5 August 2013

To: Dear Minister of labour, economic empowerment and co-operatives,

RE: ZATI POSITION PAPER - DEVELOPING PRIVATE SECTOR VIEWS ON INCREASE OF WORK PERMIT FEES

Thank you kindly for taking the time to meet with ZATI on 5 July and granting time to develop a position paper that highlights the socio-economic implications of the proposed fee increase of the work permit from $150 to $2,000 – among other fees.

The paper includes the views of ZATI members and non-members following an emergency public consultation - as the increase had not previously been brought to the attention of the private sector.

Around 60 people attended the public consultation to share their views and help find solutions. ZATO and ZNCCIA attended and gave their full public support at the meeting. ZANEMA also supported ZATI.

The public consultation enabled ZATI to gauge private sector views on the Ministry's proposals and deliver this paper that highlight the possible detrimental impact of this increase.

In the meantime ZATI proposes that there is a temporary increase of:

- work permit fee from $150-300 over a two year period.
- work permit renewal at $150 after two years.

Also, ZATI would like to ask the Government to request the labour commission to consult the Immigration Department to stop charging for work permit under the fee paid for the resident permit because continuing to doing what they still do amounts to violation of the Constitution of Zanzibar and that of the United Republic of Tanzania. Such practice is strongly condemned and prohibited by Article 64(3) of the United Republic of Tanzania Constitution of 1977.

Thank you once again for taking the time to consider the implications of the fee increase. ZATI looks forward to hearing your comments.

We recognise that the Ministry has the legal powers to make the increase, however, we believe that after careful consideration of the position paper that it will agree to a reasonable solution.

We highly appreciate this public private partnership dialogue.

Assuring you of our support and loyalty at all time.

Wako mjenzi wa taifa,

Kind regards,

Abdul Samad Said
ZATI Chairman

CC

MEMBER ASSOCIATIONS

PRIVATE SECTOR VIEWS ON INCREASE OF WORK PERMIT FEES

This position paper includes the views of ZATI members and non-members as there is concern that the proposed increase will have a long-term negative impact on the socio-economic environment and affect all industries – not just tourism. This position paper highlights the case against any excessive increases and asks that the following proposal is agreed.

ZATI understands that Ministry bears central weight to island's development efforts to reduce poverty through empowering locals to fully engage in undertakings that bring about self-reliance, decent income and prosperity. And that the main task is to reinforce economic reforms and create level ground that will contribute to the development of potential business and operations. We believe that this will not happen if fees, taxes and levies are continually introduced in this manner.

ZATI believes the continual additional excessive fees/taxes/levies being applied to the tourism industry will harm Zanzibar's economy – and that there are better alternatives to increase revenue for the Ministry in order for it to be able to deliver its mandate.

ZATI understands that fees, taxes and levies are a necessary, and important part of building a healthy economy and are happy to comply with charges that are reasonable and introduced with ample time to implement. However, currently this is not the case and Zanzibar needs to be careful as to not increase the widening the gap between itself and the rest of Africa – and invite an economic downturn as investors migrate away of Zanzibar taking with them their potential for investment, transferable skills and potential for creating employment.

Tourism is a significant source of income for Zanzibar and currently generates 15,000 direct jobs and 50,000 indirect jobs. It can easily create thousands of jobs at the lower end of the skills-set within the direct tourist sector, and indirectly through other segments including agriculture, agro-processing, infrastructure and aviation. The value of tourism and its potential to grow the economy needs to be fully realised.

A costly, and complex environment for tourism represents a major barrier for Zanzibar to fully tap into its tourism potential.

The 'Doing business in 2010' World Bank and International Finance Corporation report positioned Zanzibar at 155 out of 183 in term of of world ranking. Tanzania mainland was ranked 131. There are many other countries that make it easy for doing business but unfortunately Zanzibar is not classed as one of them.

Complex fee structures and excessive fee increases are a key reason that deters investors.

The current legal frameworks regulating the labour and residence issues are complex and burden for the investors in Zanzibar. This is due to the fact that the permit fee imposed by the Immigration Department to the Investor in Tanzania Mainland is inclusive of both residence and work permit. Since the Labour issues are regulated under separate legislation in Zanzibar, it is not fair for the Investor in Zanzibar to pay equally with the Investor in Tanzania Mainland the sum of USD 2050/- for the Class B permit issued by Immigration Department which is also include the permit to work and yet pay for another Work permit issued by the Labour Commission in Zanzibar under section 36 (6) of the Employment Act (Act No. 11 of 2005) of the laws of Zanzibar.

ZATI calls for Zanzibar labour Commission to consult the Immigration Department to stop charging for work permit under the fee paid for the Resident permit because continue doing what they still do amount to violation of the both the Constitution of Zanzibar and that of United Republic of Tanzania. Such practice is strongly condemned and prohibited by Article 64(3) of the United Republic of Tanzania Constitution of 1977. It states:

"*Where any law enacted by the House of Representatives concerns any matter in Tanzania Zanzibar which is within the legislative jurisdiction of Parliament, that law shall be null and void, and likewise if any law enacted by Parliament concerns any matter which is within the legislative jurisdiction of the House of Representatives that law shall be null and void.*"

The above Article prohibits not only the enactment of the law but also the practice of that nature.

This unlawful practice has for long time now denied Zanzibar of its share from the collection of work permit charges under the Resident permit fee by Immigration Department.

Along with making improvements to legislation, ZATI would like to see reforms that create a more investor friendly environment - and facilitate greater sector investment. Thus increasing revenues through growth and development of the industry.

ZATI would like to ask for a centralised one-off payment to be made, and the removal of Local Government Authorities (LGA) from dealing with investors, both local and foreign, and collecting tax, imposing levies and issuing permits or licenses, and make it possible for the country to maintain a national market for tourism.

Beyond the calls for legislative consideration and reforms, our members also voiced the following concerns.

Currently, there are less than 1,000 foreign nationals working in Zanzibar, many drawn from EAC Member states, as well as further afield. These work not just in tourism, but for NGO's, schools and other non-commercial businesses. Excessive increases could cause many of these to close as they are unable to absorb costs.

A scenario based on the number of foreign nationals on the island estimated at 1,000, (and all having to pay for the proposed additional new fee of $2,000 this year) would bring in revenue of $2,000,000 initially. There would also be additional revenue from renewals, and also new arrivals paying the new and additional $2,000, plus revenue lost from those that leave the island.

ZATI believes that raising the additional work permit fee from $150 to $2,000, plus the existing $2,000 that foreign workers already pay, would make a total fee of $4,000, would make Zanzibar one of the most expensive environment in which to do business in the EAC region.

When ZATI met with the President earlier this year he said: "Tourism has outperformed all other sectors by a large margin. Over the ten year period 2000 to 2012 tourism achieved an average growth rate of 6.8% yearly. As a result, tourism has increased its share of GDP from a single digit in 2004 to just over 27% in 2012."

This table highlights the growth potential. The growth rate of visitors leapt to 32% in 2011, from -2% the previous year. Note that this table does not include visitors arriving by the port or those arriving from via the mainland – which are estimated at around a third of their visitors at 250,000 according to the Tanzanian Tourism Board.

Arrivals in Zanzibar

Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Number of Tourists	137,111	143,265	128,440	134,954	132,836	175,067
Growth		4%	-10%	5%	-2%	32%

The tourism industry contribution towards Zanzibar in 2009 was $172 million and if growth continues only at a flat rate of 6.8% it would see much higher returns than the Ministry could benefit from with a fee increase. Rather than gaining revenue, the increase could cause the opposite effect and induce an economic downturn.

Although the fee increase will bring an immediate small monetary gain it could lead to long-term loss of revenue and jobs as businesses are forced to downsize, close and investors leave. It could also lead to a loss of confidence of investors that eventually migrate to other countries where it is easier to do business and they have greater returns on investment.

ZATI advise that an independent economist researches the financial impact and cost to the Government and highlight how Zanzibar compares to other similar small islands so that Zanzibar can align itself correctly and not risk pricing itself out of the market.

Currently, in Zanzibar it costs $1,500 to $2,000 for a resident permit for two years and there is a work permit fee of $150, which costs $75 to renew each year.

A simple benchmarking exercise highlights that if Zanzibar is to increase the work permit fee from $150 - $2,000, on top of the $2,000 permit already in place that total fees would be around $4,000, making Zanzibar one of the most expensive place for work/resident permits.

If the work permit is increased as proposed, Zanzibar will follow Kenya as the highest EAC fee collectors.

In Kenya the class 'D' permit for general workers (class B in Tanzania) is $2,300 per year but justifiably so as Kenya's already has a robust, well-trained work force that it is seeking to protect.

In Tanzania – the residence & work permit combined is $2,000.

In Uganda it costs $600 for employees or $1,500 for investors per year.

The Seychelles has a 'gainful occupation permit' costing just $60 for the validity of contract.

Mauritius has an occupational permit for professionals earning over $1,500/mth, which is $500 for up to three years.

Zanzibar has the least developed economy of the above and yet it is positioning itself higher than well developed EAC and similar small island countries. This is not attractive to investors.

A fee structure that is reasonable and carefully aligned to the mainland and other EAC countries, as well as other similar small island is advised before increases are made.

Furthermore, ad-hoc revenue raising makes the Zanzibari business environment less competitive and less successful than those of its regional competitors and cause alarm across the tourism private sector as well as other sectors.

This further compounds existing issues of payments being collected from a variety of different ministries, local councils and increasing demand from

Halmashauri in all regions applying new fees regularly and approaching hotels directly for payment. ZATI feel that simplifying this process, by centralising fee collections, would improve compliance and save money.

Many investors are not able to absorb excessive additional costs, and those that do survive will need to pass costs to the tourists in their room rates, making Zanzibar increasingly less competitive compared to other places for tourists, and less attractive to do business in for investors.

Decreasing charges and widening the tax base - rather than demanding more from existing tax payers - would also increase compliance and improve revenue.

If fee increases are necessary, ZATI would like to request that they should be phased in following consultation and with adequate implementation time - and inline with charges of other similar countries.

Members are concerned with the multiplicity of charges and the three-tier system as it has been the main reason behind this problem as tax authorities fight for the same tax base in the course of revenue mobilisation.

Below is a snapshot of the numerous fees that tourism investors pay.

Sample of fees applicable to the tourism industry

	Type of charges	
ZRB	Hotel Levy	18%
	VAT	18%
	Stamp Duty	3%
TRA	Income tax	30%
	PAYE, stamp duty, withholding tax, skill development levy	5%
ZSSF	Social security fund for all employees	10%
ZIPA	Annual payment for investment license	\$500 - \$1,500
Lands tax	Rental per hectare annually	
Fisheries	Entry Marine reserves	\$5 per tourist per day
	Entry Marine reserves	30% for community
Environment	Regional inspections certificate	from 100,000
Food safety	Regional inspections certificate	from 100,000
Port Authority	boat licenses for boat and radio	
District Council	Liquor license	from 1,500,00/= pa to 2,500,000
	Signage	from 100,000 to 500,000

Community Fund	Turnover payable to Local Authority (new tax)	1%
Good Governance	Public Broadcast TV/Music (new)	2,000,000/= to 5,000,000
Commission of tourism	$1,000 to $15,000 depend on the size of company	

There are many other charges including certificates or licenses for the fire prevention safety, deep sea fishing (Fisheries), watersport license (ZCT), maritime fees (ZMA), tour/travel agent operator (ZCT), hotel operation license (ZCT,) manager's certificate (ZCT) – and the list goes on…

Such kind of a series tax payments for one activity is associated with high costs of administration and non-compliance. The situation indeed under any economic parameters is not healthy for business growth and cause confusion and frustration to investors.

The LGA taxes are also said to be numerous, and in some cases are charged arbitrariliy under a non-transparent environment. A reduction and consolidation of the many taxes paid to TRA, ZRB and LGAs is crucial in reforming the tax system in Zanzibar.

A good fiscal policy is a determining factor for inducing investments in a country. A stable fiscal policy with minimum reforms will always enhance investors' confidence. Therefore, it is recommended that the Government provide a written fiscal policy enforced by the law of the land.

In the Maldives, a typical medium sized company makes one payment, pays 9.1% of its commercial profit in taxes, and spends less than one hour per year on tax compliance. It was ranked as no.1 for global best practice in paying taxes in 2010. In Zanzibar Town a medium size company makes 48 payments, pays 40.8% of its commercial profit in taxes, and spends 158 hours per year on tax compliance. This highlights how difficult it is for the investor to operate a business in Zanzibar – as does the table below.

Ranking for Easy of Paying Taxes for Selected Small Island Nations

Country	Maldives	S/pore	Mauritius	Seychelles	Comoro	Dom.rep	Zanzibar
Ranking	1	4	12	32	40	70	103

For the case of Zanzibar, reviewing its tax structure by lowering its tax rate as has been done for Mauritius may lose revenue in the short term, but in the long term, the Government will boost its revenue through compliance enhancement resulting from tax rate reduction.

The NCCIA study 'Consultancy services for improving tax regime and business environment in Zanzibar' (2013) found that nearly three quarters of tax payers had no morale of paying taxes as they don't believe that the Government spends taxpayers money wisely and/or spend it on public goods that benefit taxpayers and that the tax regime is not fair in the sense that some tax payers are not paying taxes.

The 'Doing business in 2010' report conducted by the World Bank and International Finance Corporation rated Zanzibar at 155 out of 183 in terms of world ranking. Tanzania mainland was rated 131 on the same scale. Maldives and Mauritius both score under 100 – and the Maldives scores number one for small islands tax payments.

Zanzibar has huge potential for growth but its fragile economy could be damaged if investors lose confidence and the number of tourists dwindles. ZATI advises that the Government considers - this and also looks to develop other sectors.

The Government should consider whether it is committed to attracting investors when looks to raise costs, particularly without consulting the private sector. It should consider how businesses can operate profitably and competitively when the cost of bringing in the necessary expertise is 12 times higher than Rwanda, 8 times higher than Mauritius, 4 times higher than Seychelles and twice as expensive as the Tanzanian mainland and similar to Kenya.

Raising the work permit fee also means that it will become prohibitively expensive for foreign workers with specialist and transferable skills, that are not readily available in Zanzibar, resulting in a lack of skilled resource and a workforce that is unable to deliver.

Foreign nationals are employed because their skill set, experience and qualifications cannot readily be sourced from the local work force. In Zanzibar, it is reported that around 85% of youths are unemployed. So the resource is available, but unfortunately it does not yet have the education or skills required.

Investors would prefer to employ the local work force as it is more cost effective, but cannot do so until the vocational and skills training required is sufficient.

ZATI recommend that the Ministry works closely with the rest of Government and the various industries (public and private) to train Zanzibaris and provide them with the vocational training to undertake these positions.

ZATI would like to propose to the Ministry that instead of taxing the business community excessively that it should request access to the Skills And Development Levy (SDL) revenue that has been levied on every single payroll employee on Zanzibar for the use of Vocational Educational Training in recent years.

ZATI members pay a considerable amount of SDL but fail to seeing any improvement to the skills of the local work force – and are concerned that SDL fees may not be being used for the intended purpose of vocational training.

Instead of empowering Zanzibaris, the proposed hike will in fact endanger the labour prospects of many Zanzibaris, for an immediate increase will seriously affect the financial health of all Zanzibari businesses. Smaller businesses may be forced to close, adding further to unemployment figures, whilst those businesses that can absorb these sudden costs may have to let go of many low-level staff in order to maintain the level of competence and expertise required to operate their business. In the situation where foreign nationals are released from their contracts, there will be no skills-exchange taking place to empower the Zanzibari labour force with the skills that the Government is unable to provide.

SDL came into force in July 2008, however, it is perceived as just another form of corporate tax - but is justifiable for charge on account of the significance required to have specialised skills which the general education system is unable to provide.

The key problem with SDL however is that it is chargeable on wage bills, in that way working as disincentive to employment and better renumeration. The SDL, despite its importance, needs to be relatively low to ensure that industry's employment preferences alongside renumeration packages are not compromised.

While many countries have had such SDL arrangements for developing needed skills, many have not had their rates as high as in mainland Tanzania and Zanzibar. Generally, SDL is chargeable at 1-2%. A lower SDL would encouraging employment and increase the possibility of higher renumeration.

The recent ZNCCIA paper reported that revenue collected from SDL has not been used for intended purposes in Zanzibar. And since there is no law in place that enforces the use of the SDL money in the intended use, it is not easy to convince the Government to allocate the funds for skills development. Thus, to improve this situation, the allocation of revenues from SDL to intended use and allocations should be made lawful. This would ensure greater empowerment to the people of Zanzibar.

Investors would like to support action to improve the skills sector so that they can boost employment and help to grow the economy.

In order to accelerate tourism development, the Zanzibar Tourism Development Policy of 2004 and Zanzibar Vision 2020 have encouraging statements.

The tourism policy is committed to develop, plan, manage and promote the tourism industry.

Vision 2020, stresses that the richly endowed wealth hasn't been fully harnessed making the number of tourists visiting Zanzibar small compared to small islands like Mauritius, Seychelles and Singapore. It proposes:

- Utilize more effectively the tourism potential to generate more income, employment, human resources development, foreign exchange earnings while protecting the environment, Zanzibar's culture and traditions;
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- Diversifying the tourist attractions to achieve balanced growth of the tourism industry and maximum benefit;

- Develop Zanzibar as a single holiday destination by building up other product elements, in particular beach resorts, cultural attractions and aggressive marketing programs;

- Maintain all tourism resource bases, as part of public resources, and improve the necessary tourism infrastructure existing and develop new infrastructures;

- Stimulate development of infrastructure, linkages and support institutions related to tourism;

- Strengthen the cultural industries including Museums, theatres, cultural values and community participation as a product diversification to harness tourism;

- Stimulate local investors to go into partnership with foreigners to ensure the growth of cultural acceptable tourism and to venture into new tourism grounds and make Zanzibar a centre for attracting international conferences, sports, cultures, and Islamic studies.

It is evident that the Government does value the tourism industry but it should consider the impact of the action of excessive and unplanned increases if it really does want to develop the economy and truly empower its people.

The Ministry should consider how it can align its deliverables with those of the rest of Government as making such increases conflicts with the goals of others.

Furthermore, the budget speech (2013/14) announced that most of the 'priority areas' include an economic reform program that "aims to reform the economy through the strengthening of **tourism**, trade, industry and agricultural sectors."

Research and public consultation should be done in order to carefully assess the impact. Increases should be strategically planned and implemented in a timely manner – and aligned to similar countries.

Finally, ZATI would like to ask that the Government show its commitment to creating a business-friendly investment environment and to the long-term prosperity and economic health of the islands and its people, by not making any excessive increases.

ZATI remains committed to ensuring a sustainable and professional tourism industry of the highest standard and wants to continue to working with government institutions to achieve the common goal of economic prosperity for Zanzibar, and empowerment opportunities for its people - without unnecessary excessive taxation.