A Policy Evaluation of the 2018 and 2023 Zanzibar Investment Laws

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KEY TAKEAWAYS

In 2023, Zanzibar passed a new law to regulate domestic and foreign investment.

This **2023 Act** is good legislation in the sense that is it much clearer, less ambiguous, and more concise than the 2018 Act. The 2023 Act confirms that the key role of the state in Zanzibar is to support private-sector led development.

The **2023 Act** gives considerably more autonomy and power to the Zanzibar Investment Promotion Authority (ZIPA).

The **2023 Act**, relative to the **2018 Act**, downgrades the seniority of ZIPA board membership, which is likely to weaken its effectiveness.

The **2023 Act**, relative to the **2018 Act**, extends more damaging and distortionary tax incentives to investors.

Executive Summary

In 2023, Zanzibar passed a new law to regulate domestic and foreign investment. This law repealed a 2018 law that, in turn, had replaced a law dating from 2004. This policy paper evaluates the evolution of the law from 2018 to 2023 in relation to international best or comparable practice.

The two laws upon which this paper focuses were signed into law on the 31st December, 2018 and 1st February, 2024, respectively, and hereafter are known as the **2018 Act**, the **2023 Act**, or the **Acts**.

The **2023 Act** is improved legislation in the sense that is it much clearer, less ambiguous, and more concise than the **2018 Act**. The **2023 Act** confirms that the key role of the state in Zanzibar is to support private-sector led development.

The **2023 Act** makes further, small steps towards an open, market-based economy, confirming a national-level trend that has been ongoing since the 1990s.

ZIPA is given clear responsibilities in both Acts to act as a custodian of national-level data related to investment, with further powers in the **2023 Act** to collect that data. Data, combined with the responsibility to produce research, could potentially give ZIPA a key role in policy making and policy implementation.

Best international practice is to ensure that an investment promotion agency such as ZIPA has both authority and autonomy to exercise its responsibilities. Both Acts confer upon ZIPA broad responsibilities related to domestic and foreign investment and, in particular, in the management of the Zanzibar Special Economic Zone (SEZ) program.

ZIPA is given roles related to setting up a one-stop-shop (OSS) service for investors and coordinating across government agencies and ministries. These roles require it to exercise considerable authority over other entities in government in order for it to function effectively. The **2023 Act** gives considerably more powers to ZIPA related to the evaluation of an investment before it is made, and in monitoring that investment afterwards.

The chairperson of the ZIPA board is appointed by the President, but the Acts do not clarify whether this gives the board any derived authority from the office of the President.

There are significant personnel changes in board membership, whereby the **2023 Act** adds representation from the Ministries of Finance and Trade, which is a positive development. However, there is a concern that the **2023 Act**, relative to the **2018 Act**, downgrades the seniority of board membership, which is likely to weaken its effectiveness.

The budget of ZIPA should be predictable and published on a multi-year basis. It should provide incentives for ZIPA to ensure the success of the SEZ program and its wider efforts to attract domestic and foreign investors. There is no explanation of budgeting and how final budgets are determined in the Acts.

Both Acts, and especially the **2023 Act**, give ZIPA the scope to link its own revenue, with successful efforts to promote the SEZ program and to attract domestic and foreign investors. Whether ZIPA does, or can, achieve this is a question for further research.

Research shows that tax concessions, especially tax-holidays, have a negative impact on economic performance. It is, therefore, of concern that the **2023 Act**, relative to the **2018 Act**, extends further tax concessions to investors.

1. Purpose of the Policy Paper

In 2023, Zanzibar passed a new law to regulate domestic and foreign investment. This law repealed a 2018 law that, in turn, had replaced a law dating from 2004. This policy paper evaluates the evolution of the law from 2018 to 2023 in relation to international best or comparable practice. The two laws upon which this paper focuses are hereafter known as the **2018 Act**, the **2023 Act**, or the **Acts**. They were signed into law on the 31st December 2018 and 1st February 2024, respectively.

The Acts are structured in a similar way. Both formally confirm the establishment of the Zanzibar Investment Promotion Authority (ZIPA) and describe its associated purpose, goals, procedures, and powers. The Acts describe the staffing of the Board of Directors to oversee ZIPA (its chairperson, secretary, and membership), the means by which they are appointed, and the job descriptions of the Executive Director of ZIPA, the heads of department, and ordinary staff members. The Acts outline the basic function of ZIPA as being to issue an Investment Certificate to prospective domestic or foreign investors in Zanzibar, the criteria under which ZIPA can do so (or repeal an existing certificate), and the associated access to land, investment incentive, and infrastructure that such a license bestows on investors. The Acts also confer upon ZIPA various obligations, powers, and responsibilities for running the Special Economic Zone (SEZ) program in Zanzibar[1] and the treatment of investors known as 'Strategic Investors' of national importance, which entitles them to extra incentives, particularly if they are involved in manufacturing.

Both Acts give some limited insight into the relationship between ZIPA and other entities in the government of Zanzibar. Members of other ministries and agencies sit on the Board of Directors and others are seconded to the ZIPA – the one-stop-shop (OSS) service for investors. ZIPA sits within the Ministry of Labour, Economic Affairs and Investment, which gives the Minister certain powers and responsibilities over the functioning of ZIPA. Finally, the chairperson of the ZIPA Board of Directors is directly appointed by the President of Zanzibar.

Finally, the Acts describe how ZIPA will be funded by the government and the opportunities it has to seek and retain funding from non-government sources. This policy brief focuses on the legal framework that underpins the functioning of ZIPA. An exploration of how ZIPA relates to wider government agencies and investors on a day-to-day basis will be left to another policy paper.

2. The 2018 Act and the 2023 Act: First Impressions

The **2023 Act** is improved legislation in the sense that is it much clearer, less ambiguous, and more concise than the **2018 Act**. The **2023 Act** confirms that the key role of the state in Zanzibar is to support private-sector led development. The **2023 Act** makes further, small steps towards an open, market-based economy, confirming a trend that has been ongoing since the 1990s. ZIPA is given clear responsibilities in both **Acts** to be a custodian of national-level data related to investment, with further powers designated in the **2023 Act** to collect that data. Data combined with the responsibility to produce research could potentially give ZIPA a key role in policy making and implementation.

2.1 Legal Brevity: The 2023 Act is Clearer

The **2023 Act** is only 36 pages long compared to the 46 pages of the **2018 Act** but puts its fewer pages to good use; it is generally much clearer, less ambiguous, and more concise than its predecessor. For example, the 2018 Act lists 8 "objects and purposes", 12 "functions", and 13 "powers" of ZIPA. The distinction between these three criteria is never obvious. Under "objects and purposes", ZIPA is charged with being "a focal point for promotion and facilitation of investments" (p.7), under "functions" to "improve the business environment" (p.8), and under "powers" to "ensure the orderly development of Free Economic Zones (FEZs)" (p.11). In contrast, the **2023 Act** is more sharply delineated into 16 "functions" and 7 "powers". Those functions are clearly a list of what ZIPA should be doing and include injunctions to "promote Zanzibar to be an attractive destination for investment and business" (p.5). The identified "powers" outline the authority that ZIPA has to achieve those "functions", including the ability to "issue, order, directives, guidance, or circulars on investment and other related matters" (p.6).

2.2 Supporting the Private Sector

From the late 1960s to the 1990s, Tanzania followed a state-led development model in which significant production was undertaken in state-owned enterprises, state owned commercial banks lent money to favored businesses, and the private sector and domestic and international trade were heavily regulated and taxed. After the 1990s, Tanzania shifted to a market oriented economic strategy in which policy sought to promote the private sector through privatisation and the promotion of foreign direct investment (Gray, 2013). The 2018 Act and 2023 Act reflect this shift and highlight the fact that ZIPA is tasked with promoting the domestic and foreign private sectors.

Both Acts are replete with instructions to facilitate, monitor, and promote private investment. For example, the 2018 Act instructs ZIPA to "improve the business environment by undertaking such other activities as may be necessary to promote Zanzibar as an attractive base for investment and business" (p.8). The 2023 Act instructs ZIPA, likewise, to "promote Zanzibar to be an attractive destination for investment and business" (p.5).

The vast bulk of both Acts makes no distinction between domestic and foreign investment. The one exception is in the 2018 Act where a number of mainly very small sectors, including guest houses, ice cream shops, small scale fishing, and beauty salons among others that are "businesses reserved for Zanzibaris" are listed. The only sectors of potential significance on that list are "tour operators" and "wholesale and retail shops" (p.37). The list is not included in the 2023 Act, so presumably is no longer applicable, marking a small shift towards reducing local protection in favor of free and open international trade and investment.

2.3 ZIPA: When can Information and its Dissemination be a Source of Authority?

Of potential significance is that ZIPA is responsible for collecting and maintaining data on investment. In the **2018 Act**, there are instructions to "maintain current data on the performances of the programme of each Approved Investor" (p.9) and "maintain a register of enterprises and residents domiciled in the Free Economic Zones" (p.9). In the **2023 Act**, the wording is to "maintain a register developed under this Act" (p.5). The **2023 Act** is more explicit about the associated powers of ZIPA to undertake this task; for example, ZIPA can "request information from any person where the Authority has reason to believe that the person is capable to provide information, document or evidence that may assist the Authority in the performance of its functions" (p.6). There is nothing similar in the **2018 Act**.

Both Acts promote ZIPA as a source of policy relevant research to facilitate dissemination of this investment data. The **2018 Act** requires ZIPA to "initiate and undertake necessary researches and apply the results of such researches and formulate investment and business promotion plans and strategies" (p.8). The **2023 Act** orders it to "initiate and undertake necessary researches and apply the results of such researches after approval from relevant authorities" (p.5).

There is a clear instruction that ZIPA should use any research to good purpose. The **2018 Act** authorises it to "advise the Government on appropriate policies and strategies for business development, export promotion, business facilitation, aftercare services, and image building" (p.8), while the **2023 Act** confirms one of its roles as being to "advise government" on "the design" and to "implement the investment incentive schemes and monitor its outcomes", as well as report on "investments which are significant to the economy of the country" (p.6).

3. Autonomy of ZIPA

Best international practice is to ensure that an investment promotion agency such as ZIPA has both authority and autonomy to exercise its responsibilities. Both Acts confer upon ZIPA broad responsibilities related to domestic and foreign investment and, in particular, in managing the Zanzibar SEZ program. ZIPA is given roles related to setting up an OSS for investors, and for coordination across government agencies and ministries, requiring it to exercise considerable authority over other entities in government to function effectively. The **2023 Act** gives considerably more powers to ZIPA related to the evaluation of an investment before it is made, and in monitoring it afterwards. Whether ZIPA can exercise these new legal powers effectively is a political-empirical question that lies outside the remit of this policy paper.

Both Acts give broad responsibilities to ZIPA. The **2018 Act** states that ZIPA "shall take a decision on whether or not to issue Investment Certificate" (p.18) and has the power to "suspend the Investment Certificate" (p.19). Likewise, the **2023 Act** states that ZIPA "shall have powers" to "issue, modify, or cancel the Certificate of Investment" (p.6) and "[t]he Authority may suspend the Certificate of Investment" (p.11). The Acts give ZIPA central responsibility over the SEZ program. In the **2018 Act**, authority is given to "regulate and administer […] investment activities in Zanzibar, including Free Economic Zones" (p.7) and "be responsible for administration, control and management of Free Economic Zones" (p.9). In the **2023 Act**, it is further required to "create the best enabling environment for promotion, facilitation and protection for investment" (p.5) and "administer, control and manage the Special Economic Zones" (p.5). The question is does ZIPA have the power and authority to fulfil these responsibilities?

Current best practice is to establish the zone authority as an autonomous agency under a Board of Directors that includes both public and private sector members. Some of these government agencies (examples include Jordan, Costa Rica, Thailand, and the Dominican Republic) have become corporate entities, to enable them to operate with more freedom from civil service hiring, firing, and employment rules[2]. In some countries where very large-scale SEZs have been established (e.g. in China and Jordan), the SEZ regulator has the power of a governor of a municipality to which the Prime Minister or President can delegate the full range of authorities required to enable the zone authority to carry out its functions as an OSS[3].

In African countries, most zone authorities are established and operated as agencies reporting in a line ministry, typically the Ministry of Trade and Industry. In Zanzibar, ZIPA is housed in the Ministry of Labour, Economic Affairs, and Investment. ZIPA would be more effective if its board reported to a higher level of government, such as the President or Prime Minister, which is the case in Ethiopia, Kenya, Mauritius, and Senegal. This would help ensure that the zone managers have a derived authority to induce cooperation and coordination across other ministries, departments, and agencies[4].The chairperson of the ZIPA board is appointed by the President of Zanzibar. However, it is not clear from either of the Acts whether this gives the board any derived authority from the President's office.

In both **Acts**, ZIPA is given roles that require it to have autonomy and power over other entities of government to enable it to function effectively.

An OSS, as the name suggests, is a single organization, in a single geographical location, where potential investors can submit documentation and obtain all the necessary permissions to invest. An OSS is typically focused on helping investors obtain business and import licenses, work permits, health and safety certificates, visa clearances, environmental clearances, tax incentives, and other authorisations from government[5]. Best practice would be for staff from those ministries and government agencies dealing with these issues to be seconded to ZIPA and to work under the executive direction of the Executive Director of ZIPA[6]. Whether these other entities of government would allow their staff and functions to be delegated to ZIPA is an important question and one outside the scope of this policy brief. Sometimes this potential problem can be addressed by signing a Memorandum of Understanding (MoU) across agencies outlining the deployment of staff and providing a clear delineation of authority[7]. There is no discussion of such an MoU or any other coordinating device in either of the Acts. There is a hint in the **2018 Act** of this issue when it is stated that ZIPA should be "coordinating with such other Government or private entities as may be necessary through agreements with the entities or procedures defined in implementing regulations or such other prescribed procedures" (p.8). There is no information in the 2023 Act about whether, or how, this was done in practice.

The **2018 Act** describes the purpose of a OSS, termed in the 2018 Act a "one-stop-center" as being to "facilitate the speedy acquisition of various services that are required by an Approved Investor in order to start or operate their business" (p.11). The 2018 Act empowers ZIPA to "[a]dminister a One Stop Centre through which an Approved Investor can channel all his applications for permit approvals licenses" (p.8). The **2023 Act** further states that "the Authority shall function as a One Stop Centre for the purpose of facilitating the performance of its functions" (p.6), but there are no further details provided. The **2023 Act** does, however, indicate that further regulations will be issued to delineate the "composition, functions, and other provisions relating with One Stop Center" (p.7).

Both **Acts** give more wide-ranging responsibility to ZIPA in relation to collaboration and co-ordination. The 2018 Act requires it to "establish and enhance inter-agency collaboration among relevant government institutions to ensure compliance with all applicable laws, procedures, and other applicable requirements" (p.9) and the **2023 Act** states it must "establish, coordinate, and enhance national, regional, and international collaboration to ensure smooth running of investment activities in the country" (p.5).

The **Acts** show a clear evolution as more autonomy and power is given to ZIPA in the **2023 Act**. Broad powers are conferred on ZIPA to "determine criteria and application procedures for issuance of the Investment Certificate" (p.10). Crucially, these powers, according to the 2018 Act, are "[s]ubject to the approval of the Minister" (p.10). The 2023 Act makes no reference to ministerial approval and, instead, states, "[t]he Authority shall have powers to" conduct a wide range of tasks, including the ability to "issue, modify, or cancel the Certificate of Investment issued under this Act" (p.6), "issue order, directives, guidance, or circular on investment and other related matter" (p.6), "investigate any claim against the Investor or Approved Investment" (p.6), and "provide land lease and grant title deeds to Investors within Special Economic Zones" (p.6).

There are some interesting differences in the language used in the two **Acts.** The **2018 Act** states that ZIPA can "determine the procedures for lease or rent a land and provide title deeds to the land or any other property to a developer, operator, service provider or any approved investor investing in the Free Economic Zones" (p.11). The **2023 Act** confers on

ZIPA, not just the powers to "determine the procedures", but full authority to "provide land lease and grant title deeds to Investors within Special Economic Zones" (p.6). The 2018 Act enjoins ZIPA in relatively vague language to "ensure orderly development of the Free Economic Zones" (p.11) while the **2023 Act** makes it explicit that ZIPA should "administer, control, and manage the Special Economic Zones" (p.5).

The **2018 Act** is vague about the role of ZIPA after an investment has been made. The post-investment role of ZIPA is essentially a passive one. ZIPA should "maintain current data on the performances of each programme of each Approved Investor" (p.9) and "be a focal point for promotion and facilitation of investments and business" (p.7). ZIPA is given a more pro-active role in the **2023 Act** in monitoring and evaluating the activities of investors after they have invested, and describes one function of ZIPA as being to "periodically, monitor and evaluate the progress of Approved Investment" (p.5). In addition, it gives ZIPA powers to "issue, modify or cancel the Certificate of Investment issued under this Act" (p.6), "investigate any claim against the Investor or Approved Investor" (p.6) and to "issue order, directives, guidance, or circular on investment and other related matter" (p.6).

4. Composition of the ZIPA Board

The composition of the ZIPA board is an important factor in determining its effectiveness. The chairperson of the ZIPA board is appointed by the President, but the **Acts** do not clarify whether this gives the board any derived authority from the office of the President. There are significant personnel changes in board membership, whereby the **2023 Act** adds representation from the Ministries of Finance and Trade, which is a worthwhile development. However, there is a concern that the **2023 Act**, relative to the **2018 Act**, downgrades the seniority of board membership, which is likely to weaken its effectiveness. There are some indications that the **2023 Act** strengthens the role of the Executive Director of ZIPA relative to the board. How the board relates downwards to the Executive Director, upwards to its parent Ministry, and outside to other entities in the government of Zanzibar cannot be determined by reading the Acts and remains an empirical-political question.

The composition of the investment agency board is a further important element in the contributions to the effectiveness of the agency. There are various aspects of the composition of the board that undoubtedly can contribute to its successful functioning. The board should include senior representatives from all of the relevant ministries. For example, the board can more easily offer visas for zone investors or commit to ensuring quick connections to the electricity grid if the board contains representation from the ministries responsible for migration and electricity. It is also important that the board include a political or power-broker from the office of the head of state or head of government. There should also be at least "one senior, seasoned civil service technocrat (ideally at the cabinet or permanent secretary level) in (or retired from) a Ministry interacting with business, and accustomed to confronting the limits of what government actually can and cannot accomplish"[8]. It is also important to include private sector representation; not just a representative of the National Chamber of Commerce, but representatives of firms that are investing and trading in economic zones, especially if there is a formal association of zone members. Many scholars conclude that ideally the board should comprise a majority of private sector members[9].

According to the **2018 Act**, the ZIPA board comprised the chairperson (appointed by the President), the Executive Director, the Executive Secretary of the Planning Commission, the Deputy Commissioner of the Tanzania Revenue Authority (TRA) in Zanzibar, the Executive Secretary of Lands Commission, and two other members, one of whom should be a representative from the private sector (p.12). These members were senior officers from their respective ministries and departments, which helped increase the practical powers and autonomy of ZIPA. The presence of the TRA was useful as many incentives offered by ZIPA challenged the mandate of the TRA to raise taxes. Likewise, the presence of the Commission of Lands was crucial since investors typically require land on which to site their investment.

Some aspects of the board remain the same under the **2023 Act** such as that the chairperson is a presidential appointee, the post of an Executive Director remains, and representation from the TRA and the Commission for Lands are similarly retained. Apart from these, the membership has changed significantly in two ways. Firstly, the board has dropped representation from the Planning Commission and included, instead, members from the Ministry of Finance and the Ministry of Trade. The inclusion of these important and relevant ministries is welcome, but there is continued lack of representation on the board from ministries or agencies related to power, water, and transport. Secondly, while the 2018 Act required membership from named and very senior officers from the relevant ministries and agencies, the **2023 Act** now offers membership to officers with related degrees and 7-years' experience, which could result in a relatively junior membership. The only private sector involvement is through a representative from the Zanzibar National Chamber of Commerce, which, again, could be someone who is quite junior; at any rate, this allocation represents limited private sector involvement.

The Executive Director is responsible in the **2018 Act** for the "day to day operations, performance, and management of the Authority" (p.15). In the **2023 Act**, this expands to include "supervision of the day-to-day execution of the functions of Authority" (p.10).

According to both Acts, the board has significant powers. The **2018 Act** outlines a long list of powers and the functions of the board. It gives instructions to the Executive Director on the "management, performance, and operational policies of ZIPA" (p.15) and states that the board can "[s]et objectives and appropriate work targets for each department of ZIPA and monitor progress", "[p]rovide guidance on priority sectors for investment", "[a]pprove criteria and thresholds for investment approval", and "[m]onitor the progress of investment projects" (p.14). The **2023 Act** provides a similar list of board responsibilities, including the power to "determine the strategies and policies governing the operations" of ZIPA (p.8), give instructions to the executive director on the "management, performance, and operational policies" of ZIPA (p.9), approve the "registration and cancellation of Certificate of Investment" (p.9), and the right to "employ public staff" (p.9).

There are some minor indications that the **2023 Act** strengthens the relative powers of the Executive Director of ZIPA relative to the board. The **2023 Act** notes that the heads of department in ZIPA, although appointed by the board, are all "accountable" to the Executive Director (p.10). The 2023 Act also clarifies that the Executive Director has power over the "issuance, amendment, and cancellation of a Certificate of Investment" (p.10) while the board is responsible only for "[a]pproving" (p.9) this decision.

Reading the legislation alone, it is not possible to fully understand the day-to-day functioning of ZIPA, how the Executive Director functions in relation to the board, and how the board, in turn, functions in relation to its parent ministry or to the office of the President.

5. The Budget of ZIPA

The budget of ZIPA should be predictable and set for a number of years in advance. It should also provide incentives for ZIPA to ensure the success of the SEZ program and its wider efforts to attract domestic and foreign investors. There is no explanation in the Acts as to how budgets are determined. Both Acts, and especially the 2023 Act, give ZIPA the scope to link its own revenue with successful efforts to promote the SEZ program and to attract domestic and foreign investors. Whether ZIPA does, or can do, this is a question for further research.

The first aspect of best practice is to ensure ZIPA has sufficient resources to carry out its mandate. In Tanzania, where the Export Promotion Zone Authority (EPZA) budgets are allocated from a Ministry or the Exchequer, there have been serious problems of predictability as budgets are normally only fixed year-to-year, and can be held hostage to political issues[10]. There is no acknowledgement of, or legislation related to, this issue in the Acts. The **2018 Act** states that ZIPA will receive "[a] subvention from the government" (p.27) and the **2023 Act** states that ZIPA will receive "[s]uch sums as may be appropriated by the House of Representatives" (p.17). There is no best practice requirement and a full understanding of the reality of ZIPA budgeting requires further research.

The second aspect of best practice is to link the budget of the investment promotion agency to the success of the zone programme to incentivise the agency. This does not imply that there is an expectation that the agency should raise its entire operating costs through fees charged for licensing and other services. In fact, the effort to achieve financial self-sufficiency can lead to excessive administrative charges, which deter investors. In Ghana, investors often complained that they were required to pay the zone authority $50 for a permit each time they imported a consignment[11]. The best practice, as per the Chinese example, is to derive a formula for establishing the annual budget, including allocating the authority a specified share of taxes generated from investors. This method has the added benefit of giving the authority an incentive not to compete on tax holidays.

The SEZ model in Zanzibar[12] (based on extensive tax and other concessions), as well as the cost to government of building infrastructure, linked the creation and expansion of SEZs with costs on ZIPA and other agencies and ministries of the government of Zanzibar. The SEZ model does not incentivise ZIPA to ensure its successful implementation. There is no data or relevant research on this issue regarding ZIPA, but a similar set of SEZ incentives in Tanzania left the SEZ promotion agency, EPZA, running deficits in every year between 2016 and 2019. These deficits were directly related to the incentives given to firms in SEZs, especially those related to tax concessions, as well as to land leasing, office rentals, and operator and developer licenses[13]. When developing, promoting, and regulating, an SEZ will generate costs but no revenue, hence ZIPA will have fewer incentives to promote the scheme.

The **2018 Act** offered ZIPA some flexibility in raising revenue outside of any budget allocation from the government. ZIPA funds could also include: "All such sums of money as may be paid as fees or rent" (p.27) and "[a]ll such sums of money as may be received by the Authority for its operations from any other sources" (p.27). It also stated: "All such donations, grants, bequests, or loans may be lawfully received from any institution or organization" (p.27). ZIPA had no discretion over these funds as the **2018 Act** made clear "[a]ny excessive funds as determined by the Minister shall be paid into the Consolidated Fund" (p.27). The 2023 Act places much more emphasis on an expansive list of sources whereby ZIPA may raise revenue outside of government budget allocations. These include "[m]oneys received for the services rendered by the Authority" and "[s]uch lawful grants, gifts, donation, contributions or loans as the Authority may receive from any person or institution", "[i]ncome from investment made by the Authority" and "[a]ny other money that may vest or legally acquired by the Authority whether in the course of its operations or otherwise." (p.17). Of potential importance is that ZIPA will now "retain one hundred per cent (100%) of moneys collected by it" (p.17).

6. Tax Incentives offered by ZIPA

Large parts of the **2018 Act** and **2023 Act** are taken up in listing the various tax incentives available to domestic and foreign investors. There is little change in the majority of these incentives. In both **Acts**, firms locating in Free Economic Zones (FEZs) – which, since 2023, are officially called Special Economic Zones (SEZs) in Zanzibar – who are producing for sale to the local market, receive exemption from customs duty, value added tax, withholding taxes on the interest paid on foreign loans, and any taxes charged on raw materials and goods of capital utilised in production. Export-oriented firms (exporting 80% of production) receive these tax concessions and also a 10-year tax holiday for corporation tax, withholding tax on rent, dividends and interest, and all taxes and levies imposed by the local government for products produced in an SEZ.

Research shows that tax concessions do not have a positive impact on the performance of SEZs[14]. Research shows that tax concessions are not an important factor for firms in making a decision on whether to invest in an SEZ and have no long-term impact on the performance of those firms once they locate inside an SEZ. The resulting policy conclusions are that the government of Zanzibar should plan for the longer-term phasing out of tax concessions. There are some worrying signs, as the 2023 Act extended some further, damaging tax concessions relative to the **2018 Act**. For those investors declared to be 'Strategic Investors', the **2023 Act** extends a 50% exemption from corporation tax to a 100% exemption for 5 years and 50% exemption for the next 10 years. There are some other, more minor tax exemption increases related to tax on repatriated profits and accelerated depreciation allowances of plant and machinery (p.30).

The government of Zanzibar should listen to investor priorities, and focus their efforts on making sure the non-tax incentives, the provision of reliable utilities, transport connections, and the business regulatory environment are functioning well.

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Endnotes

1 The SEZ was initially named Free Economic Zones (FEZs) in the **2018 Act**, which was changed to SEZs in the **2023 Act**.
2 Farole and Kweka (2011:5) and UNECA (2022:57).
3 Farole, (2011:185).
4 UNECA (2022:54).
5 Farole (2011).
6 The **2018 Act** lists those Ministries and agencies of government that should send 'senior' offices to the OSS in ZIPA as the Commission for Lands, Immigration Department, Labour Commission, Zanzibar Building Agency, Zanzibar Environment Management Authority, Zanzibar Revenue Board, Tanzania Revenue Authority, Development Control Unit, and the Zanzibar Business and Property Registration Agency.
7 Farole and Kweka (2011:9).
8 Farole (2011a:184) and Dube et al. (2020).
9 Farole and Kweka (2011:6).
10 Farole and Kweka (2011:10).
11 Farole and Kweka (2011:10)
12 See the CCI policy paper, *Special Economic Zones (SEZs) in Zanzibar: Tax Concessions as Liberating Enterprise or Creating Distortions?*.
13 Andreoni et al. (2022:26).
14 See CCI policy paper, *Special Economic Zones (SEZs) in Zanzibar: Tax Concessions as Liberating Enterprise or Creating Distortions?*

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