# KENYA, TANZANIA, TOURISM AND TAX JUSTICE

**Report on the Potential for a Case Study and Tax Advocacy**

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## INTRODUCTION

Tourism is said to create more than 10% of global economic output and one in nine jobs with estimated annual revenues of US$1,550 billion (United Nations World Tourism Organisation, hereafter UNWTO). However, these numbers obscure more than clarify the role of tourism within an economy because tourism leakage is often ignored or underestimated.

A significant percentage of the revenues arising from tourism - common estimates suggest approximately 60 to 75% (e.g. Wheat 1998; Kersten 1997; Sinclair 1991) - leaks away from developing countries because of foreign ownership of the industry, imported resources, foreign tour operators and airlines and other reasons. And: 'The poorer a developing country, the higher the probability that the gross expenditures for tourism are greater than the earnings out of it' (Scherrer 1986, p160, translation by the authors). 'Furthermore, the more a developing country relies on luxury tourism, the greater is the danger of high expenditures for imported luxury goods' (Maurer et al. 1992, p58, translation by the authors). It is also stated that the more established a country becomes as a tourism destination, the greater the proportion of revenue which leaks away (Wheat 1998, p27). (Hemmati and Koehler, n/a)

While extolling the virtues of tourism, the UNWTO's General Secretary conservatively estimated that leakage is as high as 56% in some island economies while other sources estimated that leakage can reach 90% in low development countries (German Forum for Environment and Development 1999 cited in Hemmati and Koehler). Moreover, leakage estimates fail to account for monies that never arrive at the destination thanks to sophisticated international networks to channel portions into low- or no-tax jurisdictions. Nor does it accurately account for inflated expenses such as interest and management fees to legally avoid taxes. Tourism leakage accounts mainly for imports of food, supplies and luxury goods to satisfy tourists, and for some repatriated profits. The combination of leakage and avoidance means that tourism uses publicly-funded national resources but doesn't provide the stimulus for further development. With this in mind, this cursory study has the following objectives:

- Provide an evaluation of the feasibility of undertaking more in-depth research on specific companies operating in Kenya and Tanzania in order to develop a case study of actual tax burden and possible avoidance/evasion mechanisms;
- An overview of existing data on tax incentives offered by these two countries' tourism sectors;
- The potential for a communication campaign as part of ActionAid International's multi-country Tax Justice Campaign.

As for benchmarking this potential long-term project, the overall mission is to have corporations take responsibility for the human, environmental and cultural assets that they (ab)use. But in a developed-world with ageing shareholders obsessed with return on investment and shareholder value of pension plans, it is difficult for corporations to balance share returns with voluntary corporate social and environmental responsibility. One pressure for these corporations to act appropriately is from their clients (tourists) to make informed decisions before selecting an international tour operator and hotelier. Also, national governments must re-organize and strengthen tax policies and procedures so that corporations pay their fair share once these practices and mechanisms are revealed. As we will see here, Kenya and Tanzania´s human development has not improved substantially in more than two decades (see Part II). While contribution to GDP is stable, direct investment in tourism, and therefore rooms, is expanding. Kenya's hotel rooms increased by 1500 rooms per year between 2006 and 2010, but local employment remained flat and even negative (see Part III). Kenya's luxury hotel industry, primarily located along the coast and in Nairobi, is dominated by five to six major groups (see Appendix II – Hotel Chains). This cursory study has found head offices for Sarova in London, Serena in Switzerland and Sentido in Germany. Each of these groups has one or more major hotels located along the coast as all-inclusive properties. Coastal hotels in particular pay some of the lowest hotel taxes and levies of all locations (see Part  and Appendix IV) and are adept at tax avoidance and evasion. Notably, the most popular package is a combined safari and beach holiday. While the beach holiday attracts the lowest public sector charges, the highest proportion of taxes is paid by the safari hospitality owners, a major attraction of Kenya and Tanzania. The safari operators often lack the complex corporate structure making them the easiest to target to levy taxes and fees.