It becomes difficult to give a visitor a uniform quotation if each country has its own taxes. You cannot promise a tourist a seamless safari," – Susan Ongalo

ECONOMY <<

GDP VALUES:

South Africa regains 'Africa's largest economy' title from Nigeria

South Africa has regained the title of Africa's largest economy, two years after Nigeria rebased its GDP to claim the spot.

According to data from the International Monetary Fund (IMF), a recalculation using current exchange rates put South Africa on top because the rand has strengthened against the dollar.

Nigeria's currency has fallen sharply since a peg to the dollar was dropped.

South Africa's economy is now worth around $301 billion (Sh30.5 trillion) and Nigeria comes in at $296 billion (Sh30.03 billion).

However, analysts say both economies could be on the brink of recession.

Nigeria rebased its economy in 2014 to include previously uncounted industries like telecommunications, information technology, music, online sales, airlines and film production.

Most countries do rebasing, updating the measure of the size of the economy, at least every three years or so, but Nigeria had not updated the components in its gross domestic product (GDP) base year since 1990.

THE REALITY

When it updated its numbers, it claimed the continent's biggest economy title from South Africa. But calculating GDP numbers using last year's IMF figures and this year's currency exchange numbers technically puts South Africa back on top.

But look behind the league table and the light-hearted jostling about who has the largest economy in Africa and things, economically speaking, are a little bleaker.

Both economies contracted in the first quarter. Another contraction and they'll both be in recession.

Nigeria is almost entirely dependent on its oil exports. And as the price of oil slumps so does the flow of petrodollars coming into the country's coffers. South Africa's economy is more diverse.

Indeed, after Nigeria knocked it off the top spot two years ago, South Africa started being described as 'Africa's most industrialised economy', rather than the continent's second-largest economy.

But economic growth is unlikely to make it above 1 per cent in South Africa this year and many, including the country's Reserve Bank, are forecasting it at zero. Unemployment remains stubbornly high and a credit rating review is looming at the end of the year.

If the whole 'largest economy in Africa' competition were a horse race, the two leading contenders would be virtually neck and neck.

But they wouldn't be galloping, they'd be trotting at best. And looking increasingly tired and in need of sustenance. – BBC

SECTOR EARNINGS: **Not helping:** Stakeholders warn levies are making countries uncompetitive

Report blames fall in tourist arrivals in East Africa on region's high taxes

By PETER MUIRURI

The fees levied on tourism products by regional governments is making East Africa an uncompetitive destination.

According to a report released by the East African Tourism Platform, the high value-added taxes imposed by some governments have put the region's tourism businesses at a disadvantage in the global market.

The report, *Tourism Goose will Fly Elsewhere when Faced with Higher VAT and Airport Taxes,* says that while levies on tourism can increase government revenues, they will reduce the region's competitiveness in relation to other tourism hotspots.

EASY TARGET

It notes that tourism is a relatively easy target for governments that need to raise additional revenue, some of which may be used to provide the infrastructure and other facilities on which the sector's growth depends.

"[However] Most governments are not aware of how price sensitive the sector is, and that the many markets in which EAC member states compete are price sensitive, especially in terms of taxes, oil prices, exchange rates and commodity prices," the report, released last month, notes.

Some of the sector levies charged across the countries in the East African Community (EAC) include hotel and restaurant tax, gambling tax, airport tax, import duties, profit and sales tax, as well as entry and exit taxes.

In Kenya, however, the Government has waived VAT charges on park entry fees and commissions paid to tour operators. Uganda, though, charges 18 per cent VAT on all tourism products.

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The number of levies Tanzania has on various tourism products, including tourist vehicles and business licences.

Game drives, tourist guiding, animal or bird watching, water safaris, tour ground transport and tour charter services in Rwanda are exempted from taxation.

However, tour operators will pay an 18 per cent VAT on their profits, and face an additional 2 per cent tourism levy if a proposal to introduce this is passed.

Tanzania has 32 different levies that are charged on tourism products. There are 12 business registration and regulatory licence fees, 11 annual duties for tourist vehicles and nine other miscellaneous fees.

According to one tour operator in the country who is quoted in the report: "There is no more space to display licences on the windshield."

Susan Ongalo, the Kenya Tourism Federation CEO, said having so many different levies beats the idea of trying to sell East Africa as a single destination.

"It becomes difficult to give a visitor a uniform quotation if each country has its own taxes. You cannot promise a tourist a seamless safari," she said.

In light of shrinking global revenues, international visitors regard price as a key determinant when choosing a holiday destination.

"The consumer knows how much his currency is worth in terms of the visiting country's currency. He can as well go elsewhere if he feels his money will be worth little in the way of a decent holiday. The integration we are working towards could easily be disintegrated by high levies," Ms Ongalo added.

While Kenya has waived some fees associated with tourism products, some county governments have introduced new taxes on tourist attractions in a bid to raise revenue.

TRAVEL ADVISORIES

According to Sam Ikwae, the CEO of the Kenya Association of Hotel Owners and Caterers Coast branch, a number of counties at the Coast have in place punitive levies for the local hotel industry, without offering commensurate services.

Some of these charges include bed, tourism, advertorial and garbage levies, which he says are contained in county finance bills.

"Everybody is aware that Coast hotels suffer greatly when travel advisories are issues, forcing them to lower their rates. A bed levy will only add to costs of operation," he said.

In addition, Mr Ikwae said, hotels have contractual agreements with tour operators that may remit cash after a lag of 60 to 90 days "yet the counties want their cut on a monthly basis."

With international tourism receipts growing by 12 per cent in the last 10 years, many countries are bending over backwards in attempts to draw the foreign currency, job creation and tax revenue the sector provides.

This has made the industry even more competitive and price sensitive as holiday hotspots pull out all the stops to draw visitors.

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THE POTENTIAL:

- **Taxes on tourism increase government revenue, but reduce a destination's competitiveness**
- **Taxes have the effect of increasing the prices of goods and services, but do not guarantee an increase in total revenue**
- **Any percentage increase in tourism prices tends to result in a proportionate fall in tourist arrivals**
- **The amount of extra fiscal revenue from the introduction of a new tax or increase of an existing tax will depend on tourists' response to the price effects of the taxes, which is important to assess for policy purposes**
- **EAC countries have been asked to shift their focus from tourist arrivals to their expenditure to create a successful model for VAT collection**