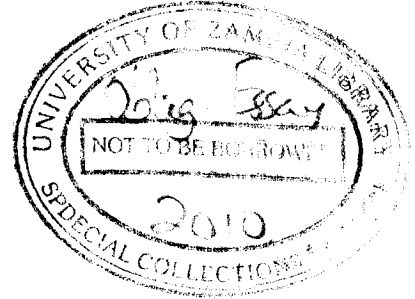


**AN ASSESSMENT OF TOURISM RELATED LAWS IN PROMOTING A  
FAVOURABLE INVESTMENT AND BUSINESS CLIMATE FOR  
NATURE-BASED TOURISM AND ACHIEVING ECONOMIC  
DEVELOPMENT.**

**BY**



**MUNUKA KATE MANDO**

**26095637**

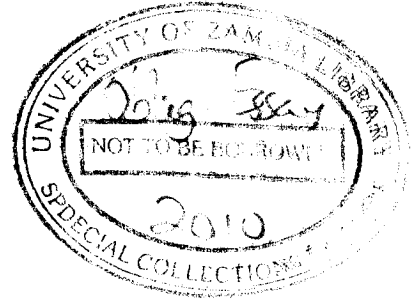
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**UNZA**

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**UNZA**

**2010**

## DECLARATION

I, **MUNUKA KATE MANDO** hereby declare that the contents of this Directed Research Paper are entirely based on my own findings and that I have not in any manner used any person's work without acknowledging the same to be so.

I bear the absolute responsibility for errors, defects or any omissions therein.

STUDENT NAME: MUNUKA KATE MANDO

SIGNATURE: MUNUKA

DATE: 09/04/2010

## **DECLARATION**

I, **MUNUKA KATE MANDO** hereby declare that the contents of this Directed Research Paper are entirely based on my own findings and that I have not in any manner used any person's work without acknowledging the same to be so.

I bear the absolute responsibility for errors, defects or any omissions therein.

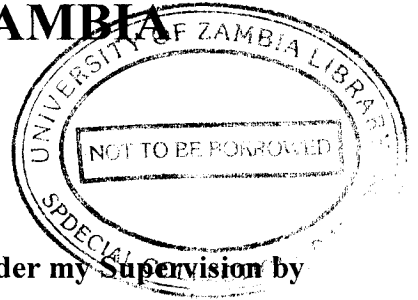
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**DATE:** 09/04/2010

**THE UNIVERSITY OF ZAMBIA**

**SCHOOL OF LAW**



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**Munuka Kate Mando**

**Entitled:**

**AN ASSESSMENT OF TOURISM RELATED LAWS IN PROMOTING A  
FAVOURABLE INVESTMENT AND BUSINESS CLIMATE FOR  
NATURE-BASED TOURISM AND ACHIEVING ECONOMIC  
DEVELOPMENT.**

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## **ABSTRACT**

The Zambian economy has since independence largely relied on the mining industry to drive the economy. However, over time the Zambia as a country has embarked on diversification of the sectors that are identified as pillars for the country's economic growth. The tourism industry in Zambia has been reclassified from a social to an economic sector and as such it has become one of the core sectors identified to push for Zambia's economic growth as the country seeks to diversify its economy. It is however important to note that for the tourism sector to effectively participate in the drive towards economic development, the industry must have a conducive investment and business climate to facilitate the much desired economic growth. In view of the foregoing this research seeks to establish why Zambia despite having great tourism potential is lagging behind in reaping benefits from the availability and utilization of such resources.

Therefore the main objective of this research is to assess the efficacy of the tourism regulatory framework in providing a favourable investment and business climate for nature based tourism and achieving economic development for the Zambian economy. Firstly, this paper outlines the government policy for the tourism sector and gives an overview of Zambia's tourism potential. Secondly, the current state of the tourism related laws and the prevailing trends in regulation is given and thirdly brief case studies of Kenya, Zimbabwe and South Africa are given.

The case studies highlighting aspects of how their tourism industries are regulated. Fourthly, a closer look on the laws regulating the tourism industry is given through the assessment of the current state of the law. In the assessment this paper highlights issues such as the inequality and administrative barriers that prevail within the sector and stresses that such impediments do not promote a conducive investment and business climate. Finally, based on the assessment of the regulatory framework, a conclusion is drawn and recommendations that are aimed at improving the image of the tourism sector are given. Some of the recommendations include: pursuing education and human resource development, ensuring the improvement of infrastructure and Tourism facilities nationwide, providing improved funding to ZAWA and other Tourism related Agencies as well as review of the taxation, licensing and administrative systems.

## **DEDICATION**

I dedicate this work to my Parents, **Taddeus Munuka** and **Hildah Chibesa Munuka** who have always believed in me and instilled in me various levels of personal responsibility.

The joint efforts of my parents have made me the person I am today and it is also to them that many thanks go for helping me enjoy and realise my right to Education.

## **ACKNOWLEDGMENTS**

Without any second thoughts, the paths I have taken in my life, the obstacles and barriers I have overcome over time and more so the successful completion of this research paper, which signifies the partial fulfilment of my Bachelor of Laws degree, is evidence that the mighty hand of God is at work in my life. I can never thank you enough for the love and mercy of God in my life.

I owe loads of gratitude to several people who have made the writing of this research paper a better and more friendly road to travel along because without these people the completion of this work would have been more difficult or perhaps even impossible. My life at the University of Zambia has been an eye opening experience both in terms of academic and social growth. I will forever remain grateful that it is the university at which I sought to pursue my undergraduate degree and nowhere else because the lessons learnt during my student life are invaluable.

I thank my Supervisor, Miss.M.Lwatula for her patience, ability to understand, guidance and timely supervision throughout the course of this research paper .Thank you for making enough time to review all my work despite your various commitments in and outside the University and may God richly bless you. I also extend my thanks to all officers from the various institutions that were of assistance to me throughout the compilation of this research.

To all my brothers and sisters(Mwansa,Bruno,Sharon,Nsofwa,Precious and Kangwa) the Machona family, the Chalwe family, the Karimamusama family and my entire extended family, thank you for your support and for giving me a ‘home away from home.’Tawanda Nyirenda, thank for your patience, encouragement and support in more ways than one and for being my best friend.

My dearest mates: Kebby Wishimanga, Mirriam Kasochi, Misozi Hope ‘Mune’ Masengu, Tafara Chenda,Wongani Chirwa,Nancy Mulenga,Patuma Nyangu, Musonda Mwape Natasha Banda ,Nsama Chisanga, Mwelwa Chanda and the rest of my class thanks for sharing your data, academic and social brains with me. Glory, Paul and Ismail, you guys are great people, thank you for all the experiences and knowledge sharing. It’s always pleasure of doing business, viva Monze.Gibson Phiri, many thanks are in order for your encouragement and for being there, and you are a true friend indeed.

To my friends and those I have been unable to mention by name, thank you for the direct and indirect contributions to the completion of this paper. God richly bless you.



## **STATUTES**

The Constitution of Zambia, Chapter 1 of the Laws of Zambia

The Tourism and Hospitality Act No. 17 of 2007

The Zambia Development Agency Act No. 11 of 2006

Zambia Wildlife Authority No. 12 of 1998

The Income Tax Act, Chapter 321 of the Laws of Zambia

The Customs Exercise Act, Chapter 323 of the Laws of Zambia

The Value Added Tax Act, Chapter 331 of the Laws of Zambia

Kenyan Tourism Laws

South African Tourism Law

## **GLOSSARY OF ACRONYMS**

|      |   |                                 |
|------|---|---------------------------------|
| GDP  | - | Gross Domestic Product          |
| GMA  | - | Game Management Area            |
| FNDP | - | Fifth National Development Plan |
| WTO  | - | World Tourism Organisation      |
| UNDP | - | United Nations Development Fund |
| ZDA  | - | Zambia Development Agency       |
| ZAWA | - | Zambia Wildlife Authority       |
| ZRA  | - | Zambia Revenue Authority        |

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# **CHAPTER ONE: GENERAL INTRODUCTION AND OVERVIEW OF THE POTENTIAL OF THE TOURISM INDUSTRY IN ZAMBIA.**

## **1.1 INTRODUCTION**

Tourism has become the world's largest industry and its growth shows a consistent year to year increase. The World Tourism Organization [WTO] predicts that by 2020 tourist arrivals around the world would increase over 200%.<sup>1</sup> Zambia has identified Tourism along with Agriculture, Mining and Manufacturing as the most important sectors for economic development in various planning documents including the Fifth National Development Plan.

Nature based Tourism refers to the class of tourism that centres and primarily relies on natural attractions (such as waterfalls and wildlife) and nature-based adventure activities<sup>2</sup>. Nature based tourism is a relatively new type of tourism which has experienced significant growth in recent years. Nature-based tourism offers significant opportunities and can support both conservation and employment across the region.<sup>3</sup> A recent Study funded by UNDP/GEF suggested that better management of Zambia's wildlife resources could generate economic activity of up \$1 Billion a year<sup>4</sup>.

However investment in the tourism sector is been coupled with high costs in terms of both time and money and lack of predictability of licensing and administrative requirements to open and operate a tourism enterprise. These factors, *inter alia*, do have

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<sup>1</sup> <http://www.linkeygypt.com>:Accessed on 05/01/2010

<sup>2</sup> [www.wikipedia.org/define:nature-based-tourism](http://www.wikipedia.org/define:nature-based-tourism).Accessed on 5/08/2009

<sup>3</sup> [http://www.northernperiphery.net/Nature Based Tourism](http://www.northernperiphery.net/Nature%20Based%20Tourism).Accessed on :04/01/2010

<sup>4</sup> A. Matoo et al, *Services, Trade & Development: The Experience of Zambia* (New York: Palgrave Macmillan, 2007) P.217

an impact on the kind of investment and business climate associated with the tourism sector. It is also important to note that these factors are primarily linked to the regulatory framework operating within the sector. The presence of impediments in any sector of a country potentially affects the quantity and quality of that sector. In the case of the tourism industry such factors affect the quantity and quality of tourism potential exploitation. Impediments also cause such an industry to lag behind in providing a conducive investment and business climate that fosters economic development.

It has in fact become argued by some sectors that the Government's strategy to use tourism as a tool for diversification is largely not backed by practical commitment to make reform. This paper will therefore seek to assess the efficacy of tourism related laws in providing and promoting a conducive investment and business climate in one breadth and also in another how the laws facilitate the exploitation of tourism potential so as to achieve economic development.

## **1.2 STATEMENT OF THE PROBLEM**

Multiple calls have been made by the private sector and other prospective investors to rid the tourism industry in Zambia of all impediments affecting the investment and business climate. This is more so in the case of tourism relating to protected areas. However, the tourism industry continues to be faced by a number of impediments that have led to the description of the sector's investment and business environment as one that is complex and defective in many respects. Tourism as an independent industry has a coverage of great magnitude and in recognition of such fact this research chooses to confine itself to the subset of tourism known as 'Nature-Based tourism.'

Therefore going by the definition of nature-based tourism this research will adopt a holistic view that is exploratory in approach to the investment and business climate problems springing from the regulatory framework of the industry. These problems will be addressed only in so far they are related to tourism that centres and relies primarily on natural attractions (such as waterfalls and wildlife) and nature-based adventure activities. Further this research will consider whether it is still justifiable that the regulatory framework and system should entail such complex detail for establishing and running a tourism enterprise. The research paper will also attempt to show whether the regulatory framework is conducive for attracting investment into all the predominantly nature-based tourism areas. In addition this paper will try to suggest some reforms in the means to be employed in achieving a non-forbidding investment landscape and hospitable business environment that maximizes economic development.

### **1.3 OBJECTIVES OF THE RESEARCH**

The main objective of the research is to assess the efficacy of the tourism regulatory framework in providing a favourable investment and business climate for nature based tourism and achieving economic development for the Zambian economy.

The specific objectives of the study will be to:

1. Consider the brief history and rationale of legislation regulating nature tourism
2. Give a brief synopsis of the growth of nature-based tourism in Zambia and the justification for the need to have a regulatory framework that paves way for a hospitable tourism environment
3. Evaluate whether it is still justifiable that the regulatory framework and system should continue to maintain complex detail for establishing and running a tourism enterprise.

4. To identify whether removal of impediments in tourism investment and business environment will have a positive impact on the industry's contribution towards achieving economic development in Zambia

#### **1.4 SIGNIFICANCE OF THE STUDY**

In consideration of the Government's prioritisation of the tourism industry as one of the pillars of economic development for the Zambian economy, it becomes imperative that an assessment of the tourism regulatory framework is undertaken. Such assessment is meant to establish whether the prioritisation is in fact prevailing on the ground. This prioritisation is to be viewed in terms of whether the government is taking active steps to facilitate the constructive exploitation of tourism potential by providing a favourable investment and business climate.

The significance of this research is that it seeks to establish why Zambia despite having great tourism potential is lagging behind in reaping benefits from the availability and utilization of such resources. It therefore becomes vital to consider the nature of the investment and business climate prevailing in the sector in so far as nature-based tourism is concerned. This also includes a consideration of whether reforms should be made in the regulatory framework in order to align the environment with the needs of attracting more viable tourism investment that ensures increased economic benefit for the country. Furthermore bearing in mind the potential impediments of the business environment in terms of investment and business climate, it is also necessary to establish whether the removal of such impediments would lead to further and more valuable contributions to economic development.



## **1.5 RESEARCH METHODOLOGY**

This research will be based on both primary and secondary information. Primary information will include interviews with persons competent in fields of nature-based tourism, tourism and rural development and the impact of nature based tourism on economic development. Furthermore interviews will be conducted with persons engaged in the business of nature tourism for the purposes of ascertaining whether the regulatory framework fosters tourism development and provides a pro-tourism investment and business climate.

The in exhaustive list of institutions from which information was obtained includes: Ministry of Tourism, Environment and Natural Resource, Zambia National Tourist Board, Zambia Wildlife Authority, Zambia Revenue Authority, Zambia Development Act Zambia National Economic and Tourism Development Committee and the Tourism Council of Zambia. The Secondary information on the other hand will include: books, articles, commentaries, journals, paper presentations, student obligatory essays and reports where necessary by mandated bodies.

Some of the Works used to inform this study include:

1. Matoo et al. "Services, Trade & Development: The Experience of Zambia"(Newyork:Palgrave Macmillan,2007)
2. Utz,R.J(Ed), "Sustaining and Sharing Economic Growth in Tanzania".(Washington D.C:World Bank,2008)

3. Fifth National Development Plan 2006-2010,Chapter (Lusaka: Government Printers)
4. Tourism policy for Zambia, Ministry of Environment, Tourism and Natural Resource(Lusaka: Government Printers)
5. Report on Real Economic Impact on Nature Tourism in Zambia.2007
6. Goma Mary.Liberalisation: Has it brought Economic Freedom. Obligatory Essay submitted in partial fulfilment of the Bachelor of Laws Degree, 2006.
7. World Tourism Organisation. Poverty Alleviation Through Tourism-A Compilation of Good Practices
8. Eagles,P.F.J. et al.Sustainable Tourism in Protected Areas: Guidelines for Planning and Management

Some of the Statutes referred to include:

1. The Tourism and Hospitality Act No. 23 of 2007
2. The Zambia Development Agency Act No. 11 of 2006
3. The Zambia Wildlife Act No. 12 of 1998
4. Value Added Tax Act, Chapter 331 of the Laws of Zambia.
5. Hotels and Restaurants Act, Chapter 494 of the laws of Kenya

## **1.6 GOVERNMENT INTENTION FOR THE TOURISM INDUSTRY**

In 1996 the Government reclassified the Tourism sector from a social sector to an economic category.<sup>5</sup> This was owing to recognition of the sectors potential to contribute to economic development in terms of ,inter alias, foreign exchange earnings, employment and income generation,contributuion to government revenues, promotion of rural development and as well as the industry's capacity to perform the role of a sustainable

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<sup>5</sup> Tourism Policy for Zambia.Lusaka:Government Printers.2007.p.1

development catalyst.<sup>6</sup>The Government's intention in relation to the tourism industry is reflected in its Tourism Policy for Zambia. The Tourism policy among other things specifically sets out the government's stance on key aspects of tourism development such as product development, human resources development, land use and environment.<sup>7</sup>

The priority aims of the government for the tourism industry among others include the following:<sup>8</sup>

- Bring about growth in the tourism industry through the encouragement of the private sector;
- Redistribute both the opportunities to participate in tourism growth, and access to benefits from it towards Zambians;
- Promote proper investment incentives in Zambian wildlife, cultural tourism and in the tourism product;
- Improve tourist infrastructure roads,railways,airports,tele-communications-and other supporting facilities;
- Seek to help the industry to create more local jobs, to generate more local incomes, to earn more foreign exchange and to contribute more to Government revenues as a result of improved business climate and improved viability;
- Improve the national tourism administration so that it helps the tourism industry to be competitive and viable.

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<sup>6</sup> Tourism Policy for Zambia.Lusaka:Government Printers.2007.p.2

<sup>7</sup> Tourism Policy for Zambia. Lusaka:Government Printers.2007p.4

<sup>8</sup> Tourism Policy for Zambia. Lusaka:Government Printers.2007p.4-5.

## 1.7 POTENTIAL OF TOURISM IN ZAMBIA

Zambia is a large country with a low population density, offering a unique potential for tourism, especially for those seeking a real and pristine African experience and it is against such background that Zambia is marketed as the “Zambia, the real Africa”.<sup>9</sup> By virtue of its endowments (including its wildlife and the Victoria Falls), the peacefulness of the country and the friendliness of its people, Zambia undoubtedly has significant potential in tourism.<sup>10</sup>

Zambia’s tourism potential draws from its natural environment, which consists of a variety of tourism resources. It is home to vast waters, lakes, rivers, one of the largest concentrations of game in Africa, a wide variety of bird species, a rich cultural heritage and several monuments across the country.<sup>11</sup> A number of waterfalls are situated across all the nine provinces of Zambia and they include the Victoria Falls found in Southern province, Kalambo Falls<sup>12</sup> found in Northern Province, Kandabila Falls found in Central province and the Ntumbachushi Falls found in Luapula Province.

In addition to the Water falls Zambia is also home to a lot of rivers and lakes and it in fact derives a lot of tourist attraction from its water resources. Activities involving water resources include Bungi Jumping, Tiger Fishing, White Water Rafting, Boat Cruises, Canoeing River Boarding, Jet Boarding and the Gorge Swing.<sup>13</sup> Amongst the many rivers,

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<sup>9</sup> Brochure on Investment opportunities in National Parks published by ZAWA

<sup>10</sup> Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.213

<sup>11</sup> Zambia Development Agency. *Paper on the Tourism Sector Profile in Zambia*. 2009. p.1

<sup>12</sup> Kalambo Falls is the second highest uninterrupted falls on the African Continent nearly twice as high as the Victoria Falls and the twelfth highest in the world. (Zambia Development Agency. *Paper on the Tourism Sector Profile in Zambia*. 2009. p.1)

<sup>13</sup> Zambia Development Agency. *Paper on the Tourism Sector Profile in Zambia*. 2009. p.2

the Zambezi River is Zambia's longest river and it is along this same river that the mighty Victoria Falls and Lake Kariba, which is the world's largest man-made lake, are found.

The majority of Zambia's wildlife is concentrated in protected areas. Currently there are a total of 19 Game parks, 23 Game Management Areas and 23 million hectares of land devoted to the conservation of spectacular variety of animals.<sup>14</sup> Zambia's main game parks include Kafue National Park, Luangwa National Park, Mosi-Oa-Tunya Park, Sumbu National Park and Lochinvar National Park. Zambia also boasts of a wide variety of bird stock consisting of 743 known species with others yet to be discovered.<sup>15</sup>

Zambia's museums also represent a portion of the tourism potential as they provide an opportunity for tourists to acquaint themselves with various aspects of the country's history. Some main museums include the Railway Museum, Livingstone Museum and Moto Moto Musuem. In addition to history depicted in the museums, the country has several national monuments such as the Chirundu Fossil Forest, Lake Kashiba and the Zambezi Source where the mighty Zambezi has its source amongst others.<sup>16</sup> In respect of culture the population is fairly diverse with the total number of languages amongst them exceeding 70. The significance of such cultural diversity to tourism is the fact that the local customs of Zambia host several cultural festivals held annually to celebrate various events and season. Some of the major ceremonies held annually include the Ncwala ceremony by the Ngoni people; the famous Kuomboka ceremony by the Lozi people; the

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<sup>14</sup> Zambia Development Agency. *Paper on the Tourism Sector Profile in Zambia*. 2009. p.3

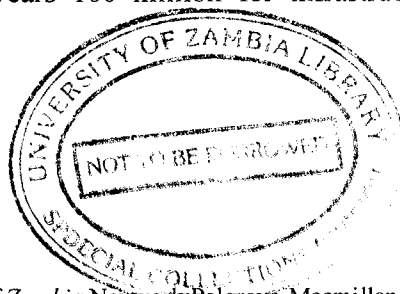
<sup>15</sup> Zambia Development Agency. *Paper on the Tourism Sector Profile in Zambia*. 2009. p.1

<sup>16</sup> Ibid. p.4

Shimunenga ceremony of the Illa people; and the Likumbi Lya Mize of the Luvale people.<sup>17</sup>

Although nature –based tourism is an extremely competitive sector in Southern Africa, Zambia has a unique combination of assets that could make it a major tourist destination. Regarding its natural endowments, Zambia has strong potential for tourism development: wildlife (such as the big five animals of Africa-Lion, Leopard, Buffalo, Elephant and Rhino-and more than 700 species of birds), landscapes and historical sites. Among these attractions some even qualify as brand names, as is the case with the Victoria Falls which was included in the United Nations Educational, Scientific and Cultural Organisation (UNESCO) list of World Cultural Heritage.<sup>18</sup>

Most of Zambia's neighbours have comparable endowments and compete in the same segment of tourism market: nature and wildlife. In terms of species diversity, including threatened species, Zambia remains on track with the regions average, although it is better endowed than Botswana and Zimbabwe; its two main competitors in the region.<sup>19</sup> A recent study funded by UNDP/GEF suggested that good management of Zambia's wildlife resources could generate economic activity of approximately \$1billion a year. On basis of this study the government and other donors have committed to invest \$150 million in the wildlife sector over the next 10 years 100 million for infrastructure



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<sup>17</sup>Ibid.p.4-5

<sup>18</sup>Matoo et al. *Services, Trade & Development: The Experience of Zambia*.Newyork:Palgrave Macmillan,2007 .p.215

<sup>19</sup> Ibid.p.216

improvements and 50 million for the public management of national parks and Game Management Areas.<sup>20</sup>

## **1.8 DEFINITION OF CONCEPTS**

Some important concepts that should be noted in this study include the under listed:

- **Nature-Based Tourism:**

Leisure travel undertaken largely or solely for the purpose of enjoying natural attractions and engaging in a variety of outdoor activities. Bird watching, hiking, fishing, and beachcombing are all examples of nature-based tourism.<sup>21</sup>

- **Investment Climate:**

Policy, institutional and behavioural both present and expected, that influences the returns and risks associated with investment.<sup>22</sup> It is also defined as a menu of policy, regulatory and institutional factors that provide incentives sufficiently robust to induce the private sector to invest in socially desirable projects.<sup>23</sup>

- **Business Climate:**

General economic environment comprising of the attitude of the government and lending institutions toward businesses and activity, attitude of labour unions toward employers, current taxation regimen, inflation rate and incidental matters.<sup>24</sup>

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<sup>20</sup>Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007  
Ibid. p.218

<sup>21</sup> <http://www.hometravelagency.com/dictionary/nature-based-tourism>. Accessed on 04/01/2010

<sup>22</sup> [http://info.worldbank.org/etools/docs/library/Why the investment climate matters](http://info.worldbank.org/etools/docs/library/Why%20the%20investment%20climate%20matters): Accessed on 06/01/2010.  
(As defined by Nick Stern, Former Chief Economist, World Bank)

<sup>23</sup> <http://siteresources.worldbank.org/INTPRS1/Resources/Thematic-Workshops>: Accessed on 06/01/2010

<sup>24</sup> <http://www.businessdictionary.com/definition/business-climate>: Accessed on 06/01/2010

- **Economic Development:**

Economic development refers to a sustainable increase in living standards. It implies increased per capita income, better education and health as well as environmental protection among other things.<sup>25</sup>

- **Multiplier Effect:**

An effect in economics in which an increase in spending produces an increase in national income and consumption greater than the initial amount spent.

- **Leakages:**

It is the money that leaves the Country to pay for goods (food or specialised equipment) or services (expatriate salary) not available in Zambia.<sup>26</sup>

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<sup>25</sup> <http://schumpeter2006.org/definition-of-economic-development>: Accessed on 04/01/2006

<sup>26</sup> P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*.Lusaka:Fringilla.2004.p.254



## **CHAPTER TWO: THE LAWS REGULATING THE TOURISM INDUSTRY IN**

### **ZAMBIA**

#### **2.1 INTRODUCTION**

The term regulation refers to a set of binding rules issued by a private/public body and generally these regulations can be defined as those rules that are applied by regulators in the fulfilment of their functions.<sup>27</sup> The regulatory framework is intended to coordinate all aspects of the tourism industry including the creation of a conducive investment and business climate. It must be fully noted that the government has been fully aware that the future development of the tourism industry as a vital source of jobs and income for the Zambian people is largely dependent upon an effective institutional and policy framework within the country.<sup>28</sup>

It is also important to note that where the regulatory framework effectively controls industry abuses, prospects for building investment and business as well as consumer confidence in the market are high. The Tourism Industry in Zambia is regulated by various Acts and the regulatory framework for nature based tourism therefore includes the following:

#### **2.2 THE TOURISM AND HOSPITALITY ACT NO. 23 OF 2007**

Initially the Tourism industry was regulated by the Tourism Act 1979; Hotels Act 1987 and Casinos Act 1992 which have since been repealed and replaced with the current Tourism and Hospitality Act No. 23 of 2007. This Tourism and Hospitality Act remains the principal law in terms of the industry's regulation. The Act was enacted in order to resolve the complexity

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<sup>27</sup> K.K.Mwenda. *Legal Aspects of Financial Services Regulation*. Washington: World Bank. 2006. p.46

<sup>28</sup> Tourism Policy. Lusaka: Government Printers. 2007 p.10

that arose from the operation of the three<sup>29</sup> repealed Acts within the industry both in terms of administration and also compliance issues. Further the Act seeks to align the regulatory framework of the industry with the solutions to challenges and global expectations of modern time tourism.

Tourism and Hospitality Act provides:<sup>30</sup> “This is an Act to provide for the development of the tourism planning, management and co-ordination; to provide for functions of the Director of tourism; to provide incentives for incentives for investors in the tourism industry; to provide for control and regulation of hotels and enforcement of reasonable standards of cleanliness, sanitation and service; to provide the authorization and licensing of tourism enterprises; to provide for the constitution of the Hotel Managers Registration Council; to provide for the establishment and administration of the tourism development fund and any matters connected with or incidental to the same.”

This law provides a person wishing to operate a tourism enterprise in Zambia must obtain authorization before setting up the business in the tourism industry. Primarily the investor will require a Tourist Enterprise Authorization License<sup>31</sup> which is issued by the Ministry of Tourism upon the applicant’s submission of various documents. These documents include: A five year business plan, cash flow statement or proof of capital requirement, building and or architectural plans, curriculum vitae of the shareholders, copy of the company’s certificate of incorporation, Title deed or lease agreement and Investment Certificate issued by the Zambia Development Agency. Additionally, if the tourism investment project is based in a Game

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<sup>29</sup> The Tourism Act 1979; Hotels Act 1987 and Casinos Act 1992.

<sup>30</sup> Preamble Section of the Tourism and Hospitality Act No.23 of 2007

<sup>31</sup> Section 16 of the Tourism and Hospitality Act

Management Area or National Park, a “No objection letter” from Zambia Wildlife Authority is also required to be submitted in support of the application for a Tourist Enterprise Authorization License. It is however very important to note that the Tourism and Hospitality Act principally and essentially prohibits the operation of a tourism business without a licence or authorization issued under the Act.<sup>32</sup>

In the case of an investor who wishes to provide lodging services, it is necessary that such investor obtains a Hotel Licence.<sup>33</sup> The Hotel Licence is also issued by the Ministry of Tourism but it done through the Hotels Board and it is upon submission of: (a) a Tourist Enterprise Authorization License (b) a Health Permit and fire safety certificate from the local council; and (c) a liquor license from the local council. Additionally the furniture and equipment must be in place and the premises must pass final inspection from the Hotels Board.

### **2.3 THE ZAMBIA DEVELOPMENT AGENCY ACT No. 11 of 2006.**

Initially they were no laws regulating investment in Zambia and as such the government used its sole discretion to decide on matters pertaining to investment.<sup>34</sup> With time enactments pertaining to investment began to surface the scene however these Acts appeared to touch on particular classes of investment such as exports development, exports processing and small enterprises as can be discerned from their titles.<sup>35</sup> The repealed Acts were in operation until

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<sup>32</sup> Section 15 of the Tourism and Hospitality Act

<sup>33</sup> Section 34 of the Tourism and Hospitality Act

<sup>34</sup> Interview with the Mr. Mulenga, Legal Counsel of Zambia Development Agency :conducted on 28/01/2010.

<sup>35</sup> The titles of these investment Acts include: The Investment Act, the Small Enterprises Development Act, the Export Development Act and the Export Processing Zones Act.

2006 when the current investment legislation known as Zambia Development Act came into force.

Today, the Zambia Development Act No.11 of 2006 is the primary legislation dealing with investment in all sectors of the Zambian economy. This Act repealed the Investment Act, the Small Enterprises Development Act, the Export Development Act and the Export Processing Zones Act. The Zambia Development Act provides in part:<sup>36</sup> “An Act to foster Economic growth and development by promoting trade and investment in Zambia through an efficient, effective and coordinated private sector led economic development strategy; to establish the Zambia Development Agency as a one stop facility which will ensure, among other matters, client focus, dialogue with private sector and create confidence in public sector support for business; to provide for functions of the Agency; to attract and facilitate inward and after care investment; to provide and facilitate to micro and small business enterprises; to promote exports and globalization; to streamline bureaucratic procedures and requirements faced by investors; to facilitate industrial infrastructure development and local services; to encourage measures to increase Zambia’s capacity to trade and enable business to participate in a competitive global environment; and to provide for matters connected or incidental to the foregoing.”

The Zambia Development Act in essence is divided into 11 parts and they deal with the various matters. Part I<sup>37</sup> deals with preliminaries such a application and interpretation while

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<sup>36</sup> Preamble Section of the Zambia Development Act No.11 of 2006.

<sup>37</sup> Sections 1 to 3 of the Act.

part II<sup>38</sup> deals with the establishment of the Zambia Development Agency, its functions, the Board of the Agency, tenure and vacation of office, allowances and committees of the agency. Part III<sup>39</sup> deals with Trade and Industries development and touches on matters such as trade and industry development strategies, trade and business development measures, economic development measures, research and articulating country position and sector codes. Part IV<sup>40</sup> deals with investment promotion and guarantees which includes investment promotion measures, declaration of multi-facility zones, transfer of funds and settlement of disputes while part V<sup>41</sup> and VI<sup>42</sup> deal with micro and small business enterprises and privatization and commercialization respectively.

Part VII<sup>43</sup> deals with Trade and Industrial development fund and privatization trust account while part VIII<sup>44</sup> deals with incentives and it particularly hinges on regulations on incentives, validity period for incentives, qualification for incentives, incentives for machinery or equipment, major investment, non-eligibility for incentives and certification of investment for tax or duty relief or exemption. Part IX<sup>45</sup> deals with services such as Land, Immigration, services and facilities and registration and licensing ;Part X<sup>46</sup> covers licenses, permits or certificates of registration and finally Part XI<sup>47</sup> with miscellaneous matters such as appeals, false statements, regulations and exercise of Presidential powers among other things.

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<sup>38</sup> Sections 4 to 11 of the Act.

<sup>39</sup> Sections 12 to 16 of the Act.

<sup>40</sup> Sections 17 to 21 of the Act

<sup>41</sup> Sections 22 to 25 of the Act

<sup>42</sup> Sections 26 to 47 of the Act

<sup>43</sup> Sections 48 to 53 of the Act

<sup>44</sup> Sections 54 to 63 of the Act

<sup>45</sup> Sections 64 to 67 of the Act

<sup>46</sup> Sections 68 to 77 of the Act

<sup>47</sup> Sections 78 to 85 of the Act.

## **2.4 ZAMBIA WILDLIFE ACT No.12 of 1998**

Tourism based upon wildlife has become the leading foreign exchange earner in several countries. Similarly the Zambian leisure product is based substantially on wildlife and wilderness and to a lesser extent upon culture and heritage.<sup>48</sup> Investment projects that identify Game Management Areas and National Parks as their targeted operation locations require a permit issued by the Zambia Wildlife Authority pursuant to the Zambia Wildlife Authority Act. The Zambia Wildlife Authority is a statutory body in charge of wildlife management in Zambia and it regulates all tourism activities in National Parks and Game Management Areas.<sup>49</sup> The Act No. 12 of 1998 repealed the National Wildlife Act 1991 and its preamble provides in part:

“An Act to establish the Zambia Wildlife Authority and to define its functions; to provide for the establishment, control and management of National Parks and for the promotion of opportunities for the equitable and sustainable use of the special qualities of National Parks; to provide for the establishment, control and management of Game Management Areas; to provide for the sustainable use of wildlife and the effective management of the wildlife habitat in Game Management Areas; to provide for the development and implementation of management plans; to provide for the regulation of game ranching; to provide for the licensing of hunting and control of the processing, sale, import and export of wild animals and trophies....”

The Zambia Wildlife Act consists of fifteen parts dealing with various issues covered by the Act. Part I<sup>50</sup> deals with preliminaries such as interpretation and ownership of wild animals

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<sup>48</sup> Tourism Policy for Zambia. Lusaka: Government Printers. p.11

<sup>49</sup> Zambia Wildlife Authority Brochure: Block Tourism Concessions in National Parks.

<sup>50</sup> Sections 1 to 3 of the Act.

and Part II<sup>51</sup> provides for the establishment of Authority and its functions. Part IV<sup>52</sup> deals with National Parks and in particular touches on matters such as the declaration of National Parks, effect of orders and acquisition of lands, grant of mining and other rights in National Parks, restrictions on entry into or residence in National Parks, prohibition of hunting, in National Parks and Regulations in relation to National Parks. Part V<sup>53</sup> deals with Game Management Areas, their declaration and also settlement in Game Management Areas while Part VI<sup>54</sup> deals with Game and protected animals.

Part VII<sup>55</sup> deals with various types of licences, their requirements, revocation, suspension, cancellation or loss of licences and includes provisions on appeals against revocation of licences. Part XIII<sup>56</sup> deals with enforcement provisions in relation to the right to enter land and right to search, power to arrest, general powers and duties of wildlife police officers and also prosecutions by officers of the Authority among other things. Finally, Part XIV<sup>57</sup> deals with offences, penalties and forfeitures.

Tourism investment projects located in a Game Management Area require a permit before the commencement of any tourism business. This permit is known as the Zambia Wildlife Authority Permit and it is issued by the Zambia Wildlife Authority. Applications for the Zambia Wildlife Authority Permit are required to be supported by documents such as : (a) the project proposal; (b) a list of shareholders; (c) information on promoters' business

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<sup>51</sup> Sections 4 to 5 of the Act.

<sup>52</sup> Sections 10 to 25 of the Act.

<sup>53</sup> Sections 26 to 29 of the Act.

<sup>54</sup> Sections 30 to 32 of the Act.

<sup>55</sup> Sections 33 to 60 of the Act.

<sup>56</sup> Sections 114 to 124 of the Act.

<sup>57</sup> Sections 125 to 142 of the Act.

experience; (d) an Environmental Impact Assessment Report ; and (e) a recommendation letter from the District Council. The District Council Recommendation Letter is issued to prospective investor upon submission of (a) a letter of intent; (b) a Letter of Consent from the Chief as Game Management Areas fall under traditional land which is under the jurisdiction of the local chief; (c) a project proposal; and (d) building drawings.

## **2.5 TAXATION LAWS: INCOME TAX ACT<sup>58</sup>, VALUE ADDED TAX ACT<sup>59</sup>, CUSTOMS AND EXCISE ACT<sup>60</sup>.**

The Zambia Revenue Authority (ZRA) was established on 1<sup>st</sup> April 1994 as a corporate body, under an Act of Parliament. Under this Act, ZRA is charged with the responsibility of collecting revenue on behalf of the Government<sup>61</sup> under the supervision of the Minister of Finance and National Planning.<sup>62</sup> In Zambia the Laws governing taxation vary according to the type of tax in question. In relation to the tourism industry the taxation laws affecting the industry include the Income Tax Act, Value Added Act (VAT) and the Customs and Excise Act.

The tourism industry receives fairly standard tax treatment in terms of taxation in so far as income tax and VAT is concerned. Businesses are subject to 35 percent per company profit tax and are standard-rated for VAT purposes at 16 percent.<sup>63</sup> Customs duty is charged as

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<sup>58</sup> Chapter 321 of the laws of Zambia.

<sup>59</sup> Chapter 331 of the Laws of Zambia.

<sup>60</sup> Chapter 323 of the Laws of Zambia.

<sup>61</sup> Article 114 of the Constitution of Zambia, Chapter One of the Laws of Zambia.

<sup>62</sup> *Paper on the Overview of Taxation in Zambia*: sourced from [www.zra.org](http://www.zra.org) and accessed on 10/02/2010.

<sup>63</sup> [www.zra.org/tax\\_rates](http://www.zra.org/tax_rates): Accessed on 10/01/2010



normal, zero per cent on raw materials, 15 percent on intermediate goods and 25 percent on finished goods.

The industry does however receive the benefits of accelerated depreciation allowances and in this respect hotels enjoy an initial allowance of ten percent and an annual five percent wear and tear allowance for the cost of hotel building. Similarly machinery for tourism qualifies for an annual 50 per cent wear and tear allowance, which is used up within the first two years.<sup>64</sup>

Furthermore, package tours by licensed operators are zero-rated and this can include game viewing, rafting, bungee jumping, micro lighting, accommodation, food and beverages provided they are part of a pre-booked tour package and that a significant portion taken to be 25% are for services not ancillary to accommodation<sup>65</sup> Furthermore the industry also receives a number of incentives under the various Acts<sup>66</sup> and generally they include the following:

### Income Tax

1. Income earned by companies in the first year of listing on the Lusaka Stock Exchange qualifies for a 2% discount on the applicable company tax rate in the particular sector; however companies with more than 1/3 of their shareholding in the hands of Zambians qualify for a 7% discount.
2. Implements, machinery and plant used for tourism qualify for wear and tear allowance of 50% of the cost per year in the first two years.

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<sup>64</sup>P.Langmead.*Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*.Lusaka:Fringila.2004.p253

<sup>65</sup> Ibid.p253

<sup>66</sup> Income Tax Act, Customs and Excise Act and the Value Added Tax Act.

3. Buildings used for hotels qualify for wear and tear allowance of 10% of cost in first year and 5% of cost per year in subsequent years.
4. An allowance of 25% and 20% for commercial and non-commercial vehicles respectively.
5. Foreign Exchange losses of a capital nature incurred on borrowings used for building and construction of a commercial building are tax deductible.

#### Value Added Tax

1. Relief for VAT registered enterprises on imports of eligible capital goods (VAT deferment).
2. Zero rate on export of taxable products.
3. Relief of VAT on transfer of business as a going concern.
4. Equal treatment of services for VAT-reverse VAT
5. VAT relief on input tax paid for purchases made by registered suppliers
6. Input tax claim for three months prior to VAT registration for businesses that have already commenced trading
7. Reduction of VAT rate for investors in tax free zones.

#### Customs Duty Incentives

1. Most capital equipment attracts duty rates of 0 to 5% .

## **2.6 CONCLUSION**

From the foregoing it can be seen the regulatory framework of the tourism sector is covered by various statutes touching on a wide range of issues in the sector. These regulatory provisions in the long run have an effect on the type and quality of the investment and

business climate prevalent in the sector. It is further important to note that the nature of the investment and business climate has a powerful effect on the sectors ability to contribute to the economic development of Zambia.

It is also important to note that owing to the non-recognition of the tourism sector as a priority sector under the Zambia Development Act, the sector cannot enjoy certain benefits that are specifically tailored for the priority sectors under the Act.

## **CHAPTER THREE: BRIEF CASE STUDIES ON REGULATION OF THE TOURISM INDUSTRIES IN KENYA, ZIMBABWE AND SOUTH AFRICA.**

### **3.1 INTRODUCTION**

Tourism has over time become a leading source of foreign exchange and a leading contributor to economic growth of many Sub-Saharan Africa economies. Some countries have in fact taken advantage of the tourism sector's economic viability and consequently reaped immense benefits from them. Examples of such countries in Sub-Saharan Africa include South Africa, Kenya and Zimbabwe. There runs a common thread amongst the tourism sectors of the 3 countries<sup>67</sup> in that wildlife and other natural attractions and heritage sites are their major assets of their tourism market and thus a large portion of their tourism is nature based. It is important to note from the outset of this chapter that the basis of selection for the above mentioned countries is based on various reasons, some of which are stated below. However, it must also be appreciated that the reasons cited in favour of the countries in no way connote the proposition that the tourism sectors of Kenya, South Africa and Zimbabwe are by far the best or healthiest in the sub-Saharan region. Furthermore it is neither suggested that the said sectors have solely driven the economies of their respective countries to sustainable development.

Kenya and South Africa enjoy about the highest rate of benefits from tourism in the whole Sub-Saharan region despite sharing substantially the same tourism assets with Zambia. Owing to such status they are a formidable force in the tourism competition realm of the Sub-Saharan Africa region. In fact the economic contributions of the tourism sectors of Kenya and

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<sup>67</sup> Kenya, South Africa and Zimbabwe.

South Africa play a major role as the contribution to economic growth is not only quantitative but also qualitative. In fact some of the benefits reaped by South Africa in terms of tourism are as a result of tourism resources located in Zambia.<sup>68</sup> In relation to Zimbabwe, its selection is largely based on the fact that it shares with Zambia one of the most marketable and world known asset known as the “Victoria Falls” and also the Lake Kariba.

### 3.2 KENYA

Kenya is home to various ethnic groups, is a republic in East Africa that has varied landscape of plateaus and High Mountain. It gained independence in 1963 and has been a republic since 1964. Kenya’s main tourist destinations are its beaches along the Indian Ocean Coast<sup>69</sup>, national parks<sup>70</sup> and game reserves and museums and historical sites. Kenya is known for the great variety of its wildlife and is especially famous for its big game animals associated with the African Savanna. The major big game species include elephants, rhinoceroses, zebras, giraffes, and lions and other large cats. Although many of these species are protected in national parks and game reserves, hunters have severely reduced the number of large mammals in Kenya, particularly elephants and rhinoceroses.<sup>71</sup> It is popularly regarded as the “Jewel of East Africa,” because of its sophisticated tourism infrastructures.

The service sector in Kenya accounts for 56 percent its GDP. The services vary across those provided by the government and the increasingly important restaurant, hotel and safari industries which have grown in response to the increasing number of tourists visiting

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<sup>68</sup> This happens where tourist attractions such as the Victoria Falls, Lake Kariba and the Zambezi river are marketed as supplementary attractions in a South African tourist attractions tourism package

<sup>69</sup> It has six marine parks in the Indian ocean.

<sup>70</sup> It is home to over 50 national parks and game reserves including the famous Masai Mara Game Park, Tsavo National Park and Amboseli National Park.

<sup>71</sup> M.R. Maxon, “Kenya”. *Microsoft Encarta Encyclopedia*. Redmond WA: Microsoft Corporation. (2009)

Kenya.<sup>72</sup> Tourism in Kenya has expanded dramatically since 1989 and since then it has been the country's leading source of foreign currency.<sup>73</sup>

The Tourism Industry in Kenya is primarily regulated by two Acts of Parliament, namely, the Hotels and Restaurants Act<sup>74</sup> and the Tourist Industry Licensing Act.<sup>75</sup> Licensing and regulation under the Hotels and Restaurants Act is administered through the Hotels and Restaurants Authority, which is a Board constituted by the Minister for Tourism and Wildlife. Three types of licences are issued under this Act and they include: (a) Hotel Licence (b) Hotel Manager's Licence and (c) Restaurant Licence. When considering the applications for the various licences the Board further requires the Operators of the intended tourism enterprises to submit various documents in support of the licence application including Copies of the manager's professional qualifications and testimonials or Curriculum Vitae of the subject enterprise.<sup>76</sup> The Act also provides for the issuance of classification certificates<sup>77</sup> to hotels or restaurants immediately after every National Classification exercise.<sup>78</sup> A voluntary request for classification or reclassification may also be made to the board by a tourism operator.

The Tourism Industry Licensing Act was enacted by Parliament in 1968 to make provision for regulating the tourist industry with a view to promoting its well-being and development.

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<sup>72</sup> M.R. Maxon, "Kenya". *Microsoft Encarta Encyclopedia*. Redmond WA: Microsoft Corporation. (2009)

<sup>73</sup> M.R. Maxon, "Kenya". *Microsoft Encarta Encyclopedia*. Redmond WA: Microsoft Corporation. (2009)

<sup>74</sup> Chapter 494 of the Laws of Kenya.

<sup>75</sup> Chapter 381 of the Laws of Kenya.

<sup>76</sup> [www.kenyaturism.gov.ke](http://www.kenyaturism.gov.ke): Accessed on 15/02/2010

<sup>77</sup> It is however important to note that the classification certificate in no way amounts to a licence.

<sup>78</sup> Kenya carried out a National Classification Exercise in 2002/2003.

The Ministry of Tourism and Wildlife has over the years been charged with the responsibility of licensing tourist related businesses as well as monitoring the quality of services rendered to tourists by their handlers. Under the Tourist Industry Licensing Act, only one type of licence exists and it is known as the Regulated Tourist Licence. This sole licence is issued to various categories of tourist activities by the Licensing Section in the Ministry of Tourism and Wildlife. It actually classifies the tourism enterprises into classes (A, B and C) and allocates specific activities to each class. Thus the requirements for licensing and alike are fashioned according to the class enterprise and the tourism activities a tourism operator is interested in.

The Kenyan model of licensing presents striking attributes worth noting such as the fact that the Tourist Industry Licensing Act only provides for issuance of one licence, which has provision for various categories of tourist related activities<sup>79</sup>. Therefore a tourism trader only needs to apply for the category with activities relevant to his or her business. In addition tourism operators are expected to demonstrate high levels of professionalism and integrity. In this respect the licensing exercise goes a long way to guarantee this requirement as it requires the submission of copies of the manager's professional qualifications and testimonials or Curriculum Vitae of the subject enterprise when applying for a license. This requirement thus helps to ensure that only qualified personnel are engaged in the industry and thus maintaining professionalism and integrity. The categorization of activities covered in the licence also helps ensure that the licensee concentrates on the activity for which he or she is licensed instead of trying to do that which does not provide for categorisation

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<sup>79</sup> The tourism activities have been clustered into Tourism Enterprise classes A, B and C.

### **3.3 SOUTH AFRICA**

South Africa is known as a land of diversity and division in its geography, people, and political history. The service industries contribute significantly to the South Africa's GDP and its largest categories of service industries include catering and accommodation. Tourism is widely viewed as a rich, potential source of jobs<sup>80</sup> and foreign exchange, and as an eventual alternative to the gold industry, which is in long-term decline. Attractions include the scenic beauty of the Cape wine region, the Drakensberg and the mountains of Mpumalanga, national parks and game reserves, beaches, and the climate. During the apartheid years this potential could not be realized because of the country's negative international image and perceived political instability. Since 1994<sup>81</sup> the industry has expanded dramatically, with the number of overseas visitors increasing by 52 percent in 1995 alone.<sup>82</sup>

Among South Africa's many tourist attractions are sixteen national parks and numerous provincial and local game parks, nature reserves, and wilderness areas. Kruger National Park in Mpumalanga and Northern provinces is one of the most popular with visitors and is home to more than 140 species of mammals and 450 species of birds. The rare mountain zebra, which is unique to South Africa, and is in fact protected in the Mountain Zebra National Park in the Eastern Cape. In addition to game parks, nature reserves, and big-game hunting between May and July, the wine region of the Western Cape is a consistent tourist attraction.

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<sup>80</sup> The National Parks Board employs more than 4,000 South Africans

<sup>81</sup> South Africa gained its independence in 1994.

<sup>82</sup> M.R. Maxon, "South Africa". *Microsoft Encarta Encyclopedia*. Redmond WA: Microsoft Corporation. (2009).



South Africa's tourism industry is primarily regulated by the Tourism Act of 1993 which has over time been amended to reflect the various changes and developments taking place in society. The preamble of this Act states in part: "An Act to make provision for the promotion of tourism, the further regulation and rationalization of the tourism industry; measures aimed at maintenance and enhancement of the standards of facilities and services hired out and made available to tourists; and the coordination as far as practicable of the activities of persons who are active in the tourism industry." <sup>83</sup>The scope of the regulatory framework further includes<sup>84</sup> provisions for the training and registration of tourist guides and the provision for a code of conduct for tourist guides; regulation of the procedure for lodging complaints; provision for the endorsement of certain registers in appropriate cases; provision for disciplinary measures, appeals and reviews; criminalization of certain conduct; and provision for a duty to provide information.

The regulatory scope of the South African Tourism is thus very wide in that it attempts to capture the most if not all issues prevalent in tourism sector. Perhaps its periodical review and amendment is a supporting factor to the wide scope of regulation. Furthermore the country has decentralized its tourism authority system. All its nine provinces have provincial tourism authorities and in some cases even its metro cities have tourism authority systems.<sup>85</sup> It thus submitted that the wide scope of the regulatory framework coupled with the decentralized tourism authority system have largely impacted on the country's development of tourism and particularly the sector's contribution to GDP.

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<sup>83</sup> For instance a professional tourism enterprise is to uphold principles of non-discrimination in the rendering of services.

<sup>84</sup> As amended by the Tourism development Act 105 of 1996.

<sup>85</sup> [www.sats.za](http://www.sats.za): Accessed on 15/02/2010

### 3.4 ZIMBABWE

Zimbabwe has some of the most important tourist attractions in southern Africa and it is renowned for the Victoria Falls on the Zambezi River and for its bountiful wildlife. Zimbabwe's population is divided into two main ethnic and linguistic groups, the Ndebele and the Shona, the former mostly inhabiting the southwest part of the country. Tourism is among the five major land use types that exist in Zimbabwe and it is richly' endowed with natural resources.<sup>86</sup> Over 13% of the country's total land area is set aside for national or wildlife recreational parks. The tourist attractions<sup>87</sup> in Zimbabwe include Victoria Falls (one of the Seven Wonders of the World) Great Zimbabwe, Lake Kariba, Eastern Highlands, Matopos, Hwange National Park, the ruins of Great Zimbabwe.

The service sector accounts for 59 percent of Zimbabwe's GDP and tourism, education, and public services are amongst the most important sectors. Since Zimbabwe's tourism independence in 1980, tourism has been one of the fastest growing economic sectors. The sectors vast natural and cultural resources have the potential for furthering the rapid growth in Zimbabwe. Zimbabwe's tourism industry has experienced growth based on a guiding principle of high value low volume tourism.

Zimbabwe's tourism policy envisages diversification and new initiative towards making tourism the catalyst for economic development. An important thrust of the policy is the use of tourism as a tool for poverty alleviation and sustainable economic development. The policy guides the development of Community Based Tourism (CBT), Tourism Development Zone

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<sup>86</sup> [www.zimbabwetourism.gov.zw](http://www.zimbabwetourism.gov.zw): Accessed on 15/02/2010

<sup>87</sup> Zimbabwe shares the Victoria Falls and the Lake Kariba with Zambia.

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<sup>87</sup> Zimbabwe shares the Victoria Falls and the Lake Kariba with Zambia.

Zimbabwe's tourism policy envisages diversification and new initiative towards making tourism the catalyst for economic development. An important thrust of the policy is the use of tourism as a tool for poverty alleviation and sustainable economic development. The policy guides the development of Community Based Tourism (CBT), Tourism Development Zone (TDZs) and TransFrontier Conservation Areas (TFCAs) and recognizes tourism as an important land use option.<sup>88</sup> The policy in its holistic operation is expected to level the playing field for all players in the tourism sector.

### **3.5 POTENTIAL AND EXPLOITATION OF ZAMBIA'S TOURISM ASSETS IN LIGHT OF OTHER COUNTRIES.**

Competitiveness in tourism is determined by price, product, and infrastructure and enabling environment<sup>89</sup>. Thus Zambia faces strong competition in the region against countries with comparable endowments and those providing the same segment of the tourism market such as nature and wildlife. Matoo<sup>90</sup> however contends that "despite this competition, Zambia does have a unique advantage in tourism, which stems from its powerful combination of attributes, first of all its pristine wildlife and natural remoteness can be marketed as the 'real African experience'. Secondly, the country is peaceful and its people are friendly. Zambia is free of many of the political and other constraints that are faced by its African competitors. Thus despite strong competition this combination of assets positions Zambia to play a greater role in the regional tourism market." Additionally, Zambia has in some instances better assets than

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<sup>88</sup> [www.zimbabwetourism.gov.zw](http://www.zimbabwetourism.gov.zw): Accessed on 15/02/2010

<sup>89</sup> R.J. Utz (Ed). *Sustaining and Sharing Economic Growth in Tanzania*. Washington D.C: World Bank. 2008. p.164

<sup>90</sup> A. Matoo et al, *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.216

all three countries and in fact its resources qualify to be more natural in that a large portion of its tourism sector remains unexploited.

Although Zambia should be receiving a larger share of revenue from tourism than it actually does on the basis of its nature attractiveness its tourism performance is more accurately explained when one considers performance with respect to infrastructure and business climate. The country's below average performance on infrastructure and business climate variables explains why Zambia is not able to reap more benefits from tourism than it currently does. However these issues are not something a country is stuck with forever as infrastructure can be made a policy priority and all constraints to a favourable business climate can be addressed by adequate policy.<sup>91</sup>

### **3.6 CONCLUSION**

It has been shown that Zambia's nature attractiveness warrants the reaping of immense benefits from the sector capable of fuelling economic growth. It appears therefore that the reason Zambia is reaping benefits less than those warranted by the real value of its tourism assets is primarily linked to the manner in which the tourism sector is regulated and the overall environment of its investment and business climate.

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<sup>91</sup> Ibid.p.226

## CHAPTER FOUR: THE ASSESSMENT OF TOURISM LAWS IN RELATION TO

### NATURE-BASED TOURISM.

#### 4.1 TAXATION REGIME

The taxation regime of the tourism industry is affected primarily by the Income Tax Act, Value Added Tax Act and the Customs and Excise Act. The regulatory scope of the aforementioned tax laws in the tourism industry was discussed in the previous chapter two. Therefore it is against such background that this assessment follows. It is also widely recognized that taxes on all persons in Zambia are imposed pursuant to tax laws which are enacted by Parliament.<sup>92</sup> Owing to such recognition it suffices that any tax incentives enjoyed by any persons is sanctioned by the tax laws.

The Zambian tax system in relation to the tourism sector consists of three different levels: (1) the general level where taxes are levied on value or turnover which applies to all businesses in the tourism sector; (2) the level of subsector and geographic exemptions or incentives which aims to facilitate diversification of the economy and to promote certain subsectors of tourism or areas of growth and trade; and (3) the level of individually negotiated exemptions and incentives which primarily aims to attract foreign direct investment to Zambia.<sup>93</sup> This three level taxation system is considered desirable in that it tends to enhance and further the development of certain subsectors of tourism or areas of growth and trade.

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<sup>92</sup> Article 114 of the Constitution of Zambia, Chapter 1 of the laws of Zambia gives the power to enact tax laws to Parliament.

<sup>93</sup> P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*. Lusaka: Fringila. 2004. p.250

## **CHAPTER FOUR: THE ASSESSMENT OF TOURISM LAWS IN RELATION TO NATURE-BASED TOURISM.**

### **4.1 TAXATION REGIME**

The taxation regime of the tourism industry is affected primarily by the Income Tax Act, Value Added Tax Act and the Customs and Excise Act. The regulatory scope of the aforementioned tax laws in the tourism industry was discussed in the previous chapter two. Therefore it is against such background that this assessment follows. It is also widely recognized that taxes on all persons in Zambia are imposed pursuant to tax laws which are enacted by Parliament.<sup>92</sup> Owing to such recognition it suffices that any tax incentives enjoyed by any persons is sanctioned by the tax laws.

The Zambian tax system in relation to the tourism sector consists of three different levels: (1) the general level where taxes are levied on value or turnover which applies to all businesses in the tourism sector; (2) the level of subsector and geographic exemptions or incentives which aims to facilitate diversification of the economy and to promote certain subsectors of tourism or areas of growth and trade; and (3) the level of individually negotiated exemptions and incentives which primarily aims to attract foreign direct investment to Zambia.<sup>93</sup> This three level taxation system is considered desirable in that it tends to enhance and further the development of certain subsectors of tourism or areas of growth and trade.

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However one of the prominent side effects of such a system is that it helps in creating and increasing the gap between local and foreign entrepreneurs who are able to benefit from tailor-made tax holidays and other incentives.<sup>94</sup> The tourism industry fairly receives standard tax treatment for income tax and value added tax.<sup>95</sup> However in the case of customs and excise, the industry receives treatment that may be described as industry specific in many respects.<sup>96</sup> Generally tourism operators in Zambia work with a tax rate much higher than their competitors within the region. For instance the corporate tax payable in Zambia currently stands at 35%, while the corporate tax rates in Kenya, South Africa and Zimbabwe all currently stand at approximately 30%.

Although the tax incentive scheme in Zambia is broadly pro-growth, tax policies and rates are not evenly and consistently applied in the tourism sector.<sup>97</sup> For instance the adoption of numerous tax incentives for the non-traditional industries<sup>98</sup> largely excludes services. This is evidenced in the reduction of corporate tax to 15% for businesses with non-traditional exports (everything but copper) which however excludes services exports. Exclusion of services, those of the tourism sector inclusive, puts this sector at a disadvantage.

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<sup>94</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.234

<sup>95</sup> P. Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*. Lusaka: Fringila. 2004. p.253

<sup>96</sup> It should be noted that the tourism industry's treatment in respect of the Customs and excise Act was elaborated in the chapter two at page 9.

<sup>97</sup> World Bank. *Foreign Investment Advisory Service of the World Bank Report*. 2004. p.20

<sup>98</sup> Non-traditional industries are industries that produce Nontraditional exports (exports other than copper and cobalt) and these are mainly primary products which include cotton lint, fresh vegetables, fresh flowers, cotton yarn, burley/flue cured tobacco, petroleum products. Others are electricity, cement, fuzzy cotton seed sugar, copper wires, cables and rods as well as semi-precious/precious stones. It is also important to note that Zambia's main export products have traditionally been copper and cobalt.



The exclusion in the law in so far as services are concerned amounts to a disadvantage in that the corporate tax applicable to tourism services still remains at the standard rate of 35%. On the other hand, general exemptions such as incentives in favour of micro and small businesses are however applicable to the tourism sector.<sup>99</sup> Additionally diverse ranges of wear and tear allowances referred to in chapter two do benefit the investment and business climate of the tourism sector. It has however been suggested and qualified by previous studies that the net results of these incentives are negligible because of the profit margin (taxable income) of the industry.<sup>100</sup>

In relation to customs and excise duties, the tourism industry in Zambia receives no preferential treatment. Some if not most of its essential products are the targets of high excise duties and examples of such products and their corresponding rates include: Beer (70 percent), wines (125 percent), spirits (125 percent), petrol (30 percent) and diesel (30 percent).<sup>101</sup> These duties make tourism expensive and it is estimated that Zambia is at least twice as expensive as South Africa and the costs of operations are one and half times higher than in other neighbouring countries.<sup>102</sup> Though the higher level of taxes on basic consumption goods served to tourists and taxes on fuels are not the sole cause of the expensiveness, they a major cause of it and they adversely impact on the attraction of investment and cost of doing business.

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<sup>99</sup> The tourism sector based on such incentives is able to enjoy exemption from taxes for first three (in urban areas) to five years (in rural areas) of operation.

<sup>100</sup> Foreign Investment Advisory Service of the World Bank Report.2004.p.25

<sup>101</sup> P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*.Lusaka:Fringila.2004.p.250

<sup>102</sup> Pope.2005 in A. Matoo et al.*Services, Trade & Development: The Experience of Zambia*.New York: Palgrave Macmillan, 2007.p.236

It is also important to note that some tourism service providers benefit from specific tax reductions and incentives on basis of geographic or activity criteria. The region of Livingstone has benefited since 1991 from VAT exemption and this has largely encouraged the explosion of tourism in the area and the development of many small businesses. The natural consequence of this tax holiday has been the concentration of tourism activities in Livingstone area in comparison to other areas in the country. This concentration has almost led to the undermining of the government's intention of promoting tourism nationwide through growth as areas (especially remotes ones) without incentives such as those applicable in Livingstone are deemed less investment friendly.

It has in fact been contended that the Zambia's tourism advantage remains largely unexploited and is producing only limited development benefits. One of the reasons primarily cited for this situation is the fact that the benefits from tourism endowments are unequally spread.<sup>103</sup> The results of such unequal spreading is that tourism has been increasingly concentrated in the Livingstone area, despite the high tourism potential of other provinces: 82% of the tourists visit the Victoria Falls and the Mosi-oa-Tunya area and 93% of employment in nature-based tourism activities is concentrated in Livingstone and the rapids.<sup>104</sup>

Further there are some exemptions that are specifically tied to certain activities and as such the activities earlier alluded to in the previous chapter enjoy zero-VAT rating. The selection of these activities remains arbitrary however they include boat cruising, micro lighting,

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<sup>103</sup> Brochure on Investment opportunities in National Parks published by ZAWA

<sup>104</sup> Ibid

helicopter tours and walking safaris.<sup>105</sup> The select application of incentives to certain activities again evidences the inequality prevalent in the sector in so far as incentives are concerned. This again disadvantages the other activities which have no incentives tied to them and as such they are less likely to be pursued by tour operators. In fact previous studies have argued that variable VAT rates in the tourism sector encourage corruption at border posts and manipulation of the system.<sup>106</sup> For instance overseas business bookings have declared as packages and fictitious booking offices were set up in international source markets. In it has been contended that multiple rates within a sector complicate administration and compliance and create opportunities for abuse<sup>107</sup>

In so far as attracting foreign direct investment suffices, a number of incentives that were individually negotiated have been given. These incentives have further been varied from time to time and an example of individual negotiation benefits are those enjoyed by Sun International Hotel. The benefits that accrue to Sun International Hotel have been criticized as being unnecessarily generous.<sup>108</sup> Furthermore, the hotel company was keen to locate its venture in Livingstone that it would have still taken up the venture even with less generous (reasonable) incentives. While Sun International Hotels are an excellent and prestigious addition to tourism in Zambia, their benefits ought not to be overstated as their ventures in this country come with a downside. Particularly in the case of Sun International, many of the tourists (a) come on package holidays benefiting travel agents, (b) eat and drink imported

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<sup>105</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.237

<sup>106</sup> Ibid.

<sup>107</sup> Ebrill, L et al. *The Modern VAT*. Washington D.C: International Monetary Fund. 2001. p.120

<sup>108</sup> The agreement made with the government included tax concessions for the project. Most concessions involved initial investment phase of project and included the waiver of all import duties and VAT during the construction period. Further two concessions which according to the agreement appear to be valid indefinitely and they provide. Firstly, the payment of 15% payment of company tax on all profits and secondly zero-rating for VAT on all tourist accommodation.

foods and (c) when profits do start to show, they will be repatriated to South Africa, rather than being spent in Zambia thus showing that the leakage<sup>109</sup> is very high.<sup>110</sup>

While the national tourism planning has identified three circuits,<sup>111</sup> it has been argued that in reality only one circuit exists. This one and only existent circuit as far as reality is concerned links the Victoria Falls with South Luangwa and Lower Zambezi National Parks. It has further been argued that logistical issues, low densities of tourism establishments and an absence of real incentives have so far precluded the development of the identified three circuits.<sup>112</sup>

#### **4.2 LICENSING AND ADMINISTRATIVE REQUIREMENTS**

The licensing of tourism enterprises in the tourism industry is primarily pursuant to the Tourism and Hospitality Act. It is important to appreciate that the enactment of the Tourism and Hospitality Act was part of legislative reforms undertaken to improve the investment climate of Zambia as a whole.<sup>113</sup> The Zambia wildlife Authority Act also imposes some licensing obligations on tourism enterprise operators and it also requires their fulfilment of other administrative requirements. Regulations of investment are usually implemented

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<sup>109</sup> Money that leaves the Country to pay for goods (food or specialised equipment) or services (expatriate salary) not available in Zambia.

<sup>110</sup> P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*.Lusaka:Fringila.2004  
.p.254

<sup>111</sup> A brief description of the three circuits was referred to in chapter one and they include the Western Circuit, Central Circuit and the North –Eastern circuit.

<sup>112</sup> Natural Resources Consultative Forum.*Report on the Real Economic Impact of Nature Tourism in Zambia*.2007.p.17

<sup>113</sup> Zambia Development Agency.*The Economic Impact of Direct Investment on the Zambian Economy*.2007.p.6

through licensing systems, without the licence, the rights of operation of the foreign investor in a sphere of activity become inoperative.<sup>114</sup>

Licensing of tourism enterprises and the fulfilment of the various administrative takes up a lot of time, money and is clogged with numerous bureaucratic procedures thereby qualifying as a constraint on investment and business operations. Up to 74 licenses are required to operate a hotel that offers different types of tourism activities such as gaming and hunting.<sup>115</sup> While the number of licenses appears unbelievable, it is not the number that is the problem per se but the obstacles associated with acquiring or renewing each license and the other administrative obligations.

The process of obtaining a license takes very long and thus affects the overall cost of doing business in Zambia and more specifically in the tourism sector. Opening a business can take six months to one year and the indirect cost of obtaining licenses in terms of lost days of work is often higher than the direct cost in terms of fees.<sup>116</sup> Additionally, the exercise of licensing requirement has been criticized as being extremely costly to meet. It is in fact estimated that the annual cost of compliance for a basic five-room guest house is ten million kwacha.<sup>117</sup> Furthermore, the overall system lacks transparency in that almost no tourism regulator is able to communicate an exhaustive list of licenses required to operate a

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<sup>114</sup> M.Sonarajah.*The International Law on Foreign Investment*.Cambridge:University Press.2004.p.85

<sup>115</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*.New York: Palgrave Macmillan, 2007.p.227

<sup>116</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia* .New York: Palgrave Macmillan,, 2007.p.227

<sup>117</sup> Ibid.p.228

business.<sup>118</sup> It therefore becomes apparent that apart from the number of licenses required being too numerous, the licensing procedure is itself tainted with unpredictability and inefficiency which ultimately makes the whole process cumbersome for the applicants.

There is also prevalent in sector a lack of operation of the accommodation grading system. Over time very few inspections have been conducted because of resource and transport constraints. The consequence of the lack of inspection cannot be overemphasized. Most of Zambia's hotel accommodation and restaurants do not meet the required standards and two-thirds of the hospitality establishments remain unclassified. As a result Illegal guesthouses, motels and lodges have mushroomed over years.<sup>119</sup>

Standards and licensing problems are further complicated by wasteful use of time and financial resources. 90% of tourism operators consider regulatory authorities to be either: (1) unprofessional and obstructive or (2) inefficient and unpredictable.<sup>120</sup> In effect this translates into high cost of setting up and operating the administrative elements of tourism enterprises. The problems associated with the licensing and administrative framework of the tourism industry illustrate how the burdensome and complex administrative measures do not serve valid policy objectives that warranted their origin. Instead of ensuring quality service the system of administrative control relegates Zambian hospitality establishments to gray areas or informality. Without a strict application of quality control, the reputation of Zambia's tourist

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<sup>118</sup> Ibid.p.227

<sup>119</sup> Ibid.p.228

<sup>120</sup> Natural Resources Consultative Forum .*Report on Real Economic Impact on Nature Tourism in Zambia*.2007.p.

destination is threatened by malpractice.<sup>121</sup> This potential malpractice dents the tourism sector's investment and business climate and pushes the country down in terms of rankings on the World Bank database of doing business hierarchy.

Zambia's 19 national parks and 34 game management areas represent a major asset of the country especially in relation to nature based tourism. The Zambia Wildlife Authority (ZAWA) has a major role to play in the regulation of tourism activities concerned with wildlife. Since the Authority's inception it has been mainly limited in its performance by two constraints. Firstly, the Zambia Wildlife Authority has failed to establish itself as a customer- and business or performance oriented institution and secondly, it has been restricted by financial issues.<sup>122</sup>

Wildlife is a main tourism product in Zambia and as such ZAWA is an important public service provider of the wide range of wildlife tourism products which are also economic assets. They are economic assets in that they contribute to government's revenue base through generation of taxes. For instance ZAWA's generation of hunting revenue is realized as result of the wildlife tourism product and in the year 2005 ZAWA generated taxes in the range of \$ 5 million to \$ 8 million based on government subsidies of \$1 million.<sup>123</sup> In addition it must be understood that the attractiveness of protected areas is largely based on the manner

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<sup>121</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.228

<sup>122</sup> Natural Resources Consultative Forum. *Report on the Real Economic Impact of Nature Tourism in Zambia*. 2007. p.18

<sup>123</sup> Natural Resources Consultative Forum. *Report on the Real Economic Impact of Nature Tourism in Zambia*. 2007. p.18

of management of the local situation and the way in which protected area's uniqueness is projected.<sup>124</sup>

ZAWA also has a role to play in the verification of land ownership especially in relation to the allocation of sites in Game Management Area (GMAs). So far as land policy is concerned, unpredictability where leases can only be obtained for shorter periods than desired by businesses and where legal commitments can be disregarded by public authorities are a major concern to investors.<sup>125</sup> Although the Lands Act<sup>126</sup> provides that the Director General of ZAWA must give consent for the issuance of title deeds in GMAs, the land tenure is primarily vested in traditional leadership. The consequence of such system is that before ZAWA can approve any tourism enterprise, there must be verification of land ownership with the Local Chief in relation to the proposed development thus making the process more complex.

However in certain instances ZAWA itself has been responsible for the delays in acquiring land in GMAs and thus causing investors to lack confidence in the Authority and the doubt the purpose ZAWA seeks to serve in furthering wildlife tourism. For instance despite a chief having given permission for conversion, ZAWA has deliberately blocked the acquisition of title deeds by an investor for land situated in GMAs where they receive a better offer from another investor for the same piece of land situated. Such situations further worsen the

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<sup>124</sup>P.F..J Eagles et al. *Sustainable Tourism in Protected Areas: Guidelines for Planning and Management*, United Kingdom: Cambridge. 2002. p.2

<sup>125</sup>A. Matoo et al. *Services. Trade & Development: The Experience of Zambia* New York: Palgrave Macmillan. 2007. p.227

<sup>126</sup> Section 5(4) of the Lands Act, Chapter of the Laws of Zambia.



unpredictability cited by the private sector in relation to land policy in relation to investing in the tourism industry.

### **4.3 ZAMBIA DEVELOPMENT AGENCY ACT**

The Zambia Development Agency is described as the one stop shop for investors. One of the core functions of the Zambia Development agency as alluded to in the previous chapter is to further the economic development of Zambia by promoting efficiency, investment and competitiveness in business and promoting exports from Zambia.<sup>127</sup> In fact its main mandate is to foster economic development through promoting and facilitating investment and trade. The Zambia Development Act under section 3 defines a priority sector or product as a sector or product that has a high growth potential and listed in the Second Schedule of the Act. The Zambia Development Act exempts 50% of profits from taxes for companies operating under the scheme, suspends import duties for a five year period and qualifies capital expenditure on improvements for a 100 percent improvement allowance. However it appears that priority sectors identified in second schedule of the Act do not include services<sup>128</sup>.

A perusal of the second schedule reveals that the tourism sector is not identified as a priority sector and as such an investment in the sector will not attract the incentives and benefits that accrue to investors by virtue of section 56 and 57 of the Act. This position conflicts the government's prioritisation of the sector and its intention and plans as expressed in the Fifth National Development Plan. Furthermore, it becomes difficult to conceive why the tourism

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<sup>127</sup> Section 5(1) of the Zambia development Act No. 11 of 2006

<sup>128</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.235

sector is not recognized or considered as a priority sector under the ZDA Act bearing in mind the immense tourism potential that Zambia as a whole possesses. The non-recognition of the tourism sector as a priority sector adversely impacts on the investment and business climate of the sector in that those additional incentives accruing to the priority sector are not applicable to it.

Additionally, the sector has also been recognized as having a high multiplier effect. Considering the good standard of the multiplier effect applicable to the tourism industry, it becomes imperative that the sector ought to be recognized as a priority sector. While the Zambia Development Act is meant to foster economic development through promoting and facilitating investment and trade this Act is likely to increase the gap between services sector and other non-traditional sectors.<sup>129</sup>

#### **4.4 IMPACT ON INVESTMENT AND BUSINESS CLIMATE**

While it is recognized that investment is important, it is also essential that such investment must pay off in the country in which it is occurring. Various scholars have argued that it is not the quantity of investment that is of core importance but more so the quality of the investment itself. These arguments are advanced against the background that studies have shown a weak link between the mere quantity of investment and sustained growth resulting from such investments.<sup>130</sup> In order to achieve quality investment that achieves sustainable

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<sup>129</sup> A. Matoo et al. *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan, 2007. p.235

<sup>130</sup> S.A.Mahmood. *Paper Presentation: Why Investment Climate matters*. Washington D.C: World Bank.2006

growth it is important that a country has a good investment climate. Nick Stern<sup>131</sup> defines investment climate as the policy, institutional, and behavioral environment, both present and expected, that influences the returns, and risks, associated with investment. Furthermore, macro-economic factors (including political stability), governance and infrastructure (quality and quantity; physical and financial) are identified as the three main features of any investment climate.<sup>132</sup> Laws in the tourism sector sit at the core of the sector's regulatory framework and as such the governance feature becomes a primary concern in creating a good investment climate.

Zambia's investment climate still lags behind international and regional investment areas on a number of important issues and the private sector identified issues, mainly relating to taxation; macroeconomic stability, high costs, transport inefficiencies, difficult access to land; corrupt, slow and cumbersome administration.<sup>133</sup> While not all aspects of the investment climate can be remedied by legislation, core issues such as licensing, taxation, difficulty in access to land and investment incentives are primarily products of legislative provisions. It is also without doubt that licensing, taxation, difficulty in access to land and investment incentives have an important role to play in the policy, institutional, and behavioural environment, both present and expected, that influences the returns and risks associated with investment.

It thus follows that regulation of relevant issues as provided for in law must be equal and not offer differential treatment in favour of particular investors where it is not warranted. Neither

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<sup>131</sup> Former Chief Economist, World Bank.

<sup>132</sup> A.Mahmood. *Paper Presentation: Why Investment Climate matters*. Washington D.C: World Bank. 2006

<sup>133</sup> Natural Resources Consultative Forum. *Report on the Real Economic Impact of Nature Tourism in Zambia*. 2007. p.17

should certain areas and activities receive differential treatment at the expense of other investors or indeed the attainment of sustainable growth. The granting of incentives to desirable investors but not to other investors raises issues of discriminatory treatment. There can be no objection to discrimination based entirely on economic factors provided an adequate basis for differential treatment such as the need to attract certain types of technology or to direct foreign investment into channels of production.<sup>134</sup> Thus it suffices that the concentration of tourism flows is not dictated by scarcity of tourist attractions but rather by the inadequacy of infrastructure and inaccessibility of basic services in remote areas. For instance the Northern Circuit, which has the highest concentration of archaeological and historical sites and waterfalls in the country, illustrates this gap between high tourist potential and low tourism outreach and receipts.

Additionally the laws in place must serve a legitimate purpose and they must also be investment and business friendly. The laws must serve the tourism sector in a way that does not cripple its investment and business climate. Overregulation leads to a larger unofficial economy and thus it is important that regulations in respect of a particular sector must serve the well calculated and intended purposes as indicated by Parliament. Thus in the case of the tourism sector the standards regulations ought to be uniformly and vigorously administered by the relevant authorities and non-compliance appropriately dealt with. Such effective administration could have a rejuvenating impact on the investment climate as the tourism operators are keen to benefit from the standardized treatment. As things stand, the unofficial sect of tourism operators dents the country's investment and business climate as their rate of proliferation appears to escalate every day. The unofficial sect of tourism enterprises makes it

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<sup>134</sup> M.Sonarajah. *The International Law on Foreign Investment*. Cambridge: University Press. 2004. p.116

more costly for properly licensed enterprise to operate and in the worst case scenario they potentially deter would be tourism investors and operators from entering markets where they could have been competitive.

Also the difficulty and uncertainty attributed to the land policy especially with respect to GMAs negatively impacts on the prospects of having additional tourism ventures particularly tailored for such areas.

Currently on the Doing Business Report<sup>135</sup> Hierarchy which gives a description of the ease of doing business in various countries, Zambia is ranked<sup>136</sup> at numbers 99 and 90 out of 183 countries for the years 2009 and 2010 respectively.<sup>137</sup> Aspects of licensing, taxation, difficulty in access to land and investment incentives have a huge impact on the cost of doing business as most tourism operations revolve around them. Currently the unpredictability and inequalities associated with the aforementioned matters potentially make goods and services in the tourism sector expensive. It therefore appears that Zambia's position may be further improved on the Doing Business rank if the unpredictability and inequalities prevalent in the sector are addressed.

#### **4.5 IMPACT ON ECONOMIC DEVELOPMENT**

Tourism sector was identified as one of four pillars to foster Zambia as it heads towards achieving the 2030 vision as stipulated in the Fifth National Development Plan. This recognition and status as one of the four pillars is largely based on the industry's immense

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<sup>135</sup> Investors intending to invest in various parts of the world usually rely on information contained in this report as aggregated by the World Bank and it is safe to argue that the information contained in this report has a bearing on the regions that investors chose to invest.

<sup>136</sup> Rankings on the ease of doing business are the average of the economy's rankings on the topics covered and they include Regulations affecting the 10 stages of the life of a business such as: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

<sup>137</sup> World Bank. *Doing Business Report 2010*. New York: Palgrave Macmillan. 2009. p.5

potential that largely remains unexploited. The economic benefits of both local and foreign direct investment may be measured by the favourable and positive impact on factors or indicators. These indicators include government revenue, employment generation, export earnings, technology transfer to and skills training for resident employees as well as multiplier economic effects to utility service providers and the general public.<sup>138</sup> Additionally, the benefits of direct investment can also be viewed in terms of its quantitative effects on growth, as measured by Gross Domestic Product (GDP).<sup>139</sup>

The government in the Tourism recognizes the immense potential of the tourism sector and it also expresses the view that the livelihoods of locals may be improved through investments and development resulting from this sector. Tourism trade has a “multiplier effect” because it generates direct and indirect jobs. An attempt to capture this effect includes the trade of traditional tourism service providers (Airlines, Hotels, Car hire companies) and upstream industries and services such as fuel and catering companies, laundry services and accounting firms.<sup>140</sup> It is intended by government that the participating local communities benefit from natural and cultural resource-based tourism development in terms of employment, income and entrepreneurial opportunities and possibly through partnerships or independent investments or shareholding.<sup>141</sup> In fact the building of tourism structures and establishment of

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<sup>138</sup> Zambia Development Agency. *Economic impact of Direct Investment on the Zambian Economy*. 2007...p.17

<sup>139</sup> Ibid.

<sup>140</sup> A. Matoo et al, *Services, Trade & Development: The Experience of Zambia*. New York: Palgrave Macmillan. 2007. p.217

<sup>141</sup> Natural Resources Consultative Forum. *Report on the Real Economic Impact of Nature Tourism in Zambia*. 2007.p.18

tourism operations creates a favourable entrepreneurial context which enables the poor and locals take up business initiatives.<sup>142</sup>

Thus in essence where tourism development is evenly facilitated, it represents a step towards the fight against poverty and towards empowerment of local communities.<sup>143</sup> While the intention of the government is well founded it becomes difficult to reconcile how the same intention is to be given a chance to accomplish its purpose. The reconciliation becomes difficult in that the tax system and particularly the level two and three tax incentives lead to concentration of tourism enterprises in one area. Additionally, it is common ground that they are not applicable to GMAs nationwide and more especially to the ones based in the most remote areas where the economic benefits are largely required by the local communities. Therefore employment generation, technology transfer to and skills training for resident employees as well as multiplier economic effects to utility service providers and the general public in remote areas is potentially sidelined.

Quantitatively, it is estimated that tourism contributes 1.86 percent of tax revenue, and further because the sector largely pays standard tax rates, its contribution to tax revenues is likely to continue significantly in growth.<sup>144</sup> It is however important that leakages are taken into account when considering the true economic impact of this industry on its overall contribution to economic development of the country as a whole. The World Bank makes a conservative estimate that 70 percent of gross exchange earnings remain within Zambia

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<sup>142</sup>World Tourism Organisation. *Poverty Alleviation Through Tourism-A Compilation of Good Practices*.Spain: WTO.2006.p.5

<sup>143</sup>World Tourism Organisation. *Poverty Alleviation Through Tourism-A Compilation of Good Practices*.Spain: WTO.2006.p4

<sup>144</sup>P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*.Lusaka:Fringila.2004.p.250

implying that the leakage is on average around 30 percent.<sup>145</sup> On reasonable inference this conservative estimate of leakages cannot override the contention that the industry is still worth good economic value in this country.

In addition it is also important to note there is considerable variation within the industry; some firms will source almost entirely locally and retain profits in the country whereas others, especially multinational firms, will source many of their goods from abroad and repatriate profits.<sup>146</sup> From the distinction in so far as sourcing of goods and materials is concerned, it becomes imperative that the law should be inclined to favour the firms that are pro-local in terms of sourcing materials as they are of more likely benefit to Zambia's cause for economic development. It is also essential that such inclination to firms that are pro-local be reflected in the policies of the sector. It is implicit therefore that Zambia has the potential for doing much better with respect to tourism but the development of the sector is largely hampered by shortcomings in the areas of regulation and provision of infrastructure.

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<sup>145</sup> P.Langmead. *Selected Papers on Tax Policy Issues in Zambia: Taxation of the tourism sector in Zambia*. Lusaka: Fringila. 2004. p.250-252

<sup>146</sup> Ibid. p.251



## **CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS**

### **5.1 CONCLUSION**

In the beginning tourist trade was easy to manage, as there were only a handful of players in the industry. However, the recent and rapid growth of the sector has resulted in the emergence of numerous actors offering a wide variety of services. The growth of the tourism sector has in turn made the industry both delicate and highly sensitive to quality and service standards.<sup>147</sup> In attempt to assess the tourism related laws and how they affect the investment and business climate of the tourism industry and also how they facilitate the attainment of economic development: the government policy for the tourism sector was outlined and an overview of Zambia's tourism potential highlighted; secondly the state of the current tourism related laws and the prevailing trends in regulation was given; thirdly brief case studies with Kenya, Zimbabwe and South Africa were given in respect of their tourism industries; fourthly a closer focus on the laws regulating the tourism industry was given through the assessment of the current state of the law.

In the assessment of the current state of the tourism related laws the brief case studies on Kenya, Zimbabwe and South Africa were referred to in addressing the investment and business climate of the tourism sector and its effect on the sector and also its ability to contribute to economic development. In response to the matters raised in the previous chapters, this chapter draws a conclusion on the consequence of an inhospitable investment and business climate in the tourism sector and how it impacts on the sector's ability to contribute to economic development.

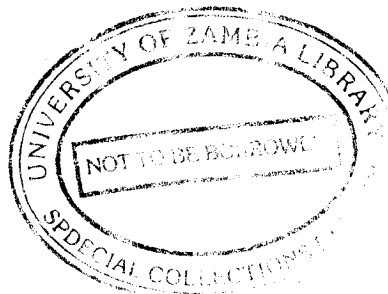
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<sup>147</sup> [www.kenyatourism.gov.ke](http://www.kenyatourism.gov.ke) : Accessed on 15/1/2010

The findings of the preceding chapters were in pursuit of the main objective of this paper, which throughout this paper has been to assess the efficacy of the tourism regulatory framework in providing a favourable investment and business climate for nature based-tourism and achieving economic development for the Zambian economy. It follows then that the issues that arise at this stage are whether the tourism related laws do in fact provide a hospitable tourism and investment climate for would be investors and also whether the laws enhance the sector's contribution to economic development in the country. On the strength of the findings revealed in the preceding chapters it suffices that Zambia's tourism related laws fall short in the provision of a hospitable tourism and investment climate on a number of crucial benchmarks. Furthermore, the tourism related laws shortfall in providing a conducive business and investment climate sector has consequently compromised the sector's ability to contribute significantly to economic development as warranted by the tourism potential this country possesses.

It was earlier noted that, Zambia possess immense tourism potential which if managed properly would lead to significant contribution to the country's economic development. In fact it was also highlighted that a further improvement in the sectors investment and business climate would facilitate profitable tourism development across the country as a whole. It would be incorrect to state that the present investment and business climate of the tourism sector is totally that of a hostile nature or that the sector's contributions to economic development are insignificant. In fact it is not the position that this paper alleges. However the point being put forward for consideration in this respect is that the potential problems and challenges prevalent in the sector (as explained in the previous chapter) disadvantage the sector's investment and business climate and consequently lead to under investment in the

sector and under rated contribution to the country's economic development. It is also important to note that a couple of lessons on various issues could be drawn from countries like Kenya, South Africa and Zimbabwe despite the difference in levels of tourism development of their industries.



## **5.2 RECOMMENDATIONS**

- **Good working Relationship between the Government and all Stakeholders.**

Positive growth in the tourism sector will be stimulated by the existence of a good working relationship between government and all stakeholders as they are crucial stakeholders in the process of tourism development. All the actors in the tourism sector should be included in the process of policy and law formulation, reform and any matters connected thereto from beginning to end. All stakeholders should contribute at the input stages to ensure the process encompasses various interests as expressed by the stakeholders. Additionally, the whole process should be transparent from beginning to end as more often than not the government has been openly accused of altering final recommendations and thus leaving out some stakeholders' views in the process. The inclusion of all stakeholders will enhance the legitimacy of any legislation as all parties will have contributed and attempted to have their interests reflected in the final product. The positive working relationship between government and the rest of the stakeholders leads to better compliance attitudes by tourism operators and effective enforcement of all tourism legislation as there is cooperation. This measure in the long run further guarantees professionalism and integrity among tourism operators.

- **Education and Human Resource Development**

As the sector continues to expand it becomes imperative that Government makes a deliberate policy to further improve and increase the training facilities offering education pertaining to tourism and hospitality business. The sector as it stands does not have many fully trained tourism and hospitality staff. This will have a positive impact on the country as more local people will have a chance to be highly trained and skilled in fields specifically tailored for the tourism industry not only as waiters and chefs but also for management and supervisory positions in various tourism enterprises. Further the education and human resource development of tourism personnel working in GMAs should also be catered for with particular reference to the specific needs of their job character and environment. The effect of education and human resource development on the sector is that it will lead to the reduction in the number of expatriates that are brought into the country by foreign investors to take up management and supervisory positions of big tourism enterprises.

- **Improvement of Infrastructure and Tourism Support Facilities**

The cost and availability of essential services necessary for production and exports are among the major constraints to the existence of a good investment and business climate in Zambia. Transportation, energy and telecommunication services are not available in many areas of the country with significant investment potential, especially rural areas. In cases where they are available, they are often of poor quality, unreliable and very expensive. This hikes the cost of doing business and consequently makes Zambia more expensive than other countries in the region equally competing for tourism investment. The government must therefore adequately address all the problems associated with infrastructure and tourism support facilities across all the three circuits and more especially in the remote areas. The development of tourism

facilities in remote areas will create a supply chain for the locals and thus they may supply tourism operators with goods and services.

- **Improved Funding to ZAWA and Other Tourism Related Agencies**

Improved and increased funding will help ZAWA address the constraints that have over time limited its capabilities to perform its functions. Its current separate entity status as opposed to the previous government departmental status must be emphasized to boost its corporate nature as it is meant to function as a business or performance oriented institution. Furthermore the government must increase its funding to ZAWA and other tourism related agencies such as those responsible for marketing. Financial investments in wildlife estate will only lead to increased generation of taxes revenues above and beyond those currently generated in the midst of various constraints. The ministry of tourism should also be allocated sufficient funds to enable them carry out licence and hotel standards inspections to enable the classification of hospitality establishments.

- **Effective Implementation and enforcement of Legislation**

There should be more vigorous and effective implementation of legislation and policies especially in respect of the hospitality establishment classification especially the accommodation grading system. This is because weak law enforcement and lack of effective implementation negatively affect the regulatory framework's ability to provide good investment and business climate as well as achieve economic growth. It is therefore important that all legislation serves the valid policy objectives they seek to implement and enforce in the tourism sector. The ministry of Tourism should upscale its inspections of tourism and hospitality establishments to ensure compliance with the law by all tourism operators' and let business competition take its full role on the tourism market. The government must see to it

that Zambia joins the world tourism market by establishing an effective tourism classification and standards system. Additionally, the ministry of tourism should ensure that all tourism enterprises are managed by qualified personnel to avoid sub-standard service provision in the sector.

- **Review of Taxation Incentives and Licensing mechanism**

It becomes imperative that a revision of the three level tax systems should be undertaken by the government to try and create a level playing field for all tourism operators regardless of their place and area of business in the country. This will enhance and divert tourism investment attention from the places with highly advantageous incentives such as Livingstone to all other areas in the country that equally possess tourism potential. Furthermore it will lead to progressive development of all three tourism circuits as identified by the tourism ministry. A better measure perhaps could be to limit the time frame in which highly advantageous incentives operate so that an investor's contribution to revenue and economic development is fully benefited from. In addition the exaggerated award of tax holidays by the Zambian government to investors must be done away with, so that realization of benefits from such investments accrue to the country through collection of taxes that largely constitute government revenue. This is recommended for the major reason that attraction of investment should not be done at the expense of government revenue. A better stance for the government to take is to concentrate on the award of capital allowances to further promote quality investment as opposed to the exaggerated tax holidays granted to investors.

In relation to licensing it is important that a review of the number of licenses be conducted and an inquiry into the purposes they serve be examined. This review is to act as an

elimination exercise for all licenses that do not serve a valid objective and also the merging of licenses that serve the same objective. The review of all administrative and licensing requirements must be with a view to remove measures that do not serve any valid policy objective and to ensure that any measure serving a valid policy objective does so efficiently, transparently and predictably.

Further a deliberate move should be undertaken by the ministry of tourism to publicize the correct number of licenses that it administers and the how much they cost to enhance transparency. It follows that the tourism problems must be addressed in a comprehensive manner that undertakes review of administrative barriers with the principal objective of simplifying the process in terms of both time and money thus creating an incentive for the business and investment climate.

### **5.3 Concluding Remarks**

The tourism industry can play a greater role in propelling Zambia to greater levels of economic development. However this greater role is largely dependent on the regulatory framework operating within the sector. While the framework serves well intended purposes and has managed to reap some benefits for Zambia, it is still by and large not providing a conducive investment and business climate in the sector as many inequalities still exist among tourism operators. To improve the image of Zambian tourism sector in respect of investment and business climate an enabling environment has to be created so that the marketing of investment opportunities becomes more effective.

It is thus submitted that if the salient recommendations given in this chapter are embraced by all stakeholders in the tourism sector and implemented effectively by the appropriate authorities, Zambia will have an improved investment and business climate and it will be more likely to accrue more benefits in so far as contributions to economic development are concerned. A more conducive environment in relation to investment and business will emerge on the Zambian tourism market and the sector's ability to contribute to economic development will also be enhanced. Such development will further position the tourism industry more appropriately in so far as achieving the goals stated in the Fifth National Development Plan is concerned.

This research set out to achieve the objective of assessing the tourism regulatory framework in providing a favourable investment and business climate for nature based tourism and achieving economic development for the Zambian economy. Based on the findings of this research it has been shown that Zambia has to make a couple of strides in order to make the tourism sector's investment and business climate more favourable and conducive. By way of the recommendations stated above it is hoped that this research adds to the possible solutions for addressing the problems and challenges faced by the tourism sector and consequently the realization of the industry's full potential in so far as contribution to Zambia's economic growth suffices.



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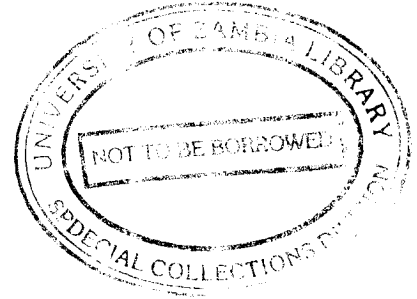
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