reality. In addition the bribes taken by traffic officers, comes once in a while, for those without the tourist transfer permit.

Unlicensed People Doing Tour Operator Business

- 4.9 In order to engage in tour operator business tour operators pay for and get tour operators business licence as pointed above. To get a tourist transit levy it does not matter whether one has a tour operator business licence or not. It is available to every Tom, Dick and Harry. So what happens is that the tourist transfer levy, which is the *permit for tourist operation services*, allows unlicensed businesses and individuals to engage in tour operator business. These unlicensed parties include hotels, taxi drivers, private car hires, beach boys, etc
- 4.10 Hotel is a business which offers accommodation. In order to engage in a hotel business one has to pay for and obtain a hotel business licence as pointed out earlier. The hotel business licences does not cover making tourist transfers. When hotels do tourist transfers they do so using the tourist transfer permit. This means that for hotels businesses to engage in tourist transfer fees they:
- Contravene the hotel licence mandate
 - If not owned by Zanzibaris as majority shareholders break another law (Zanzibar Tourism Act.2009 section 9 (c), which reserves the tour operator business for Zanzibaris only
- 4.11 In addition for hotel businesses to engage in tourist transfer fees they deny the government revenue because once they pay for the tourist transfer fees, they do not pay for:
- Tour operator business licence
 - Tour operator levy
- At the same time they offer unfair competition to the tour operators who are paying for the tour operator licences and the tour operator levy.

- 4.12 When hotel businesses engage in tourist transfers as part of an “all inclusive package” everything (accommodation, meals, transfers, etc.) are paid for outside the country making it difficult for the government to collect taxes and/or levies. ZTC confirmed this observation and were working on it. Some ZATO members alleged that some businesses operators now in Zanzibar were chased from Mombasa because of denying the government of Kenya revenue through “all inclusive packages”.

Beach Boys

- 4.13 Beach boys operate irregularly, are not registered and their number is not known. But there is evidence that they are there and have been reported to the authorities. However it is difficult to analyse their impact.
- 4.14 Taxis and private car hire businesses in engaging in tourist transfers, as in the case of hotels, deny the government revenue because once they pay for the tourist transfer fees, they do not pay for:
- Tour operator business licence
 - Tour operator levy

At the same time they offer unfair competition to the tour operators who are paying for the tour operator licences and the tour operator levy.

V. SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary and Conclusion

5.1 The tourist transit levy in Zanzibar has:

- ❖ Very marginal contribution to the government revenue, and is not specifically used to improve tourism in Zanzibar nor the tour operator business.
- ❖ Added costs of operations to tour operator businesses, affecting 108 current operating businesses, has likely contributed to closing of 86 tour operator business among the 194 registered with ZTC, and could be a hindrance to the entry of new, especially small tour operators.
- ❖ Provided an opportunity of unfair competitions in favour of unlicensed parties engaged in tour operator businesses who in turn deny the government revenue, which would have otherwise been provided by the tour operators, among others.
- ❖ Hindered the growth of the tour operator member association, which is a crucial private sector partner to the government in the development of tourism industry.
- ❖ Helped to enhance the security of tourists through a record tracking based system. .

5.2 Based on the above, in its current set up and use, the tourist transit levy is not friendly to the tour operator business in Zanzibar and is not very useful to the tourism industry either, except for the tourist security protection which can be achieved by other suitable means.

Recommendations

5.3 We feel that ZATO has an advocacy case, and we recommend ZATO to use the following advocacy options:

- a. Advocate for the complete removal of the tourist transit levy. And for the security of tourists let the government issue to licenced tour operators only:
 - (i) Tourist security protection stickers to those with tour operator vehicles, and
 - (ii) Tourist security protection forms or to those without tour operator vehicles
- b. Advocate for a 50% reduction in the tourist transit levy, rename it as a tourist security protection levy and have its use restricted to tour operator licence holders only.

