



## G:ENESIS

### **A Tourism Levy in Inhambane, Mozambique**

Investigating the potential revenue that could be raised from a levy on tourism in Inhambane

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## EXECUTIVE SUMMARY

Inhambane is the second largest tourist destination in Mozambique, yet is still characterised by poverty levels in excess of 80% and, beyond direct employment, benefits to the local communities from tourism are limited. The potential developmental impact of a tourism levy in Inhambane is therefore vast. This paper focuses on the revenue that a levy could generate and discusses the most appropriate design of the levy system and the potential uses of the revenue.

A tourism levy can take a number of forms ranging from a compulsory, flat levy placed on all tourism activities to a voluntary, percentage levy placed only on accommodation. In Inhambane, the local context and characteristics suggest one particular levy model design to be most appropriate. The model is:

- A **compulsory, percentage** based levy;
- Levied on **bed nights only**;
- Applied **equally to all tourism establishments**;
- Though **varied according to the origin of tourist**.

Based on Inhambane tourism statistics, this levy model would raise around **MZM 7.5m, or US\$250 000 per year**.

The revenue could be used for various developmental initiatives, but two specific uses are believed to be most appropriate and beneficial. These are **(1) training courses** for employees and unemployed community members; and **(2) the provision of greenhouses** and farmer training. It is calculated that around 1 500 people could be trained on short courses per year, or 3 700 people per year if subsidised by employers. Alternatively, 124 greenhouses could be purchased per year, or 83 greenhouses purchased and farmers trained per year.

The success of a levy would depend on more than the paper design. It would also depend heavily on the administrative and institutional structures overseeing the funds' collection, management and use. A number of issues regarding the local context were raised in discussions with local stakeholders, and these would require extensive consideration if a levy system is to come into effect.

# 1 INTRODUCTION

The potential impact of tourism on a local economy such as Inhambane's is vast. It is endowed with spectacular tourist attractions and is the second largest tourist destination in Mozambique after Maputo. Yet, poverty levels in the region remain in excess 80% and, beyond direct employment, benefits to the local communities from tourism are limited. This exclusionary expansion of tourism is of concern to local public sector authorities who wish to see greater participation and the development of sustainable livelihoods within the communities.

While there are numerous tools that could be used to increase the involvement of local communities such as profit-share models and equity participation schemes, a first step towards increasing the benefits would be to implement a tourism or community levy payable by private sector tourism establishments. The revenue raised from the levy could be directed towards a number of initiatives with benefits for the local population. The primary focus of this paper, at the request of the ComMark Trust therefore centres on the implementation of a levy system in Inhambane, and, more specifically, the revenue that a levy could raise.

Section two of this paper explains the purpose of the research and section three outlines the methodology employed during the study. A brief overview of international and regional examples of tourism levies is provided in section four. Section five focuses on the core subject of this paper: the potential revenue that a tourism levy system could raise, and section six is aimed at contextualising that revenue by discussing potential uses of the funds. Section seven looks at key issues to consider in the Inhambane context, and a list of principles gleaned from the research processes is provided in section eight. Section nine concludes with a list of the next steps to be taken in the process of implementing a tourism levy system in Inhambane.

## 2 PURPOSE

The purpose of this study is to assess the revenue that could be raised from the implementation of a tourism levy in Inhambane. However, revenue will only be realised if a *successful* levy system is implemented, and this depends on two considerations: (1) the system's suitability to the local context, and (2) a sound design of its administrative system and procedures. These two considerations are discussed in broad terms in the document in order to provide an appreciation for the complexity of designing a successful levy system, but the paper is *not* intended to provide this design in detail.

## 3 METHODOLOGY

The information for this paper was gathered from desktop research supplemented with insights gained from interviews.

The desktop research used documentation found from internet scans and provided by SNV (Netherland Development Organisation) who have offices in Inhambane and play a large role in tourism development in the area. All data sources used for modelling were secondary sources obtained predominantly from SNV's baseline study on tourism and socio-economic development in Inhambane produced in 2007 and which at the time of writing is being updated for 2009. This geographical scope of SNV's study is Inhambane City, Jangamo, Tofo and Barra, and the modelling undertaken here is therefore based on the same regions.

Field trips to Inhambane to conduct interviews were undertaken in November 2009 (two days) and in January 2010 (five days). Interviews were held with members of the public sector, private sector, and civil society in Inhambane and South Africa. A list of interviewees can be found in Appendix 3.

## 4 TOURISM LEVY MODELS

### 4.1 INTERNATIONAL EXAMPLES

Surcharges on tourism activities take many different forms. They include a tax on tourist activities such as tours and visitor attractions, a tourism tax on restaurant food, airport arrival and / or departure taxes, environmental taxes levied on specific visitor sites, a levy on bed-nights or total hotels bills, a levy on tourism institutions such as tour operators and car hire companies or one of various permutations of the above. A levy can be a percentage of monies paid, or can be a flat levy paid once per activity or bed-night.

Examples of tourism destinations charging levies include:

- Vancouver implemented a 2% hotel levy in 1989, the revenue from which makes up 80% of Vancouver Tourism's operating budget.
- In Vienna in 1987, a 2.8% hotel levy was instituted, which now provides more than half of the tourism board's annual income.
- A 5.5% levy was imposed on hotels in Paris in 1994.
- An interesting system was introduced in 2004 by the Government of the Balearic Islands: a 'Green Card' which gives one access to a range of discounts and services is offered to tourists and residents at a rate of €10. All revenue from card sales is put towards environmental and tourism related projects.
- A flat-rate bed-night levy, varying by grade of hotel has been proposed in Mexico, the revenue from which will be used to promote rural electrification in low income areas of the country and for sustainable energy development.
- Both Cuba and the Seychelles charge entry and exit fees; Cuba charges \$20 each way per person, while the Seychelles charges a \$90 entry fee per person.
- Other cities that levy tourism taxes of some sort include Ljubljana (Slovenia), Helsinki (Finland), Warsaw (Poland) and the Sunshine Coast in Australia.

### 4.2 REGIONAL EXAMPLES

South Africa's tourism levy system was instituted in 1998 by the Tourism Business Council of South Africa (TBCSA). The levy, known as TOMSA – the Tourism Marketing Levy for South Africa is voluntary and its proceeds are used for marketing South Africa both internationally and domestically. The funds are transferred to SA Tourism to bolster the marketing budget. TOMSA is itself a legal, not-for-profit entity with two permanent employees and three part-time

staff members who work for both TBCSA and TOMSA. The board of directors for TOMSA is rotated every two years.

The levies are 1% of the bed-night costs of accommodation establishments, R3 per car rental from car hire companies, and R3 per tour package sold by tour operators. TOMSA has around 600 members including many of the large hotel chains in South Africa (out of 10 000 tourism institutions in the country). The TBCSA publishes an annual report in which the revenue collected under TOMSA is disclosed. In 2007 levy collections amounted to R73 725, 77% of which came from hotels.<sup>1</sup>

TOMSA members receive a number of benefits including the use of SA Tourism to distribute marketing material internationally, obtaining preferential profiling on the SA Tourism website, and partaking in annual discussions on the marketing strategies of SA Tourism.

In Namibia, in accordance with the Namibia Tourism Board Act of 2000, from 2004 every accommodation establishment has been required to pay a levy to the National Tourism board of between 1% and 2% depending on the services it offers. If the packages offered by the establishment are limited to only bed-night accommodation or bed and breakfast, the levy is 2% of the amount charged to guests. If, however, the establishment offers fully inclusive packages (including all food, beverages, accommodation and activities), the levy is 1% of the total amount charged to guests.

Other countries in Sub-Saharan Africa that have instituted a tourism levy are Malawi and Botswana. Zambia is in the process of finalising the details of a levy system.

It is clear from this discussion that the concept of a tourism levy is not new and many destinations have successfully implemented levy systems. However each destination is unique and the design and structure of these systems varies accordingly. In Inhambane, the revenue a levy could raise, the design of the system and the administration procedures and structure would need be guided by local context. This paper goes on to discuss these considerations.

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<sup>1</sup> TBCSA, Annual Report, 2007

## 5 HOW MUCH COULD A LEVY RAISE?

### 5.1 TYPES OF LEVIES

A levy model can work in different ways according to different variables. The various factors to consider when designing a levy are set out in Table 1.

	Type		Levied on:		Grade of accommodation		Origin of Tourist
1	Flat levy	1	Bed-nights	1	Same for all	1	Same for all
2	Percentage levy	2	Bed-nights & activities	2	Variation by grade	2	Variation by origin
		3	Bed-nights, activities & transport				
		4	Total tourism spend <sup>2</sup>				

**Table 1. Possible variations for a levy model**

Source: Genesis Analytics

### 5.2 MODELLING POTENTIAL REVENUE

To model potential revenue basic data is required and a number of assumptions have to be made. The data used for modelling comes from SNV's baseline study of the Inhambane area, first compiled in 2007 and updated in 2009.<sup>3</sup> The basic data and assumptions can be seen in Table 2, Table 3 and Table 4 below.

#### BASIC DATA:

Category	US \$	MZM	%
<b>Total Tourism Expenditure</b>	<b>\$ 21 482 950</b>	<b>MZM 648 785 078</b>	<b>100%</b>
Accommodation	\$ 11 512 696	MZM 347 683 407	53.59%
F& B, Restaurants	\$ 2 033 000	MZM 61 396 600	9.46%
Shopping	\$ 293 126	MZM 8 852 405	1.38%
Local Transport	\$ 583 688	MZM 17 627 378	2.72%
Excursion & Activities	\$ 7 057 440	MZM 213 134 688	32.85%

**Table 2. Total tourism expenditure in Inhambane by category, in 2009.**

Source: SNV Baseline Study, 2009

<sup>2</sup> Including bed-nights, activities, transport, shopping, food and beverages.

<sup>3</sup> SNV et al., 2007

Category	% of total tourists	Number of tourists
Total No. of Tourists	100%	60 000
Breakdown by origin of tourist:		
- <i>International</i>	35%	21000
- <i>Regional</i>	45%	27000
- <i>Local</i>	20%	12000
Breakdown by type of accommodation:		
- <i>Tourists in Lodges</i>	55%	33000
- <i>Tourists in Self catering</i>	25%	15000
- <i>Tourists in camping</i>	20%	12000
Average length of stay:	4.5 days	

**Table 3. Breakdown of tourists by origin and accommodation-type, and average length of stay, In 2009.**

Source: SNV Baseline Study, 2009

#### LEVY MODEL ASSUMPTIONS:<sup>4</sup>

	Flat Levy Values			Percentage Levy
	MZM	US\$	ZAR	
<i>Flat Levy, per bed-night</i>	MZM 20.00	\$ 0.66	R 5.13	
<i>Tiered, per bed night, flat levy rate:</i>				
- Lodges	MZM 30.00	\$ 0.99	R 7.69	3%
- Self-catering	MZM 20.00	\$ 0.66	R 5.13	2%
- Camping	MZM 10.00	\$ 0.33	R 2.56	1%
Flat levy:	MZM 20.00	\$ 0.66	R 5.13	1% / 2%*
<i>Tiered, by origin of tourist:</i>				
- International	MZM 30.00	\$ 0.99	R 7.69	3%
- Regional	MZM 20.00	\$ 0.66	R 5.13	2%
- Local	MZM 10.00	\$ 0.33	R 2.56	1%

\* Both options are modelled; the latter is presented in the detailed calculations in Appendix 1.

**Table 4. Levy model assumptions**

Source: Genesis Analytics, 2010

To give a comprehensive view of the revenue a levy could raise and of the impact of changing one or more of the options, permutations of these options have been selected for modelling. These choices are based on those that would be most feasible in the Inhambane context and on the availability of data.<sup>5</sup> Ten permutations have been modelled I.<sup>6</sup> The first three are based on flat levy models, the next seven are percentage based levies.

<sup>4</sup> The levy value assumptions have been made with reference to levies charged in other countries and taking into account local interviewee perceptions of the value that a levy could take. These figures can be readily changed to model revenue generation at different levy values.

<sup>5</sup> While a levy could be applied to a wide range of tourism-related activities, where data on the revenue that the activities generate is unavailable or limited a model would be meaningless.

<sup>6</sup> A basic design is modelled and the revenue raised from this can be compared with the revenue raised when one of the other options (presented in Table 1 and in more detail in Appendix 2) is changed.

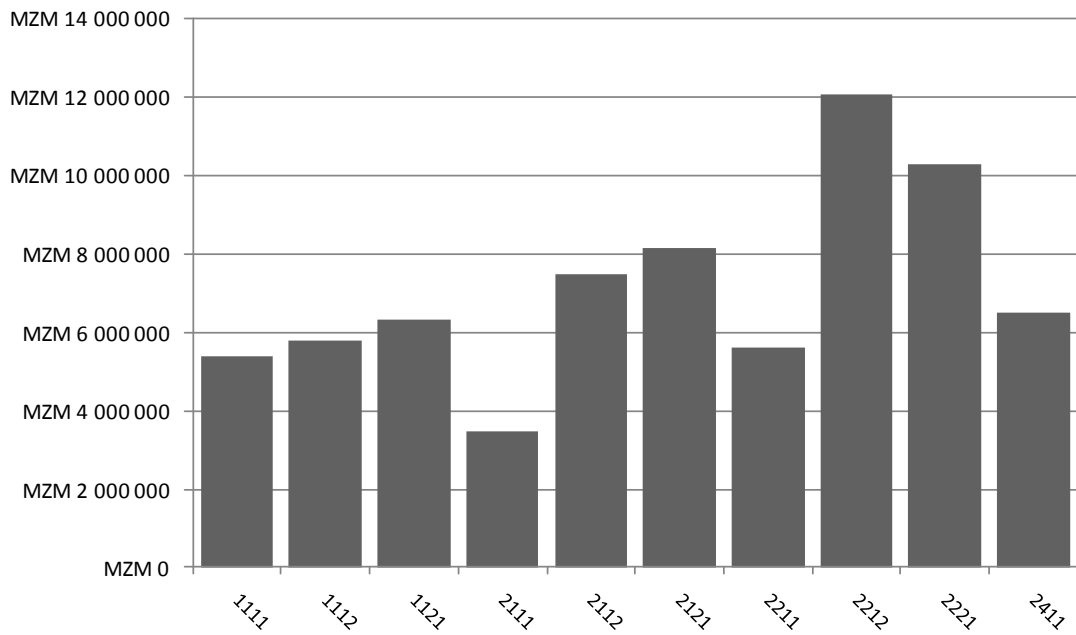
The permutations modelled are listed in Appendix 2. Each permutation is given a reference based on Table 1. So, for example, model 1.1.1.1 is a flat levy, on bed-nights only, that is the same for all grades of accommodation and for tourists of all origins. Model 1.1.1.2 is the same as above, except it varies for tourists of different origin. The full list of permutations is given in Appendix 2.

Model Reference	Model Description					
Model number	Flat / Percentage:	Levied on:	Same / varies by accommodation:	Same / varies by tourist origin:	Revenue Raised (MZM)	Revenue Raised (US \$)
1111	Flat	Bed-night	Same	Same	MZM 5 400 000	\$178 808
1112	Flat	Bed-night	Same	Varies	MZM 5 805 000	\$192 219
1121	Flat	Bed-night	Varies	Same	MZM 6 345 000	\$210 099
2111	Percentage	Bed-night	Same	Same	MZM 3 476 834	\$115 127
2112	Percentage	Bed-night	Same	Varies	MZM 7 475 193	\$247 523
2121	Percentage	Bed-night	Varies	Same	MZM 8 170 560	\$270 548
2211	Percentage	Bed-night & activities	Same	Same	MZM 5 608 181	\$185 701
2212	Percentage	Bed-night & activities	Same	Varies	MZM 12 057 589	\$399 258
2221	Percentage	Bed-night & activities	Varies	Same	MZM 10 301 907	\$341 123
2411	Percentage	All tourism spend	Same	Same	MZM 5 784 455	\$191 538

**Table 5. Revenue raised by various permutations of levy model designs, per year.**

*Source: Genesis Analytics, 2010*

Figure 1 below graphs the revenue that could be generated by the various levy models. It is clear that the design of the levy can have large implications for revenue, but it is important to take the constraints of the local context, and not only the potential revenue, into account when considering which design is most suitable. Section 5.3 discusses the suitability in the Inhambane context of the designs modelled here.



**Figure 1. Revenue generated from various levy models**

Source: Genesis Analytics, 2010

### 5.3 WHICH WOULD BE MOST APPROPRIATE IN THE INHAMBANE CONTEXT?

The characteristics of the local context suggest that certain of the models would be more appropriate than others.

- (1) First, the area is characterised by high levels of mistrust between the private and public sectors. The private sector itself is relatively diffuse.<sup>7</sup> There are wide-spread complaints about some enterprises free-riding on the efforts of others, and for this reason, the majority of interviewees believe that a levy would have to be **compulsory rather than voluntary**.<sup>8</sup>
- (2) Given the mistrust between the private and public sector and the scepticism with respect to how levy funds will be used, any levy system design should be **simple and transparent**. This suggests that a **percentage levy would be more appropriate** as it would not have to be adjusted for inflation and it is directly linked to revenue of the establishment and so is more equitable.

<sup>7</sup> Interviews, January 2010

<sup>8</sup> The private sector association in Inhambane, AHPTI, has only 15 paid-up members while there are over almost 150 tourism establishments within Inhambane City, Barra, Jangamo and Tofo, (AHTPI database, July 2009).

- (3) While applying the levy on a greater number of tourism activities would obviously increase levy revenue, it also increases the complexity of the system as the levy revenue needs to be used to the benefit of all those who contribute.<sup>9</sup> It would also increase the monitoring and administrative burden of the levy system. **A levy on bed-nights only** (certainly in the initial stages of a levy system) **would therefore be most appropriate in the Inhambane context**. This would also ensure that locals (who are not tourists) would not be liable to pay the levy (as they might be if it were levied on transport, food or shopping). Given that 54% of tourism revenue is earned from accommodation<sup>10</sup>, a large portion of tourist expenditure would be taxed.<sup>11</sup>
- (4) A range of tourists visit Inhambane, from back-packing local or regional tourists to high-end, international, lodge-accommodated tourists. These tourists will have varying 'abilities to pay' a tourism levy, suggesting that the levy could be tiered to account for this. Discussions with the private sector in Inhambane highlighted support for a **levy tiered by tourist origin**, as the levy is likely to be a smaller proportion of the overall spend of international tourists and they are generally more accustomed to paying a tourism levy than local or regional tourists. While the levy could also be tiered by type or grade of accommodation, this invokes discussions about the classification of various accommodation establishments, which appears to already be uncertain and a point of contention.<sup>12</sup> In addition, working out the alignment between various levels of accommodation and tiers of levy is likely to cause dispute and will complicate the levy model design unnecessarily. Thus the levy should be **universal rather than tiered by type or grade of accommodation**.

**For these reasons, the fifth model listed in Table 5 is believed to be the most appropriate in the Inhambane context, namely:**

- **A percentage based levy;**
- **Levied on bed nights;**
- **Applied equally to all tourism establishments;**
- **Though varied according to the origin of tourist.**

**Based on the data and assumptions set out, above such a levy would raise in the region of \$250,000 a year based on current tourism numbers.**

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<sup>9</sup> A similar argument applies to transport: it would be difficult to extend the benefits of a levy to the one car hire company in Inhambane. Also, many tourists use their own cars if they travel at all while there.

<sup>10</sup> 54% of tourist expenditure is from accommodation spend, 33% from excursions and activities and the remaining 13% from food and beverages, shopping and transport. (SNV, 2009).

<sup>11</sup> This could be expanded to include excursions and activities in time, but would require a system that ensures that all contributors benefit from the use of the levy funds. This is a complicated task given the range of activities available in Inhambane, (including water sports, scuba diving, horse-riding, and fishing charters) and the current shortage of data on numbers of people partaking in these activities.

<sup>12</sup> Interviews, January 2010

## 6 WHAT COULD THE FUNDS BE USED FOR?

To put this figure into context, information was sought from local stakeholders in Inhambane about the costs of various community development initiatives.<sup>13</sup> Calculations in

Table 6 illustrate the value of the potential tourism levy revenue in terms of various initiatives it could be directed towards, namely training, and the construction of greenhouses, a clinic, and classrooms. **The first two initiatives - training and greenhouse provision – are likely to have the biggest and most sustainable impact on the local community and are the preferred uses.**

### TRAINING

Previous research and interviews with local stakeholders in Inhambane highlight the considerable need and demand for staff training. Approximately 95% of staff in tourism establishments in the area are Mozambicans, and interviews suggest that the vast majority of these employees are from the Inhambane area. Thus a training scheme would bring large and direct benefits to the local community, and is also in the direct benefit of the tourism operators. An SNV study undertaken in 2008 lists the most pressing training needs as English, personal hygiene and hygiene in food preparation, bar and restaurant staff training, customer service, housekeeping, cooking, baking, front office management and security guard training.

A number of training initiatives have been undertaken in the past, some more successful than others. Those that failed did so because (1) the trainers were from outside the country and did not understand the local context sufficiently well, and (2) the course material was aimed too high. Some of the more successful training courses have been organised by local development agencies (such as SNV and DED, in conjunction with Barra Resorts) and facilitated by private training companies.<sup>14</sup>

As discussed, one of the key issues in the design of a levy system is deciding which activities and establishments will be required to pay the levy. It is imperative that those who contribute also benefit from the use of the funds. **For this reason and given the widespread demand for training and the wide-applicability of education and training, putting the funds towards subsidised training for local employees and unemployed members of the community would be a productive use of the funds.**

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<sup>13</sup> Information was requested from the Director of Tourism in local government, from Barra Lodge and from SNV. To date, only information from SNV has been forthcoming.

<sup>14</sup> For more detailed information on training and the various training initiatives that have and plan to be undertaken, see the 2008 SNV study: *The Possibilities for Vocational Training for the Hospitality and Tourism Industry in the Province of Inhambane*.

The average cost of training courses organised by SNV was MZM4000 to MZM5000 per person per course. **This suggests that the revenue raised by levy 2.1.1.2. (calculated in section 5.2) would enable around 1 500 people to be trained each year.** If the levy funds were used to subsidise training (and the establishments were required to pay, say, MZM 2000 per participant)<sup>15</sup> then **3 700 people could be trained per year.**<sup>16</sup> According to DPTUR figures there are approximately 1 500 employees in the Inhambane area.<sup>17</sup> This suggests there will be value in putting funds toward longer courses offering various levels of tuition that an employee could graduate through, allowing students to obtain a recognised qualification on completion. In addition matriculants or people with promise from the local community could be sponsored by private establishments who could then employ the person on graduation.

The exact design would have to be considered further in the context of the other training initiatives offered and being discussed in Inhambane, but it appears that, while there is tourism and hospitality education at a tertiary level, there is a stark lack of high-quality, sustainable and ongoing training offered for the broader community, and a levy would go a long way to solving the problem of poor skills and training.

## **GREENHOUSES**

A 2007 baseline study of tourism and socio-economic development in Inhambane highlights the potential for market linkages in the region.<sup>18</sup> The findings indicate that the vast majority of food and beverages supplied to the tourism sector in the region come from Maputo or South Africa. While the natural conditions are not conducive to the production of most goods required by the tourism establishments, it has been shown that certain low-cost greenhouses could create suitable conditions for increased quantity, quality, consistency and diversity of production, particularly of fruit and vegetables.

A local farmer who acquired a greenhouse with the assistance of SNV has reportedly successfully increased yields and is able to produce vegetables during the hot summer months.<sup>19</sup> He has learnt to build the greenhouses himself and believes that he can build them at a cost of \$1 500 each. The farmer estimates that six more greenhouses will enable him to “take around 10% of the market share in the Inhambane destination area”.<sup>20</sup>

**If revenue collected from a tourism levy were to be put toward the purchase of greenhouses, approximately 124 greenhouses could be purchased.**<sup>21</sup> Interviews

<sup>15</sup> Private establishments have expressed a willingness to pay for training, (SNV, 2008; Interviews, 2010).

<sup>16</sup> It would be better if training was subsidised by the institutions because this indicates that the training is worth paying for, and the employers would have an interest in the quality and outcomes of the courses.

<sup>17</sup> SNV, 2008

<sup>18</sup> SNV, ACUDES, DPTUR, CMCI, 2007

<sup>19</sup> The farmer, Paulo Manica, owns a small company called Leom Agricola, in Inhambane.

<sup>20</sup> The Case of the Programmatic Approach in Tourism, part II

<sup>21</sup> At an assumed retail cost of \$2000 each

highlighted that training would be necessary to train local farmers to the level required to produce fruit and vegetables needed by tourism establishments. If the levy funds were used to provide both a greenhouse and some form of training (to the assumed value of \$1000 or MZM30 200), then **83 greenhouses could be purchased and farmers trained**.

## CLASSROOMS AND CLINICS

Barra Resorts is active in community development in Inhambane. Initiatives implemented by the group include the construction of classrooms and clinics, providing clean drinking water, assisting farmers with the hydroponic growing of crops (related to the discussion above about greenhouses), and is the building a police station for the local police force.<sup>22</sup>

**Based on figures provided by Barra Resorts (and using revenue earned from model 2.1.1.2. above) around 43 double-classrooms and 16 four-room clinics could be built using funds earned form a tourism levy.**

**Table 6 below sets out a summary of the potential uses of the funds broken down by each model.**

No.	Revenue (MZM)	Training	Subsidised Training	Greenhouses	Greenhouses and training	Classrooms	Clinic
1111	MZM 5 400 000	1 080	2 700	89	60	31	11
1112	MZM 5 805 000	1 161	2 903	96	64	33	12
1121	MZM 6 345 000	1 269	3 173	105	70	36	13
2111	MZM 3 476 834	695	1 738	58	38	20	7
2112	MZM 7 475 193	1 495	3 738	124	83	43	16
2121	MZM 8 170 560	1 634	4 085	135	90	47	17
2211	MZM 5 608 181	1 122	2 804	93	62	32	12
2212	MZM 12 057 589	2 412	6 029	200	133	69	26
2221	MZM 10 301 907	2 060	5 151	171	114	59	22
2411	MZM 5 784 455	1 157	2 892	96	64	33	12

**Table 6. Valuing the tourism revenue funds in terms of its potential uses**

*Source: Genesis Analytics, 2010*

<sup>22</sup> For more information on the involvement of Barra Resorts in community development, see *“Barra Group’s Initiatives in Community Development. Case Study, Inhambane Destination, Mozambique”*. (Mutimucuo, 2009).

## 7 ISSUES TO CONSIDER

The success of a levy would depend on more than the paper design. It would also depend heavily on the administrative and institutional structures overseeing the funds' collection, management and use. This was an overwhelming concern of interviewees. A number of issues regarding the local context were raised in discussions, and these would require extensive consideration if a levy system is to come into effect.

- (1) There is considerable mistrust between the private and public sector in Inhambane. Many private sector stakeholders believe that if the levy were to be paid to government it would be lost in the system or would end up being used for other purposes. Related complaints are that of there being little to show for current taxes paid, and that a number of 'unofficial' taxes are paid such as petrol for police to patrol and paying fines for unnecessary reasons. Without private sector trust of a levy system it is unlikely to work as it relies on the institutions honestly paying over their levy.<sup>23</sup> A possible way to overcome this problem would be to ensure that the body managing the funds is representative of all stakeholders. Section 8 discusses this in further detail.
- (2) Although progress toward strengthening the private sector has been made in recent years it remains relatively weak and diffuse. There are numerous complaints about certain establishments free-riding on the efforts of others, and the private sector association (AHTPI) has only 15 paid-up members as many establishments say that they see little value in being a member. There are also, however, a number of private sector players that jump to the defence of AHPTI stating that many establishment owners are not local or from tourism backgrounds and therefore see it neither as their responsibility nor in their interest to support the local communities. They reportedly make little effort to find out about the efforts and achievements of the association, despite a regular newsletter being circulated to the majority of establishments in the area. **The problem this creates for a levy system is that there is no existing representative body that the private sector contributors trust to administer the funds.**
- (3) Point (2) and (3) above highlight a key issue in the Inhambane area, and that is the lack of transparency and communication between various stakeholders. It is widely believed that the mistrust and scepticism in the area is a result of this.<sup>24</sup>
- (4) New regulations pertaining to timeshare accommodation in Inhambane were published in 2007.<sup>25</sup> They state that *"A percentage no lower than five percent of the periodic fee*

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<sup>23</sup> If there is little faith in the system the institutions will have an incentive to misreport the number of guests so as to minimise the levy paid.

<sup>24</sup> Interviews, January 2010

<sup>25</sup> Timeshare Regulations, Decree No. 39/2007. 24<sup>th</sup> August 2007.

*paid by the real timeshare right holders must be used to set up a fund intended exclusively for the local community in the area where the development is built.”* It appears that, de facto, this has not been enforced and thus local operators have little faith that a levy system intended to assist the local community would work in practice.

- (5) According to interviewees, profits are rarely accurately disclosed by private institutions because profit is taxed at 35%. This creates two possible (and related) problems. Firstly, if a percentage tax is placed on bed-nights then the amount of money paid over as a tourism levy would reflect occupancy rates. This would give the Department of Finance enough information to calculate the amount of profit an institution should be earning and they could identify the establishments that are underreporting profit. This is likely to lead to resistance to a levy system. Secondly, if a levy system is implemented it is unlikely that institutions would accurately report on their occupancy rates and less revenue than that calculated would be collected.

## 8 KEY PRINCIPLES

Lessons from other levy systems and interviews with local stakeholders have highlighted a number of key principles that need to be adhered to for a successful levy system.

1. **Transparency** – good communication is central to obtaining and maintaining faith in the system. As is the case for TOMSA, the administrators of the levy system should issue frequent communications about revenues raised and the use of the funds, and an annual financial statement should be published.
2. **Representation** – the management committee should be representative of all stakeholders. This includes the private sector, public sector (both local government and the city council), the local community and donor organisations in the area.<sup>26</sup>
3. **Accountability** – the management committee members should be accountable to the community it represents and act in its best interest. This could be done by having an elected board that rotates after a certain length of time. It is important to ensure that institutional memory is maintained however, so one or two permanent members would be important. If members were paid a retainer funded by the levy system, this would also increase their accountability to their constituency.
4. **Independence** – As discussed in section \_ the mismanagement of funds is a central concern of the public sector, and it would therefore be prudent for the revenue collected to be ring-fenced and for an independent person to undertake the financial management of the funds (with guidance from a representative stakeholder committee.)
5. **Relevance** – the collected revenue should be used for purposes that benefit all levy contributors. It should also preferably exclude those who do not contribute as this will reduce the opportunity for and complaints about free-riding.
6. **Demand-driven** – The funds should be used for activities that are linked into the tourism value chain. It is important for the sustainability of both the system and the activities that funds are used for that the private sector sees value in contributing to a tourism levy. If the funded activities are linked into the value chain, they will be sustainable without the need for continual funding.<sup>27</sup>

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<sup>26</sup> Donor organisations generally have a good rapport with both the private and the public sector and would therefore increase trust in the administration.

<sup>27</sup> In the case training, if training proves valuable to the establishments who are able to offer a better service as a result, then it should become a business decision for them to send employees on training courses and the levy revenue can be used to improve the courses or increase the number of enrolments each year. In the case of the

- 7. Additionality** – the funds should be used for activities that are additional to those which are currently taking place. The revenue generated from a tourism levy should not displace public sector expenditure for infrastructure, services or facilities.

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greenhouse provision, these should be once off investments as the farmers produce should be directly supplied to tourism institutions, providing the farmers with the revenue to continue operations without financial support.

## 9 NEXT STEPS

While there appear to be widely varying opinions on the implementation of a tourism levy in Inhambane, the general message taken from interviewees is that, under certain – very explicit - conditions, it could be feasible and useful in helping the local community and in building the industry.

The next steps in the process would be as follows:

- (1) Review in detail the issues noted in section 6 in order to assess whether these are preventative problems or whether arrangements could be made to correct or circumvent the issues. A decision would have to be made about whether to go forward with the levy system or not.
- (2) If deciding to implement the system, the next step would be to design the structure and procedures of the management committee.<sup>28</sup> The principles listed in section 8 would be followed and should form the backbone of the structure, but this would be a consultative process in which local opinions would have to feed into the ultimate design.
- (3) The value and type of levy to be charged is the next decision to be made. Guidelines for this are given in section 5, but additional research with more detailed data and consultation regarding the value a levy could take must be completed before finalising the design.
- (4) Looking into options for the use of the funds: While two options have been presented in section 6, more detail on the costs, procurement, implementation, and management of potential projects is needed.
- (5) At this point, the various aspects of the system could be pulled together and a pilot implemented for a defined period of time. It has been suggested by SNV that a pilot system is implemented in the Inhambane area (Barra, Tofo, Inhambane City and Jangamo) and rolled out to other tourism areas in the country should it be successful. The support to the tourism sector provided by SNV in Inhambane would make this a highly suitable area for a pilot to be implemented, as the process of design and implementation could be overseen by SNV, a highly and widely respected organisation in the region.

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<sup>28</sup> This would include collection processes, how and where the funds are stored, the decision process for how the funds are to be used, the membership of the committee and whether the roles are permanent or not, etc.

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## APPENDIX 1 – REVENUE MODELS

- (1) 1.1.1.1: A flat levy, on bed-nights only, that is the same for all accommodation types and the same for tourists of all origin.

$$\begin{aligned}
 \text{Revenue Raised} &= \text{Flat levy value} \times \text{no. of tourists} \times \text{average bed-nights per tourist:} \\
 &= \text{MZM}20 \times 60\,000 \times 4.5 \\
 &= \text{MZM } 5\,400\,000 = \$178\,808 = \text{R } 1\,384\,615
 \end{aligned}$$

- (2) 1.1.1.2: A flat levy, on bed-nights only, that is the same for all accommodation types, but varies by origin of tourist.

$$\begin{aligned}
 \text{Revenue Raised} &= [\text{MZM}10 \times \text{local tourists} + \text{MZM}20 \times \text{regional tourists} + \text{MZM}30 \times \text{international} \\
 &\quad \text{tourists}] \times \text{average no. of nights} \\
 &= [\text{MZM}10 \times 12000 + \text{MZM}20 \times 27000 + \text{MZM}30 \times 21000] \times 4.5 \\
 &= \text{MZM } 5\,805\,000 = \$192\,219 = \text{R } 1\,488\,462
 \end{aligned}$$

- (3) 1.1.2.1. A flat-levy, on bed-nights only, that varies by accommodation type, but is the same for tourists of all origin.

$$\begin{aligned}
 \text{Revenue Raised} &= [\text{MZM}10 \times \text{campers} + \text{MZM}20 \times \text{self-catering} + \text{MZM}30 \times \text{lodge tourists}] \times \\
 &\quad \text{average no. of nights} \\
 &= [\text{MZM}10 \times 12000 + \text{MZM}20 \times 15000 + \text{MZM}30 \times 33000] \times 4.5 \\
 &= \text{MZM } 6\,345\,000 = \$210\,099 = \text{R } 1\,626\,923
 \end{aligned}$$

- (4) 2.1.1.1. A percentage levy, on bed-nights only, that is the same for all accommodation types and the same for tourists of all origin.

$$\begin{aligned}
 \text{Revenue Raised} &= \text{percentage levy} \times \text{total accommodation spend} \\
 &= 1\% \times \text{MZM } 347\,683\,407 \\
 &= \text{MZM } 3\,476\,834 = \$115\,127 = \text{R } 891\,496 \\
 (\text{2\% levy: } &= \text{MZM } 6\,953\,668 = \$230\,254 = \text{R } 1\,782\,992)
 \end{aligned}$$

- (5) 2.1.1.2. A percentage levy, on bed-nights only, that is the same for all accommodation types but varies by origin of tourist.

$$\begin{aligned}
 \text{Revenue Raised} &= 1\% \times \text{local tourist's accommodation spend} + 2\% \times \text{regional tourist's} \\
 &\quad \text{accommodation spend} + 3\% \times \text{international tourist accommodation spend} \\
 &= 1\% \times \$2\,302\,539 + 2\% \times \$5\,180\,713 + 3\% \times \$4\,029\,443^{29}
 \end{aligned}$$

<sup>29</sup> This is local, regional and international tourists' accommodation spend is calculated as the proportion each category makes up (20%; 45% and 35% respectively) of total accommodation spend, (\$ 11 512 696).

$$= \text{MZM } 7\,475\,193 = \$247\,523 = \text{R } 1\,916\,716$$

- (6) 2.1.2.1. A percentage levy, on bed-nights only, that varies by accommodation types but stays the same for all tourists of all origin.

$$\begin{aligned} \text{Revenue Raised} &= 1\% \times \text{camping spend} + 2\% \times \text{self-catering spend} + 3\% \times \text{lodge accommodation} \\ &\quad \text{spend} \\ &= 1\% \times \$2\,302\,539 + 2\% \times \$2\,878\,174 + 3\% \times \$6\,331\,983 \\ &= \text{MZM } 8\,170\,560 = \$270\,548 = \text{R } 2\,095\,015 \end{aligned}$$

- (7) 2.2.1.1. A percentage levy, on bed-nights and activities, that is the same for all accommodation types and the same for tourists of all origin.

$$\begin{aligned} \text{Revenue Raised} &= 1\% \times (\text{accommodation spend} + \text{activities spend}) \\ &= 1\% \times (\text{MZM } 347\,683\,407 + \text{MZM } 213\,134\,688) \\ &= \text{MZM } 5\,608\,1810 = \$185\,701 = \text{R } 1\,437\,995 \\ (\text{2\% levy:}) &= \text{MZM } 11\,216\,362 = \$371\,403 = \text{R } 2\,875\,990 \end{aligned}$$

- (8) 2.2.1.2. A percentage levy, on bed-nights and activities, that is the same for all accommodation types but varies by origin of tourist.

$$\begin{aligned} \text{Revenue Raised} &= 1\% \times \text{local tourist's spend on accommodation and activities} + 2\% \times \text{regional} \\ &\quad \text{tourist's spend on accommodation and activities} + 3\% \times \text{international} \\ &\quad \text{tourists spend on accommodation and activities} \\ &= 1\% \times \text{MZM } 112\,163\,619 + 2\% \times \text{MZM } 252\,368\,143 + 3\% \times \text{MZM } 196\,286\,333 \\ &= \text{MZM } 12\,057\,589 = \$399\,258 = \text{R } 3\,091\,689 \end{aligned}$$

- (9) 2.2.2.1. A percentage levy, on bed-nights and activities, that varies by accommodation types but stays the same for tourists of all origin.

$$\begin{aligned} \text{Revenue Raised} &= [1\% \times \text{camping spend} + 2\% \times \text{self-catering spend} + 3\% \times \text{lodge accommodation} \\ &\quad \text{spend}] + 1\% \times \text{total activities spend} \\ &= (1\% \times \$2\,302\,539 + 2\% \times \$2\,878\,174 + 3\% \times \$6\,331\,983) + 1\% \times \text{MZM } 213 \\ &\quad 134\,688 \\ &= \text{MZM } 10\,301\,907 = \$341\,123 = \text{R } 2\,641\,515 \end{aligned}$$

- (10) 2.4.1.1. A percentage levy, on total tourism spend<sup>30</sup>, that is the same for all accommodation types and the same for tourists of all origin.

$$\text{Revenue Raised} = 1\% \times \text{total tourism spend}$$

<sup>30</sup> This includes accommodation, activities, transport, shopping, food and beverages.

$$= 1\% \times \text{MZM } 648\,785\,078$$

$$= \text{MZM } 6\,486\,945 = \$214\,799 = \text{R } 1\,663\,319$$

#### POTENTIAL REVENUE FROM A DIVING LEVY:

Additional revenue calculations performed include assessing the amount of money that could be earned from diving activity in the Inhambane area. Assumptions were made based on figures received from local diver operators and from SNV estimates.<sup>31</sup>

Rough estimates indicated that approximately 45 000 dives take place per year in Inhambane. If a MZM 20 flat levy were charged per dive, revenue generated would be **MZM 935 220** (\$30 968), and if the levy were varied by origin of tourist the revenue would be **MZM 1 005 362** (\$33 290). This figure could be added to levy models 1 to 6 above, (as these do not already include a levy on activities).

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<sup>31</sup> Owing to the lack of data these assumptions are relatively crude, but are the best figures available at present as dive operators in the area will rarely disclose the number of dives per day, (interviews).

## APPENDIX 2 – POSSIBLE PERMUTATIONS OF LEVY

No.	Permutation				Revenue	Description
1	1	1	1	1	\$178 808	= flat levy x no. of tourists x average length of stay: (MZM20 x 60 000 x 4.5)
2	1	1	1	2	\$192 219	= [MZM10 x local tourists + MZM20 x regional tourists + MZM30 x international tourists] x average no. of nights
3	1	1	2	1	\$210 099	= [MZM10 x camping tourists + MZM20 x self-catering tourists + MZM30 x lodge tourists] x average no. of nights
4	1	1	2	2	\$-	Too complicated for a levy model in Inhambane
5	1	2	1	1	\$-	Not able to do owing to lack of data (would need to put a flat levy onto each person undertaking an activity, and don't have data on this. Can only do a percentage levy on total spend for this.)
6	1	2	1	2	\$-	Not able to do owing to lack of data (see above)
7	1	2	2	1	\$-	Not able to do owing to lack of data (see above)
8	1	2	2	2	\$-	Not able to do owing to lack of data (see above)
9	1	3	1	1	\$-	Not able to do owing to lack of data (see above)
10	1	3	1	2	\$-	Not able to do owing to lack of data (see above)
11	1	3	2	1	\$-	Not able to do owing to lack of data (see above)
12	1	3	2	2	\$-	Not able to do owing to lack of data (see above)
13	1	4	1	1	\$-	Not able to do owing to lack of data (see above)
14	1	4	1	2	\$-	Not able to do owing to lack of data (see above)
15	1	4	2	1	\$-	Not able to do owing to lack of data (see above)
16	1	4	2	2	\$-	Not able to do owing to lack of data (see above)
17	2	1	1	1	\$115 127	1% x total accommodation spend (SNV)
18	2	1	1	2	\$247 523	1% x local tourist's accommodation spend + 2% x regional tourist's accommodation spend + 3% x international tourist accommodation spend
19	2	1	2	1	\$270 548	1% x camping spend + 2% x self-catering spend + 3% x lodge accommodation spend
20	2	1	2	2	\$-	Too complicated for a levy model in Inhambane
21	2	2	1	1	\$185 701	1% x (accommodation spend + activities spend)
22	2	2	1	2	\$399 258	1% x local tourist's spend on accommodation and activities + 2% x regional tourist's spend on accommodation and activities + 3% x international tourists spend on accommodation and activities
23	2	2	2	1	\$341 123	[1% x camping spend + 2% x self-catering spend + 3% x lodge accommodation spend] + 1% x total activities spend
24	2	2	2	2	\$-	Too complicated for a levy model in Inhambane
25	2	3	1	1	\$191 538	Not sensible to levy a tax on transport in Inhambane, there is no sufficiently organised transport.
26	2	3	1	2	\$-	Too complicated for a levy model in Inhambane
27	2	3	2	1	\$-	Too complicated for a levy model in Inhambane
28	2	3	2	2	\$-	Too complicated for a levy model in Inhambane
29	2	4	1	1	\$214 799	1% x total tourism spend
30	2	4	1	2	\$-	Too complicated for a levy model in Inhambane
31	2	4	2	1	\$-	Too complicated for a levy model in Inhambane
32	2	4	2	2	\$-	Too complicated for a levy model in Inhambane
33	3	1	1	1	\$146 095	Eg. 1% levy on accommodation + MZM20 flat levy per dive
34	3	1	1	2	\$280 813	Eg. Percentage levy on accommodation, varying by tourist origin + flat levy on dives, varying by tourist origin

35	3	1	2	1		\$-	Too complicated for a levy model in Inhambane
36	3	1	2	2		\$-	Too complicated for a levy model in Inhambane
37	3	2	1	1		\$-	Too complicated for a levy model in Inhambane
38	3	2	1	2		\$-	Too complicated for a levy model in Inhambane
39	3	2	2	1		\$-	Too complicated for a levy model in Inhambane
40	3	2	2	2		\$-	Too complicated for a levy model in Inhambane
41	3	3	1	1		\$-	Too complicated for a levy model in Inhambane
42	3	3	1	2		\$-	Too complicated for a levy model in Inhambane
43	3	3	2	1		\$-	Too complicated for a levy model in Inhambane
44	3	3	2	2		\$-	Too complicated for a levy model in Inhambane
45	3	4	1	1		\$-	Too complicated for a levy model in Inhambane
46	3	4	1	2		\$-	Too complicated for a levy model in Inhambane
47	3	4	2	1		\$-	Too complicated for a levy model in Inhambane
48	3	4	2	2		\$-	Too complicated for a levy model in Inhambane

## APPENDIX 3 – MEETING LIST

Name	Designation
<b>Government Officials</b>	
Martinho Muatixiua Assane	DPITUR (Director)
Mr. Mahocha	Department of Finance (Director)
Lourenço Macul	Mayor of Inhambane Municipality
Binoy Sharma	SNV, (Senior Tourism Advisor)
Manuel Mutimucuo	SNV, Tourism Advisor
<b>Private Sector Lodge Owners</b>	
Mr. José da Cunha	Private Sector Association (AHTPI) – Vice President
Victor Santos	Lodge owner: Quinta Santo António
Amanda Fourie	Lodge owner and developer
Kristine Misane	Blue Moon Resort
Donald	Lighthouse Reef
Jeremy Gottwals	Hotel Tofo Mar and President of the Association of Divers Active for marine Resources (AMAR)
Evan Landmann	Tofo Scuba, Manager
John Law	Barra Resorts
<b>Other</b>	
Awaiting information	Faculty of Tourism at Eduardo Mondlane University
Tanya Coetzer	Tourism Business Council of South Africa (TBCSA)