Effects of Visa Waiver and Increase in Airport Tax on Kenya's Tourism Industry

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ABSTRACT

This paper analyses the likely impact of the visa waiver introduced in June 1999 and the increase in airport tax in December 1999 on Kenya's tourism industry.The visa waiver policy was intended to resuscitate the tourism industry but indications are that this objective has not been achieved. The countries excluded from the waiver perceive it as discriminatory while some of the benefiting countries perceive the policy as a suspicious strategy of luring tourists and covering up of the country's tourism problems. Furthermore, because there has been no discernible increase in tourist arrivals, the waiver has led to loss of government revenue and necessitated compensatory measures such as doubling of air passenger service charge, with serious implications on the cost-competitiveness of air transport in Kenya. The waiver has also led to an increase in the unit cost of visa administration because not all visitors are included in the waiver. There is therefore no compelling reason for the visa waiver particularly in the absence of clear-cut criteria for selecting the benefittingcountries.

Airport tax is less bureaucratic to administer but has been confused with air passenger service charge. A tax, instead of a service charge commensurate with quality and quantity of service provided, is charged and only a portion of the proceeds is used in providing services and comfort to air passengers. By doing so, Kenya is breaking international rules such as those of the Chicago Convention, IATA, and ICAO. The sudden doubling of the tax has led to acrimony in the industry, especially among tour operators, partly due to the abrupt manner in which the increase was implemented and the extra cost it has added to tourists from countries that are not exempted from visa requirements. The increase has moreover made Kenya a more expensive tourist destination and eroded profits of tour operators. The acrimony is also related to the fact that airport services are deteriorating despite the doubling of airport tax.

Besides the high air passenger service charges, Kenya's competitiveness as a tourist destination and regional air transport hub is further eroded by the high cost of other airport services. Consequently, Kenya is a less attractive destination for tourists and efforts to resuscitate the industry are unlikely to succeed. This is evident from the number of foreign airlines that have withdrawn from operating in the country in the last few years.

The analysis has highlighted the need to revisit policy options available to the Government. In our view, the Government should reintroduce visa requirements for all countries on a reciprocal basis and cancel the increase in airport tax.

This paper was prepared in February 2001 when some countries were still exempted from visa requirement and the airport tax had been raised to US$ 40. Visa requirements were re-introduced in March 2001 and airport tax reduced to US$ 20 in July 2001

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Executive Summary

This paper analyses the likely impact of the visa waiver introduced in June 1999 and the increase in airport tax that followed in December 1999 on Kenya's tourism industry. The objective of the analysis is to assess the appropriateness of these two policy changes and indicate further changes that may be necessary.

The visa waiver policy had the intention of resuscitating the tourism industry but indications are that this objective has not been achieved partly because the visa requirement is a relatively less important determinant of tourist arrivals. The fundamental determinants of tourism activity in Kenya include security, quality of service and attractions, environmental quality, price, and absence of harassment of tourists. Visa waiver is discriminatory to some countries and is perceived by others as a suspicious strategy aimed at luring tourists and whitewashing the country's tourism problems. Furthermore, the policy has resulted in loss of Government revenue contrary to the expected increase in tourist arrival, and necessitated a compensatory increase in airport tax.

Airport tax is less bureaucratic to administer but has been confused with air passenger service charge such that not all of the revenue collected is used for providing services and comfort to air passengers. In so doing, Kenya is breaking international rules such as the Chicago Convention, and the International Air Transport Association (IATA) and International Civil Aviation Organisation (ICAO) rules. The sudden doubling of airport tax has led to acrimony in the industry, especially among international tour operators. Part of the reason for the acrimony is the abrupt nature in which the tax was increased and the extra cost the increase has added to tourists from countries that are not exempted from the visa requirement. The increase has moreover made Kenya a more expensive tourist destination and eroded profits of tour operators, most of whom are unable (for a period at least) to pass on the extra cost to the tourists. The acrimony is also related to the fact that airport services are deteriorating even with the doubling of the airport tax. Besides the high air passenger service charges, Kenya's competitiveness as a tourist destination and regional air transport hub is further eroded by the high cost of other airport services (landing, navigation, parking,

and others), jet fuel, aircraft registration, and radio licensing, among others.

From the analysis, it is recommended that Kenya reintroduces the visa on a reciprocal basis and reduces airport tax. The option will not only generate some revenue in an internationally legitimate way but will also ensure that security is not compromised. Furthermore, the strategy will enhance the development of the tourism industry, particularly if the revenue collected from both the visa fee and air passenger service charge is used to improve the quality of air passenger service and improve other tourism industry facilities. Future adjustments of the air passenger charge should be tied to improvements in the quantity and quality of services offered to air passengers.

It is also necessary for the Government to have a candid acknowledgement of the previous policy error and find a way of assuaging tour operators who have been adversely affected by the increased airport tax. This will have the effect of calming the turmoil that has characterised Kenya's tourism industry. In addition, a mechanism to reduce the difficulty and inconvenience of visa acquisition should be designed.

To avoid more confusion and inconvenience in the industry and start improving the policy process, at least six months should be allowed between the announcement of policy changes and the date of their implementation. It is also recommended that adequate stakeholder consultation always precede policy changes to secure ownership and cooperation.

As for sustained recovery of the tourism industry, the ultimate solution lies in the formulation of a consistent and comprehensive strategy to address the fundamental factors behind its decline rather than instituting of quick-fix measures.

1. Introduction

In June 1999, Kenya announced visa waiver for nationals of 15 countries who visit the country for a period of at most 30 days. For people staying for longer periods and all nationals of other countries without special reciprocal arrangements with Kenya, a uniform visa fee of US$ 50 is charged. The visa waiver was a substantial sacrifice as the country was experiencing severe financial constraints, and reflects the great pains at which the country was prepared to go to resuscitate a rapidly declining tourism industry.

Kenya's tourism attained a peak in tourist arrivals and foreign exchange earnings in 1994 after which the sector experienced an unprecedented annual decline of 1.5% in arrivals and 1.9% in receipts between 1995 and 1998 (Ikiara, 2001). This, undoubtedly, was a shock to the authorities who had been used to annual arrivals' growth rates of 36.2% between 1965 and 1970, 1.4% between 1970 and 1980 and 7.5% between 1980 and 1990 (Ikiara, 2001). This unexpected decline coupled with earnest campaigns from a tourism industry that yearned for quick-fix interventions led to the visa waiver. The stakeholders in the industry recommended a US$ 10 increase in airport tax (or air passenger service charge) to replace the visa fee but the Government increased airport tax by US$ 20 to US$ 40.

This paper attempts to assess the implication of the visa waiver and the increase in airport tax on the performance of the tourism industry in Kenya with a view to offering policy recommendations.

2. Visa Waiver

In response to complaints by tourists and tour operators that the Kenyan visa was expensive and bureaucratic to obtain and consequent lobbying by the industry, the Government of Kenya waived visa requirement for 15 countries that accounted for 61.4% of all the country's tourists in 1997. The 15 countries are the United Kingdom, France, Switzerland, Belgium, Netherlands, Luxembourg, Germany, Italy, Spain, Austria, Japan, Australia, New Zealand, USA, and Canada. The idea was laudable because tourism is highly sensitive to bureaucratic delays and price. In fact, for many years, the procedure of acquiring the Kenyan visa had been cited as a key bottleneck to the country's tourism industry. Loss of revenue accompanying the visa waiver was expected to be more than compensated for by the reversal the waiver was expected to have on the declining trend of tourist arrivals and revenue earnings.

However, the manner in which the visa waiver was implemented lacked consistency and a clear rationale, consequently failing to produce the expected benefits. Table 1 shows monthly data on tourist arrivals and earnings for 1998 and 1999. The table was prepared to assess whether there was a surge in tourist numbers and earnings after June 1999 when the visa waiver became effective, compared with the situation in the respective months of 1998.

The table shows that tourist arrivals and earnings after June 1999 was better than the same period in 1998. However, this improved performance cannot be attributed to the visa waiver for two important reasons:

(i) The recovery of the industry appears to have started before the waiver in April 1999. It is conceivable that the momentum drove further the same recovery in the period of the year under consideration.

Table 1: Tourism performance in Kenya:1998 and 1999

Month	Tourist Arrivals, numbers*			Tourism earnings, K£ millions**		
	1998	1999	% change	1998	1999	% change
January	43,666	45,163	3.4	91.2	43.5	-52.3
February	42,046	43,589	3.7	99.4	62.1	-37.5
March	54,125	42,698	-21.1	117.8	73.4	-37.7
April	33,309	32,451	-2.6	64.8	89.8	38.6
May	25,363	27,632	8.9	55.2	86.0	55.8
June	30,214	46,361	53.4	91.1	95.6	4.9
July	36,671	45,643	24.5	70.9	75.2	6.1
August	41,864	51,451	22.9	57.6	101.5	76.2
September	33,826	46,198	36.6	62.1	119.4	92.3
October	35,174	-	-	58.9	59.0	0.2
November	39,453	-	-	55.9	71.8	28.4

*Tourist arrivals cover only those arriving through the Jomo Kenyatta International Airport (JKIA), Nairobi, and the Moi International Airport, Mombasa.

**Although changes in tourism earnings could be influenced by inflationary pressures besides actual tourism performance, inflation in 1998 and 1999 was quite stable.

Source: Central Bureau of Statistics (CBS), Kenya.

(ii) The erratic behaviour of the arrivals and earnings continued even after the visa was waived. Therefore, compared with the respective periods in 1998, the largest growth in tourist arrivals occurred in June (1999) while that of earnings occurred in September (1999). It is highly improbable that the increase in June was attributable to the visa waiver given that the response would be expected to come with a lag. Tourists make their travel decisions and bookings in advance, some six months or more before the actual travel. In October, when the effects of the waiver would have been expected to start showing strongly, growth in tourist earnings was already petering out.

Even though cost (including visa fees) is a major determinant of tourist arrivals in any destination, the two arguments made above suggest that Kenya's tourism industry is driven by other factors and not visa requirements alone.

The data we used are not adequate for an analysis that would indicate unambiguously whether the visa waiver has brought the expected results. Monthly data disaggregated by country for the period before the visa waiver and after the waiver are required for such an analysis. Due to resource constraints, entry and departure cards have reportedly not been analysed for several years now and such data are therefore unavailable.[1]

There are several arguments why visa waiver policy cannot be supported:

Visa is a relatively minor determinant of tourism performance

Visa waiver is a short-term or quick-fix policy as it attempts to address only one of the relatively minor obstacles facing the tourism industry, leaving the fundamental obstacles intact. The relative insignificance of visa requirement as a determinant of tourism performance in the country is demonstrated by the fact that the requirements were in place[2] even in the 1980s when tourist arrivals were growing by more than 10%

[1] Data availability and quality is a major constraint facing the country's development endeavours in general and should receive urgent policy intervention.

[2] It is only a few countries like UK and Canada that were exempted from the visa requirements on the strength of reciprocal arrangements.

annually. The factors responsible for tourism decline in the 1990's are well known and they do not include visa fees.[3] They include:[4]

- Rising insecurity and negative publicity of the country in overseas markets
- Socio-political instability
- Poor quality of service
- Crumbling infrastructure
- Harassment from local vendors and 'beach boys' at the Coast
- Poor taxi service and public transport
- Inadequate marketing efforts including inadequate provision of information
- Failure to keep the industry dynamic through continuous introduction of new tourist products
- Poor coordination of the public and private sector activities or lack of strong public-private sector partnerships
- Environmental degradation of key tourist attractions particularly the Maasai Mara and the Amboseli
- Decline in wildlife populations
- Lack of incentives to local communities to encourage them to conserve natural and cultural resources

[3] Even the Government is aware of most of these factors, going by statements in official policy documents. For instance, the *National Development Plan 1997–2001* lists many of these factors. The *Study on the National Tourism Master Plan in the Republic of Kenya* is the most comprehensive analysis of Kenya's tourism industry to date. The study, which has been with the Government since 1995 when it was completed, also discusses the constraints facing the industry and lists fifteen tourism development imperatives, none of which has to do with the visa.

[4] The factors are not listed in any order of magnitude.

- Frequent and costly (to the airlines) bird strikes due to a dirty environment that attracts a lot of birds
- Stiff competition in tourist destinations

The relative importance of these factors is indicated by an airport survey of departing tourists (excluding East Africans and passengers on transit).[5] Environmental protection, local vendors and beach boys, public transport and taxi service, security, information, local cultures, shopping, and tour operators are cited by the respondents as the areas, in order of declining importance, needing improvement in the tourism industry in Kenya.

Travel advisories issued to potential visitors to Kenya by their governments collaborates this. In the advisories, the concern is not the visa fees or the visa acquisition process but the factors mentioned above, particularly insecurity and poor infrastructure. Some Kenyan missions[6] have in addition indicated that many foreign countries would like to continue paying for visas and that the foreigners' main travel enquiries are about security and quality of service.

It is widely acknowledged that a competitive edge in tourism is a function of product differentiation, quality, and price[7]. While visa costs are a component of price, they constitute only a small share. A survey conducted in December 1994[8] indicated that the tourists visiting Kenya spent on average US$ 2,466 on the entire trip, 30.3% of which was spent within the country. The visa fee that Kenya charges constitutes only 2%

[5] Reported in Republic of Kenya (1995). *The study on the National Tourism Master Plan in the Republic of Kenya*, Volume 4, Annex 1.

[6] Letter from the High Commissioner in Australia (dated 12 January, 2000), for example.

[7] World Tourism Organization (1997). *Tourism: 2020 vision*, Executive Summary.

[8] Republic of Kenya (1995). *The study on the National Tourism Master Plan in the Republic of Kenya*, Volume 4.

of the tourist's total expenditure on the trip, supporting the argument that the visa hardly features in the price of Kenya as a destination. Delays in visa administration have however been often cited as an important factor. Therefore, a tourist is more likely to respond positively to less bureaucracy than to the cost-reduction associated with the visa waiver. If the objective were to reduce bureaucracy, the waiver would be justifiable so long as it was superior to alternative means of achieving the objective. Moreover, had the policy been effective in reducing the air ticket cost, which is a major component of price, it would have been definitely worthwhile[9]. If reduced bureaucracy were the rationale for the visa waiver, an important question that remains is why the visa waiver was not done for tourists from all countries.

In summary, the main reason why tourist arrivals remain low, which should not escape the attention of policy makers, is because tourism fundamentals have remained unchanged even after the waiver; security is still wanting, quality of service inadequate, and general infrastructure deplorable. Even if the visa requirements are waived for all the countries while these fundamentals remain the same, Kenya will not register growth in tourist numbers. Tourists are first and foremost interested in their security and the quality of destinations they are considering. Only when these conditions are satisfactory do tourists consider the price, which the visa fee is only a very small part of.

Visa waiver has not delivered

It is doubtful that the waiver has had the desired impact. Apart from the surge in tourist numbers observed in December 1999 and attributable to the millennium celebrations, tourism trends (number of tourists and

[9] Indeed, "even the smallest reduction in...travel fare would significantly increase tourist traffic in most situations" (Abeyratne, 1993: 457)".

tourism earnings) remained largely the same as they were even after the visas were waived.[10] It is therefore highly improbable that the waiver resulted in a large enough increase in tourist arrivals to compensate for the loss in visa revenue. The following estimates are illustrative. In 1998, 894,000 tourists visited Kenya. Assuming that the visa fee at the time was uniform at US$ 50 and no country was exempted, the country could have received US$ 44.7 million in revenue. Assuming that the same number of tourists visited the country in 1999 and that the visa waiver for the 15 countries was in force the whole year. The country would have foregone visa revenue of about US$ 27.4 million. Assuming that the amount of money that each tourist spent in Kenya (including the share of air fare going to Kenyan-owned operators) in 1996[11] applied in 1999, an increase of at least 35,911 tourists was required to compensate for the foregone visa revenue. This translates to a 4% growth in arrivals over the 1998 level. This is not difficult to achieve given the past performance record. The country can quite easily achieve this growth without having to forego visa revenue.

Since the visa is an internationally accepted instrument for security enhancement and is used by virtually all countries in the world, there is no compelling reason for Kenya to waive it. Even though it is not appropriate to primarily target visa administration as a source of revenue, the money collected could be used to improve security, infrastructure, the visa acquisition procedure, promotional efforts of embassies and missions abroad[12] and other main impediments to

[10] See Table 1 and the discussion based on it.

[11] We estimate this at about K£ 2,181 (US$ 763) from *The EDF Kenya tourism development project: impact of tourism on the economy of Kenya 1996*, draft report by Tourism and Transport Consult International (TTCI), February 1998.

[12] Information from the Immigration Department indicates that such Kenyan missions as Zurich, London, and Paris are experiencing serious cash flow problems due to the visa waiver, having had to forego revenue collections in the tune of Ksh 17–179 million annually each.

tourism growth in the country. Such use of the revenue collected from visa administration could yield a larger positive impact on tourist arrivals than visa waiver.

Visa waiver is discriminatory

Even if the waiver were justified and was targeted at the leading sources of tourists to Kenya, it is not clear why countries like Australia, New Zealand, and Belgium enjoyed the waiver while India, Israel, Zambia, Sweden, Denmark and Finland did not, going by the statistics. In 1997, for instance, 656% more Swedes visited Kenya than did Australians.[13] In fact, the number of tourists from Sweden that year exceeded those from Australia, New Zealand and Belgium combined. The same case applied to India and to a lesser extent Israel. In the absence of unambiguous visa exemption criteria other than relative importance with respect to tourism, there is no justification of discriminating against some countries.

The cost of discrimination is spilling into the diplomatic and political arena, with the country's tourism and other officials hard put to explain to countries that are excluded why they are out of the 'most favoured' group. A letter from one of the locally-based tour operators to the Ministry of Tourism, Trade and Industry, for example, expresses displeasure of the Israeli and Hungarian tourists at having to pay for the visa while tourists from many other countries are exempted. Reference of this is also made in a letter sent to the Ministry from the Board of Airline Representatives. A representative of EL AL, the Israeli national carrier, has in fact visited the Ministry to seek visa waiver for Israeli nationals. Obviously, visa waiver for Israel and none for the Arabs

[13]According to CBS data, Swedish visitors to Kenya totalled 34,618 compared to 4,579 Australians that year.

in general and the Palestinian diaspora in particular would be exceedingly poignant to the latter.

Another interesting example is that of Nigeria which not only brings to the fore the issue of discrimination but also that of contradictory policy objectives. On the one hand, the Ministry of Information, Transport and communications, and Kenya Airways are promoting expansion of air traffic between Kenya and Nigeria while on the other, the Immigration Department has extremely stringent visa requirements for Nigerians. While the latter is understandable from the perspective of narcotics control, the policy goes counter to that of establishing Nairobi as a regional hub and to that of expanding air traffic between Kenya and Nigeria. This belies inadequate policy integration and coordination. India has also, albeit unobtrusively, indicated her displeasure with discrimination as far as the visa waiver is concerned.

There is another dimension of the discrimination problem in that the way the visa waiver has been designed is discriminatory even within the countries that are benefiting. Only tourists visiting for less than 30 days are exempted from the visa requirement. Tourists who visit for longer periods or business visitors are not exempted. The general perception among visitors, however, is that all nationals of the countries enjoying the waiver are exempted from the visa requirement. This is causing confusion in the industry, especially when visitors arrive at our airports expecting not to pay for the visa. It is reported that the Immigration Department at one time had to charge one group of Germans, considered as business visitors, a visa fee while another group from the same country was not charged. This creates incentives for cheating and is also discriminatory. The cost of administering such a discriminatory policy is higher than simpler, all-inclusive policies.

The arguments presented here underscore the wisdom of avoiding discriminatory policies. The bomb attack on Nairobi's American

Embassy in August 1998 clearly indicates that Kenya cannot afford to waive visas for all countries due to security reasons.

The waiver has generated suspicion

Apart from failing to produce results at the desired magnitude, the waiver is sending some negative signals. Some of the countries (like Japan) included in the favoured group have reportedly refused to accept the waiver while others have become suspicious of Kenya's move with some of them feeling that it was motivated by desire to cover the rot in the tourism industry. Some countries, moreover, fear that the visa waiver is likely to worsen Kenya's security as a destination. These perceptions and suspicions do not augur well for the revival of the industry.

The waiver necessitated increase in airport tax

The loss of visa revenue necessitated the increase in airport tax for both international and domestic travellers by 100%. The increase became effective on 1 December 1999. Some stakeholders in the tourism industry recommended a US$ 10 increase in the air passenger service charge to partially compensate for the loss of visa revenue. This charge, paid together with the air ticket, was regarded as less bureaucratic than the visa. The Government raised the charge by US$ 20 instead, making the country one of those with the highest air passenger charges in the region. The increase in the service charge is already causing a major stir in the industry and is likely to have adverse consequences.[14] The effects of the increase in this tax are discussed in the next section.

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[14] The Ministry of Tourism, Trade and Industry has in the past two or so months received letters complaining about the increase in airport tax. Letters have come from, for example, the Board of Airline Representatives (BAR), the International Federation of Tour Operators (IFTO), the Italian Tour Operators Association (ATOI), and several individual tour operating firms.

3. Increase in Airport Tax

Kenya collects an airport tax from every air passenger, whether on domestic or international flights. This tax is collected by the air ticket sales agencies on behalf of the Government of Kenya. This system was introduced about two years ago to replace the old system where departing passengers had to pay the tax at the airport, and has substantially eased the process and increased convenience for passengers. This is a major advantage of the airport tax over the visa fee. Until end of November 1999, passengers on domestic flights paid Ksh 100 as airport tax for every trip while international passengers paid US$ 20, after which the rates were doubled.

What is collected in Kenya as airport tax is actually 'air passenger service charge' according to the International Civil Aviation Organisation (ICAO). Kenya has interpreted the charge incorrectly because while a tax is an enforced contribution to support government functions, a charge is imposed on individuals and property to finance improvements that benefit the individuals and property (Abeyratne, 1993). The International Air Transport Association (IATA) and the Chicago Convention (Article 15) are also opposed to imposition of taxes, which are part of the national responsibility of states, on the transport industry (Abeyratne, 1993).

From an economic point of view, taxing air passengers could be justified if the fare does not cover the full cost to the society of providing the transport, including the cost associated with noise pollution and congestion (Abeyratne, 1993). A service charge, however, should be proportionate to the facilities and services offered rather than to the cost of overall government services.

There are at least two problems in the way airport tax is managed in Kenya. First, not all the revenue collected is ploughed back into the airports to improve services, with the consequence that services keep deteriorating even as the tax rate increases. The revenue collected goes to the Treasury and only part of it gets allocated to the airports, yet this is the main source of income for the airports. Air passenger service charge in the country is therefore not pegged on the quality of services offered to air passengers. Instead, it is treated like a normal tax whose purpose is to finance general government services.

Secondly, the service charge, even before the increase, was much higher than the value of the services supplied, according to the Ministry of Information, Transport and Communications. The recent doubling of the service charge is consequently a gross overcharge. The result is reduced competitiveness of the country's airports, a major obstacle to the policy of making Nairobi a regional air transport hub.

It is too early to give accurate estimates of the impact the increase in airport tax has had on Kenya's tourism industry, the increase being less than two months old and given the data limitations already mentioned. It is moreover difficult to isolate the effects of the increase from other influences. We can nevertheless think of several impacts the increase is likely to have on the economy. On the positive side, the increase is likely to have a significant impact on revenue collection. Assuming that the increase does not adversely affect tourist arrivals and that arrivals remain at the 1998 level, Kenya could collect an additional US$ 17.9 million from the increase in air passenger service charge. This money is not enough to compensate for revenue foregone from visa waiver (US$ 27.4 million). However, it is highly probable that the increase will affect tourist arrivals considering that tour operators, who are the main determinant of destination choices by tourists, are already antagonised by the increase in the service charge. The increase has been received very badly especially by tour operators who must meet the cost of the increase for the tour packages that had already been sold or printed in brochures by the time the increase was implemented. In the European Union, Kenya's largest source of tourists, the law does not permit tour operators to pass on travel cost increases to the clients. Some industry participants feel that after some time, the tour operators will be able to pass the cost of the tax increase to their clients and the current complaints will subside. On their part, tourists are not expected to notice the tax increase, as it is a very small part of the overall package cost.[15]

On the negative side, the tax increase is likely to have several adverse effects. The first adverse effect is that, coming only a few months after the visa waiver, the tax increase paints the country as having an unpredictable policy environment. Such a negative perception affects not only the tourism industry but also the whole economy. In particular, it cancels the efforts being made to attract foreign investors in tourism and other sectors of the economy. Foreign investors view favourably countries that demonstrate policy stability and consistency as this permits them to form realisable expectations on investment returns. Obviously, the Government should not stick to bad policies for fear of being regarded as lacking policy stability. What is required is a candid acknowledgement of having adopted an inappropriate policy accompanied with an alternative policy to be effected after a reasonable adjustment period.

The second adverse effect is that the increase in the airport tax has thrown the Kenyan tourism industry, which was just beginning to show signs of recovery, into turmoil. A significant number of tour operators in Europe, mainly Germany and Italy, have sent letters of complaint. The representative of EL AL, Israel's airline, in the Board of Airline Representatives (BAR) has also complained, as has BAR itself. The International Federation of Tour Operators (IFTO) and Italian Tour Operators Association (ATOI) have also complained bitterly[16]. Their

[15] Using the estimate that the average cost of the whole trip is US$ 2,466, the increase in the airport tax amounts to 0.8% of the entire cost.

[16] Official complaint has been sent to the Ministry of Tourism, Trade and Industry.

complaints centre on the increase in the tax, noting that the Kenyan airport infrastructure does not justify the high level of tax. In addition, domestic and regional laws (the EC Package Travel Directive, for example) do not permit European tour operators to increase the rates of the package tours that have already been printed in brochures or sold as this would constitute a breach of contract. The tour operators have indicated that their current contractual obligations extend to the end of October 2000.

Another argument made in the letters of complaint is that the tax increase makes Kenya less competitive as other countries in the Great Lakes region charge US$ 20 at most. The Board of Airline Representatives (BAR) has provided data on the airport (departure) tax in other airports. The data indicate that the rate charged by the Kenyan airport is at least double that charged in other neighbouring airports. The rate charged in these other airports ranges from US$ 13 at Johannesburg to US$ 20 at such airports as Entebbe, Dar-es-salaam, Addis Ababa, Lusaka and Harare.

Tour operators from Israel have complained of being discriminated against by having to pay visa fees while many other countries have been exempted, on top of a higher airport tax. For nationals of such countries, paying US$ 90 per individual for visa and airport tax is viewed as being rather expensive. With such a high airport tax the only way Kenya could retain competitiveness, as a tourist destination, is if airfare, accommodation, park fees, transport, and other costs that make a package are relatively lower than in neighbouring countries. Some of these costs are difficult to change in the short run either because they are exogenously determined or because they require greater investments in infrastructure.

Even if these complaints were to fizzle out as soon as the tour operators are able to pass the tax increase to their clients, the current complaints are bad enough for a destination that has had too many incidences of negative publicity. Moreover, it is the tour operators who largely determine which destinations tourists choose.[17] It is estimated that overseas tour operators based in and out of the country handle about 80% of all the tourists that visit Kenya every year.[18] Making this important sector unhappy is close to killing the goose that lays the golden egg. A quote from a letter, dated 11 February 2000, and sent to the Ministry of Tourism, Trade and Industry by the IFTO succinctly brings this point out:

> *"We remain very concerned about this airport departure tax as it has eliminated any profit that tour operators could have expected to make on their Kenyan programmes. As a consequence our confidence is undermined and this will be reflected in future programme planning".*

BAR has also complained not only of the increase but also of the timing of the notification of the change and of the deplorable condition of infrastructure at the Kenyan airports. The Board and other industry participants complain that they were notified of the change on 2 December 1999 while the change became effective the day before. The failure by the Government to realise that most airline tickets and travel bookings are made months in advance and make allowance for it when announcing the policy change and implementation dates was a serious oversight and may well be the main cause of the complaints.

[17] This is supported by the results of a survey of international visitors departing Kenya in 1994 (Republic of Kenya, 1995). 41% of all the tourists indicated that they chose to visit Kenya on the strength of advice from travel agents while another 18% attributed their choice to brochures, which are largely produced by tour operators and travel agents.

[18] Ikiara, G.K., M.I. Muriira and W.N. Nyangena (1999). "Kenya's trade in services: a 'state of play' paper". CAPAS/UNCTAD Draft Report.

Without doubt, the main consequence of the turmoil and complaints that currently inundate the country's tourism industry is curtailed growth. Not only will the overseas-based tour operators and other tourism industry participants be reluctant to recommend Kenya to the tourists, but the tourists themselves will regard the country as an expensive destination in general, using the relative airport taxes as an indicator.

4. Impact of other Airport Charges

The increase in airport tax, added to the visa for non-exempted countries, goes counter to the tourism industry's and Government plans of making Nairobi a regional hub, as it makes Kenya less competitive as a tourist destination and transit centre. Factors making Kenya less competitive could be broadly divided into two categories:

- High service charge and other charges at the Kenyan airports relative to other airports; and
- Lack of a proper mechanism to implement policy by quickly responding to threatening trends and providing the necessary support. Poor competitiveness is aggravated by corruption and other inefficiencies at the country's airports.

Kenya tourism, like those of other developing countries, is perilously vulnerable to decisions of foreign airlines. These airlines could alter routes and the frequency of scheduled flights when profitability changes and literally dictate the physical and monetary accessibility of vulnerable developing countries (English, 1986). Cost-competitiveness of air transport can mitigate this vulnerability substantially. Kenya is regrettably not competitive in this respect. *The African Competitiveness Report 2000/2001* (Schwab *et al*, 2000) ranked Kenya number 8 out of 24 African countries in terms of cost-effectiveness of air transport. This ranking is furthermore under serious pressure. In a memorandum presented to the Ministry of Information, Transport and Communications in 1999[19], the Aero Club of East Africa and the Kenya Association of Air Operators complained that the fees charged by the aviation regulatory agencies (Kenya Airports Authority and the Directorate of Civil Aviation) are high in relation to the quality of services

[19] Reported in *The Daily Nation*, April 11, 2000, BusinessWeek (BW).

provided at the airports and erode the competitiveness of the country's tourism industry. The industry associations have cited the following problems:

- Excessively high cost of (i) registration and certification by the Directorate of Civil Aviation (DCA); (ii) aircraft hire; (iii) aviation fuel (US$ 0.90 per litre compared to US$ 0.45 in South Africa and US$ 0.55 in Botswana); (iv) radio licensing; (v) landing, parking and other Kenya Airport Authority (KAA) fees (Table 2); and (vi) VAT and import duty on aircraft.

Table 2: Relative aviation charges (for aircraft below 2000kg unit weight)

Charge (US$)	Kenya	Tanzania	Uganda	S. Africa	Average (TZ, US, SA)
Landing fees	20	3.00	10.00	8.00	7.00
Parking fees/day	6	3.00	5.00	2.50	3.50
Navigation fees	17	5.70	10.00	2.15	5.95
Passenger tax, local	3	1.50	2.00	3.00	2.17
Passenger tax, international	40	20.00	20.00	3.15	14.38
Total	86	33.20	47.00	18.80	33.00

Source: *The Daily Nation*, April 11, 2000, BW 1.

- Poor maintenance of the airports, airfields and navigation infrastructure in the country.

- Excessive redtape and autocracy on the part of aviation regulators.

- Restrictive legislation, for example the supplementary legislation to the Civil Aviation Act (gazetted in July 1999) which stops local aviators from underwriting third-party insurance and passenger liability with international insurance firms, yet local insurance companies lack capacity to handle aviation insurance. This legislation has affected aircraft lease and overseas credit arrangements. Some overseas credit agencies do not recognize Kenyan insurance. The legislation additionally discourages foreign investment in the Kenyan aviation industry.

As Table 2 shows, Kenya is not competitive among its key tourism competitors (such as Tanzania and South Africa) as far as the cost of air transport is concerned.

Because of poor competitiveness, ten airlines have stopped operating from Kenya in the last two years, representing about 30% of the 33 regular scheduled airlines (according to the Ministry of Transport). The airlines that have disengaged from Kenya include Aeroflot, Olympic, Lufthansa, and Pakistan International Airlines. Furthermore, Air France which has been operating in Kenya since pre-independence years has announced that it will have its last flight to Nairobi on March 25, 2000. The increase in airport tax is likely to compound the problem. EL AL, for instance, has threatened to pull out of the country by the summer of 2000 if the air passenger service charge is not reduced.

Kenya Airways has complained about the pullout of these airlines and the increase in airport tax, as these have substantially reduced its transit travel business. The pullout of these airlines is additionally going to adversely affect horticultural exports due to lack of airfreight capacity to Europe and other destinations, a factor likely to have a serious effect on the country's balance of payments considering that horticultural exports are Kenya's third most important source of foreign exchange.

Since the quality and cost of air travel is a key determinant of tourism performance, the complaints of airlines need to be considered and addressed urgently. In addition, airport infrastructure should be upgraded to facilitate emergence of Nairobi as a major hub centre in the continent. The problem of high navigation and other charges at the Kenyan airports relative to other airports needs to be studied.

It is possible that the explicit and implicit protection being accorded the Kenya Airways–KLM partnership[20] has smothered competition and is responsible for the disengagement of many foreign airlines. This and the other factors responsible for the pullout of airlines should also be studied with a view to rectifying the problem. An institutional mechanism is also needed to serve an economic intelligence role and respond to such threats as that posed by the SAA-Uganda Airways deal of making Entebbe a hub centre for the East African region.

[20] One example of such protection is the exclusive reservation, for a period of time, of the Johannesburg-Nairobi route for Kenya Airways and South African Airways (SAA).

5. Policy Options and Recommendations

The analysis has highlighted the need to revisit policy options available to the Government. Below, we summarise the options available to the Government and their implications and make a recommendation of the best option.

There are seven major considerations that need to be taken into account when evaluating visa waiver and airport tax as instruments for resuscitating the tourism industry in Kenya. These are:

- A visa is necessary for security purposes.
- Visa fees are an important source of revenue.
- A visa can be applied on reciprocity terms.
- Administrative delays of the visa system are more important determinats of tourist arrivals than the visa fee *per se*.
- Impacts of the visa requirement and air passenger service charge on the country's competitiveness as a tourist destination and regional air transport hub are important.
- Air passenger service charge ought to be commensurate with services offered.
- Policy stability and allowance of adjustment period prior to policy implementation are critical considerations.

Using these considerations, there are four options available to the Government:

Option One: **The Government maintains the status quo; that is, selective visa waiver and airport tax at the increased level of US$ 40.**

The option has the following implications:

i) The use of a visa as a security measure justifies selective waivers but this will require clear explanations to all the countries excluded from the waiver. This, however, has diplomatic and political cost because of its perceived discriminatory nature. There will also be need to apply the waiver uniformly for all visitors from the same country to avoid confusion and to reduce administrative costs.

ii) The visa waiver is unlikely to lead to growth in tourist numbers if the main obstacles facing the tourism industry are not dealt with. These include insecurity, quality of service, environmental degradation, and harassment of tourists by beach boys, among others.

iii) The visa waiver creates suspicion and security worries by the very countries being exempted from the visa requirement.

iv) For countries still required to obtain the visa, the fees when added to the higher airport tax paints Kenya as an expensive destination relative to competing destinations and therefore curtails tourism demand. This is evident from the following figures showing the range of combined visa and airport tax charges: Kenya US$ 40/90; Tanzania US$ 70/75; South Africa US$ 13/43; Zimbabwe US$ 20/50; and Mauritius US$ 20/30.

v) The revenue collected from the increase in airport tax does not cover its cost in terms of reduced tourist arrivals, loss of investor confidence in policy stability, loss of transit business for Kenya Airways and reduced availability of airfreight space for the country's horticultural exports, among other costs. The abrupt manner in which the policy was introduced antagonised overseas tour operators as they could not pass on the extra cost to their clients. The tour operators consequently feel less inclined to recommend Kenya as a tourist destination.

vi) The option will ensure policy stability and certainty if well explained.

vii) Visa administration costs will remain for countries not exempted.

Option Two: **The Government maintains the airport tax increase (US$ 40) but extends the visa waiver to all countries.**

The policy option has the following implications:

i) High security risk. If the option is chosen, alternative security measures will be required.

ii) Extension of the visa waiver to all countries will avoid diplomatic and political costs.

iii) Revenue from airport tax does not compensate for loss in visa fees. Also, Kenya's foreign missions rely on revenue raised from visa fees for their operations. It would moreover be difficult to convince donors to assist Kenya when it foregoes such revenue-raising opportunities as visa fees.

iv) It is unlikely that other countries will reciprocate the visa waiver.

v) Extending the waiver to all countries can enhance competitiveness but this alone cannot solve the problems in the tourism industry. In addition,this may be counter to the plans of making Kenya an upmarket rather than mass market tourist destination.

vi) It has low administrative costs, as collection of the air passenger service charge through air tickets is easy.

Option Three: **The Government collects only a visa fee from all countries and earmarks a portion of it for improvement of airport services.**

The following considerations are relevant for this option:

i) To be competitive, the fee rate should compare with what other countries charge for visa and air passenger service combined.

ii) The option provides opportunity to use visa for security purposes. However, the process of issuing visa would need to be improved so that only low risk countries get the option of securing the visa before departure or at the point of entry. Visitors from high-risk countries would on the other hand be required to obtain the visa before departure.

iii) Administration costs are likely to be high because the opportunity to collect airport tax through ticket sales agents would be lost. In addition, revenue leakage would be much higher

iv) Since this would be a new policy, there is likely to be perception of policy uncertainty and lack of policy stability unless the policy is announced and a period of adjustment allowed before it becomes effective.

v) The option does not allow for reciprocity with other countries.

***Option Four*: Reintroduction of the visa for all countries on a reciprocal basis and cancellation of the increase in airport tax.**

The option has the following implications:

i) It provides opportunity to use the visa for security purposes and to reciprocate favourable deeds from other countries. Many countries including South Africa, Zimbabwe and Mauritius use this strategy.

ii) Cancellation of the increase in the airport tax and diplomatic rapport with overseas tour operators will not only increase the competitiveness of the country as a tourist destination but also secure the goodwill of the tour operators.

iii) The cost of administration will be incurred but this will not be as large as that associated with Option One. Moreover, leakage of revenue collected through the visa system will not be eliminated.

iv) Political and diplomatic costs associated with discrimination would be avoided. Perceptions of policy uncertainty and instability will arise but they can be mitigated if appropriate time is given between the date of the policy announcement and actual implementation.

v) The overall impact of this option would be tourism growth especially if the option is complemented by other policies targeted at improving industry fundamentals.

In our opinion, the fourth option is the best for Kenya.[21] The option will not only generate some revenue in an internationally-legitimate way but will also ensure that security is not compromised. Furthermore, the strategy will enhance the development of the industry, particularly if the revenue collected is used in the industry and the revenue collected as air passenger service charge is used to improve service quality at our airports. Future adjustments of the latter charge should be tied to improvements in air passenger services.

It is, moreover, necessary for the Government to have a candid acknowledgement of the previous policy error and find a way of assuaging tour operators who have already been adversely affected by the increased airport tax. This will have the effect of calming the turmoil that has characterised the tourism industry in the last two or three

[21] In fact, an even better variation of this option is one in which there is a free visa system to take care of security issues and the collection of the foregone visa fees through an efficient system like the one used for the airport tax. This would raise revenue collection while also improving the efficiency of the visa issuance system.

months. In addition, a mechanism to reduce the difficulty and inconvenience associated with visa acquisition should be established.

To avoid more confusion and inconvenience in the industry, at least six months should be allowed between announcement of policy changes and the date of implementation. This will reduce adjustment costs and smoothen the way for changes. In future, adequate and extensive consultations with all stakeholders should be held before policy changes are adopted to ensure ownership of policies and cooperation.

As for the recovery of the tourism industry, the ultimate solution lies in the formulation of a consistent and comprehensive strategy to address the real factors behind the industry's decline and not in quick-fix measures.

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