The Governance of Special Economic Zones in Zanzibar: Developing, Operating, Promoting, and Regulating

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2024

KEY TAKEAWAYS

This policy brief explores the governance of SEZs in Zanzibar, compares them to the ideal and also to comparable examples in Tanzania, Africa and beyond, and makes a number of policy recommendations.

The Zanzibar Investment Promotion Authority (ZIPA) has an important role in designating land for SEZs and providing the legal framework for them but should step back from acting as a zone developer.

The ZIPA board has too few members and should increase its representation from other ministries and government departments, particularly those responsible for delivering transportation, energy, water, and national law, as well as from the private sector.

We need more research to understand the functioning of the ZIPA one-stop-shop (OSS) and the ZIPA budget.

Executive Summary

The government of Zanzibar administers its own Special Economic Zone (SEZ) regime, which is influenced by, but independent of, that prevailing in Tanzania. In Zanzibar, economic zones are known as Free Economic Zones (FEZs) in the 2018 Act and Special Economic Zones (SEZs) in the 2023 Act. The zone program is administered by the Zanzibar Investment Promotion Authority (ZIPA). ZIPA is a semi-autonomous government institution, originally operating under the Zanzibar Investment Promotion and Protection Authority Act No. 14 of 2018. This Act was repealed in 2023 and replaced by another Act. More widely, ZIPA is responsible for the promotion and facilitation of domestic and foreign investment in Zanzibar.

This policy brief explores the governance of FEZs, more recently SEZs, in Zanzibar, compares them to the ideal and also to comparable examples in Tanzania, Africa and beyond, and makes a number of policy recommendations.

Policy Recommendations:

- ZIPA, in collaboration with the office of the President, should continue its role in designating areas of land for SEZs and providing the legal framework for SEZs.

- ZIPA should step back from acting as a zone developer and leave zone development and operation to the private sector where possible.

- ZIPA should retain some development functions, such as coordinating with line ministries, to provide infrastructure inside SEZs and between the national economy and SEZs.

- Zanzibar is too small to separate out the regulatory functions of ZIPA to another agency. To avoid any potential conflicts of interest, ZIPA should maximize private-sector engagement in the oversight of SEZs.

- The ZIPA board has too few members and should increase its representation from other ministries and government departments, particularly those responsible for delivering transportation, energy, water, and national law. The board should be chaired by a representative from the President's Office and should include greater representation from the private sector, particularly from firms engaged in developing and operating in SEZs. The board should also strive to appoint senior officials from the ministries, rather than those with only the basic mandated 7 years' experience.

- On paper, the ZIPA OSS fulfills all of the requirements of such a facility. However, there are concerns about the functioning of the OSS in Tanzania, which provides an urgent rationale for a study of how it functions in practice for investors in Zanzibar.

- There is a disconnect between the activities of the SEZs (particularly the two new educational anchor tenants in the Fumba SEZ) in Zanzibar and the promotional efforts being made by ZIPA given the absence of education as a priority sector.

- There is a lack of data and understanding of how ZIPA receives its finances and whether these are sufficient and reliable. There is a clear need for more research and a fuller understanding of how the finances of ZIPA affect its operational capacity. There is also a need to ensure that the financing of ZIPA helps boost the incentives of ZIPA to secure the success of the SEZ program. There are no legal constraints to maximizing these incentives.

1. The Governance of Special Economic Zones in Zanzibar

The government of Zanzibar administers its own special economic zone (SEZ) regime, which is influenced by, but independent of, that prevailing in Tanzania[1]. In Zanzibar, economic zones are known as Free Economic Zones (FEZs) in the 2018 Act and Special Economic Zones (SEZs) in the 2023 Act. The zone program is administered by the Zanzibar Investment Promotion Authority (ZIPA). ZIPA is a semi-autonomous government institution, originally operating under the Zanzibar Investment Promotion and Protection Authority Act No. 14 of 2018. This Act was repealed in 2023 and replaced by another Act. More widely, ZIPA is responsible for the promotion and facilitation of domestic and foreign investment in Zanzibar[2].

On its website, ZIPA defines Free Economic Zones (FEZs) as "*geographical areas that have more enticing incentivized economic regulations than the rest of the country.*" This is a widely accepted definition among academics and policy makers. ZIPA is clear that: "Free Economic Zones were created specifically to attract investment, particularly foreign direct investment (FDI), in labour-intensive projects to increase exports." The website has not been updated to include the change in definition from FEZs to SEZs.

As of March 2024, ZIPA lists five FEZ-SEZs in Zanzibar: Fumba Zone, Micheweni Free Economic Zone, Amaan Industrial Park, Maruhubi Free Port Zone, and Airport Free Port Zone. The website indicates that the zones are at various stages of construction. Maruhuni Free Port Zone is described as having attracted 24 projects, mainly in transit trade, while Micheweni Free Economic Zone appears to be at a much earlier stage of development, where the "zone provides uninhabited and ready land for a variety of investments[3]."

This policy brief explores the governance of SEZs in Zanzibar, compares them to the ideal and also to comparable examples in Tanzania, Africa and beyond, and makes a number of policy recommendations.

2. The Role of the Public and Private Sectors in Zanzibar SEZs

This section examines the relative role of the public and private sectors in pre-development, development, regulation, and management of SEZs.

2.1 Basic Government Role: Preparation

The President of Zanzibar is responsible for designating 'land banks', areas of land considered suitable for development, and then packaging that land to ensure its availability. ZIPA is responsible for the pre-development functions and then turning those land banks into SEZs or for other purposes. Its functions include: conducting initial feasibility studies, establishing land-use guidelines, issuing licenses to organizations or individuals seeking to develop the zone (and later to firms seeking to invest in the zone), and monitoring the developer and investors to ensure compliance with license requirements. ZIPA is fulfilling the basic roles of government related to establishing and abiding by a legal framework. In designating and packaging land, the President is able to utilize the powers of eminent domain, to purchase compulsorily land in the public interest, and also overcome any conflicts between different ministries about the subsequent use of that land, for example, by deciding between a school for the Ministry of Education or an SEZ for ZIPA. Private sector packaging of land may be subject to the hold-out problem whereby one small landholder delays selling land until the developer has committed themselves to purchase the remainder of the land, at which point they hold a veto over the entire project and can demand an extortionate price for their land. ZIPA is responsible for coordinating with the Ministry of Lands if any SEZ investor needs land outside the SEZ.

ZIPA is also responsible for coordinating the construction of the infrastructure (roads, sewers, power supply) that connects the SEZ to the rest of the economy.

2.2 Extended Government Role: Developer

Traditionally, SEZs were public sector enterprises. The role of the government encompassed the basic roles related to law and land (see section 2.1) and also subsequent development and construction of the SEZ. The public sector developer would also be responsible for land-use planning (preparing a final land-use master plan), preparing the land accordingly, and provision of internal SEZ infrastructure such as roads, drainage and sewers, and power supply.

African governments have a long, and poor, track record of developing SEZs. A subsequent policy brief will explore how utilities (roads, drainage and sewers, and power supply) are often better in African zones than the rest of the economy, but remain poor compared to non-African zones. Typically, these problems stem from a government's lack of resources or the inability of the zone authority to persuade or compel other line ministries, such as transport and power, to build infrastructure inside the SEZ or connect the SEZ to the national grid or road network. Often these ministries have prevented SEZs from utilizing private suppliers of electricity, telecommunications, transport or water in order to preserve their own market share[4]. Tanzania has a poor track record in building and managing infrastructure. According to the 2019 Global Competitiveness Report published by the World Economic Forum, Tanzania ranked 110th out of 141 countries in transport infrastructure, 121st in utilities electricity and water supply, and 133rd in ICT adoption[5]. SEZs do allow for infrastructure to be concentrated in one location, which may help alleviate budget constraints and allow for targeted world-class infrastructure rather than diffusing resources, leading to poor-quality infrastructure.

In more recent decades, the private sector has increased its presence in zone development. In Zanzibar, for example, the Fumba SEZ is being developed by the private German firm, CPS[6]. There are generous incentives for private developers, including exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials, and any other goods of a capital nature to be used for purposes of development of the SEZ infrastructure. In addition, there is a 10-year exemption from payment of corporate tax, withholding tax on rent, dividends and interest, and property tax[7].

2.3 Separation of the Regulator and Developer

With the growing participation of the private sector in zone programs, the traditional public-dominated structure is becoming increasingly problematic. This creates a conflict of interest in which the government is responsible for regulating and promoting all the zones in a country, including some zones developed and operated by the private sector (though zones in Zanzibar are all currently managed by the government through ZIPA) and other public sector zones[8]. The government may be reluctant to issue a license to a potential private SEZ or private firm entering an SEZ that offers competition to an established public one, and which threatens to undermine employment or profits, thus reducing revenue for the government. Avoiding this conflict of interest usually involves separating the regulatory role as much as possible from the roles of developer and operator.

The free zone program in Ghana, under the authority of the autonomous Ghana Free Zones Board (GFZB), is a good example of a program that separates these roles. The GFZB is responsible for planning, regulation, and promotion of the free zones and for packaging sites for development by private developers[9]. Ever since the program began in 1995, the GFZB has been restricted in its involvement in developing and managing the free zones[10].

Another way to avoid this conflict is to allow significant private sector representation on the board that oversees the regulator, so the private sector has a voice in decisions that affect the SEZ program[11].

2.4 The Developer-Operator Model

The 'developer-manager' model holds that the construction firm that develops an SEZ should also be responsible for managing it after construction.

While the government may face political incentives to develop a particular area or industry with an SEZ, the private sector does not face the same pressures. Private sector developers will be guided by profits and losses in making decisions whether to rent or buy land, or to provide the zones with infrastructure utilities and services[12]. As the SEZ developer leases or owns the land, it is incentivized to create an effective administration, good institutions, to provide public goods in order to increase economic activity and, by so doing, raise the value of that land. The construction of the necessary infrastructure and provision of basic services can be paid for from gains in land value. Fumba SEZ developer CPS has an incentive to provide good roads, attractive leisure facilities, and good housing in order to entice both business investment and inward residential migration to earn revenue by leasing land to private business and selling housing to prospective residents.

2.5 Policy Recommendations

ZIPA, in collaboration with the office of the President, should continue its role in setting the basic, pre-development functions of SEZs, designating land area for them, and providing the legal framework for SEZs.

ZIPA should step back from acting as a zone developer and leave that to the private sector where possible.

ZIPA should retain some SEZ development functions through the PPP model, such as coordinating with line ministries to provide infrastructure inside SEZs and between the national economy and SEZs. The Fumba SEZ, for example, has private electricity generators but is also connected to the national electricity grid.

Zanzibar is too small to separate out the regulatory functions of ZIPA to involve another agency. To avoid any potential conflicts of interest, ZIPA should maximize private-sector engagement in the oversight of SEZs. Section 4.2 examines the composition of the ZIPA Board to gauge whether this occurs in practice.

3. Coherence of the SEZ Strategy in Zanzibar

This section examines whether the SEZ authority has a coherent organization and whether the implementation of the SEZ strategy is carried out in a coherent manner.

3.1. Organizational Coherence

There are various African examples of incoherent SEZ programs that have created both confusion for potential investors and conflict within government.

In Nigeria, legislation in the early 1990s was passed to allow public, private, or public-private entities to set up Export Processing Zones (EPZs) under the approval and regulation of the Nigerian Export Processing Zones Authority (NEPZA). A few years later, the government created the Oil and Gas Free Zone Authority (OGFZA) with responsibility for developing, regulating, and promoting free zones in the oil and gas sector. The two organizations were in conflict for many years. NEPZA did not have any authority over the oil and gas free zones, but oil and gas activities in NEPZA-regulated zones were technically the responsibility of OGFZA. The Attorney General was ultimately forced to mediate[13].

Tanzania launched an Export Processing Zone (EPZ) program in 2002, initially led by the National Development Corporation, and later the Ministry of Trade and Industry, which focused on promoting exports. In 2006, the government passed another law setting up an SEZ program under the Ministry of Planning, Economy, and Empowerment, which focused on promoting investment in specific industries. In 2011, the government created the EPZA to manage the zones, even though the EPZ and SEZ were still reporting to different ministries[14]. The SEZ Act was passed in 2006 but no legislation has ever been passed to establish an institutional structure for regulating and managing the program. The SEZ program ended up being administered by the existing EPZ regulatory regime by default[15]. The incentives offered under the SEZ program are not recognized and are yet to be approved and the SEZ regime remains non-operational[16]. This problem has been in existence for nearly two decades. These multiple regimes created internal policy confusion and competing interests while sending conflicting signals to potential investors[17]. Charter Cities Institute's (CCI) policy brief on SEZs in Tanzania found that they had failed to achieve goals related to investment, exports, and employment. This has been the case despite generous support from the Chinese government, with no Chinese companies interested in developing a zone in Tanzania. This basic institutional-legislative confusion is a key reason why.

Zanzibar has clearly learned from the confusion in Tanzania and so established a single organization responsible for SEZs. ZIPA has core functions that include developing zones, (an activity which is also open to the private sector in the form of public-private partnerships, though this has not yet been tried), operating government-owned zones, and regulating all investment activities in Zanzibar, including within SEZs. The government also takes a lead role in promoting SEZs to domestic and international investors[18]. While this may cause some potential conflict of interest (see section 2.3), this structure gives investors the benefit of organizational clarity and different ways of overcoming those potential conflicts of interest.

3.2 Implementation Coherence

The previous section (3.1) noted how setting up the organizations and laws governing SEZs can result in incoherence. This section now shows how even a coherent framework may be undermined during the process of implementation by political and other conflicts.

It is critical that the zone authority has the power to influence both national but also local authorities, particularly with regard to land use planning, licensing, and infrastructure. The Tinapa SEZ in South-east Nigeria provides an extreme example of the consequences of conflicts of interest. The rules are clear. The Tinapa Zone was intended to become a duty-free shopping zone with a duty exemption of $5,000 per person. The customs authority objected to the potential loss of revenue and refused to allow a duty exemption of more than $300 per person. Despite millions of dollars having been invested in the zone, its business case was "fatally undermined" by this decision[19].

In Ghana, the provision of water to the Tema SEZ was the responsibility of the local municipality. This responsibility came with an implied cost but no incentives. As municipal officials did not receive any share of the revenues from water provision, so they prioritized delivery to their own municipal residents and businesses. Zone investors with highly water-intensive activities, such as cocoa processing, were forced to bring in water by tanker truck at great cost[20].

In Tanzania, there is an inbuilt potential for overlapping responsibilities and resulting conflict. EPZA are responsible for managing the SEZ program. The Tanzania Investment Centre (TIC), established in 1997, is a one-stop-shop (OSS) that provides incentives for domestic and foreign investment into Tanzania. The National Development Centre (NDC) has a mandate to promote a resource-based industrialization model, which encompasses agro-processing to strengthen links between agriculture and manufacturing, industrial parks, and economic corridors. The Small Industries Development Organisation (SIDO) has a mandate to promote small-scale industries[21]. There are significant areas of overlap between the packages of incentives offered by EPZA and those by TIC, NDC, and SIDO.

These problems are clearly recognized by EPZA in their 2019-24 Strategic Plan, which notes that: "In many cases, operations in SEZs are impacted by laws, regulations, guidelines and procedures other than those governing SEZs"[22]. This has resulted in "notable challenges encountered during the implementation process" related to synchronizing priorities among ministries, departments, and agencies, and in aligning the legal framework for development of SEZs (EPZA, 2019:8). The plan calls for "a single dedicated SEZ law that will harmonise all other laws at national and regional level" and result in "clarity, predictability and consistence of the law enforcement and will improve the attractiveness of the SEZ programs to investors"[23].

Zanzibar has learned from the confusion in Tanzania and been more decisive in acting on problems rather than simply calling for reform. ZIPA began life in 1986 as a department in the Ministry of Finance and was converted to a government agency with some autonomy in 1992. In 1992, the government established a second institution, the Zanzibar Free Economic Zones Authority, with semi-autonomous powers operating under the Ministry of State (Planning). In 1998, the government established the Zanzibar Free Port Authority operating under the Ministry of Finance. There was confusion and much overlap between the three institutions and in 2003 they were merged into one, semi-autonomous institution, ZIPA. ZIPA was initially charged with promoting and facilitating investment in Zanzibar. In 2018, the government widened the mandate of the ZIPA to include economic development and also included administration of the FEZs.

3.3 Policy Recommendations

Zanzibar has learned from bad practice elsewhere and established a clear and coherent organizational framework to manage economic zones.

Zanzibar has clearly learned from the confusion in Tanzania and established a single organization to be responsible for SEZs, with core functions related to developing, operating, promoting, and regulating economic zones.

While the combination in ZIPA of development and regulatory functions related to economic zones may cause some potential conflict of interest, this structure does give investors the benefits of organizational clarity, and there are other ways to overcome those potential conflicts of interest.

4. The SEZ Agency: Combining Authority and Autonomy?

Section 3 examined whether ZIPA was established and functioning as a coherent organizational entity. This section asks whether ZIPA has the autonomy to pursue its mandated goals without undue interference or has useful backing from other entities in government1 in its endeavours. The role of the SEZ authority in meeting the needs of investors involves a wide range of activities that cross various ministry responsibilities, including customs, land use and zoning, taxation, business registration and licensing, immigration and environmental and labor law[24].

4.1. The Autonomy or Power of the Zone Authority

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 have become corporate entities to enable them to operate with more freedom from civil service hiring, firing, and employment rules[25]. The zone authority that regulates Morocco's Tanger Med Zones, the Agence Speciale Tanger-Mediterranee (TMSA), benefits from considerable freedom in terms of internal labor policies[26]. 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[27].

In African countries, most zone authorities are established and operated as agencies reporting in a line ministry (typically the Ministry of Trade and Industry). A regulator is more effective when its board reports to the highest possible level of government, such as the President or Prime Minister. Examples where such a system exists include Ethiopia, Kenya, Mauritius, and Senegal. This ensures that the zone managers have a derived authority to induce cooperation and coordination across other ministries, departments, and agencies[28]. In Ethiopia, the Industrial Parks Development Corporation, established in 2014, is mandated with the role of developing SEZs. The organization reports directly to the Prime Minister. In Ethiopia, the role of the Prime Minister's Office (PMO) is fundamental not only for coordination among the senior representatives from line ministries such as foreign affairs, industry, finance, and agriculture but also for signalling high-level support for the SEZ strategy to potential investors[29].

In Zanzibar, ZIPA must "establish, coordinate, and enhance national, regional, and international collaboration to ensure smooth running of investment activities in the country."
ZIPA reports to the Minister for Labour, Economic Affairs, and Investment. This weakens its ability to induce cooperation and coordination across the various ministries that are required to make SEZs function successfully.

1. There are also political economy questions. Can ZIPA (or the government of Zanzibar in general) pursue its mandated goals in relation to the private sector, such as ensuring that firms receiving tax concessions do export at least 80% of their output? The McCartney (2024) noted that the government of Tanzania does have trouble monitoring and enforcing this obligation on firms in mainland Tanzania.

4.2 The Composition of the Zone Authority Board

The composition of the zone authority board is also important in contributing to the effectiveness of the zone authority. There are various aspects of the composition of a zone authority board that contribute to its successful functioning. The board should include senior representatives from all of the relevant ministries. The board cannot offer visas easily for zone investors or commit to ensuring quick connections to the electricity grid without representation from the ministries responsible for migration and electricity. It is also important that the board includes a political figure or power-broker from the office of the head of state or head of government. There should 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"[30]. 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.

Here, Zanzibar has more to learn from Tanzania, rather than the other way round.

The website of the Export Processing Zone Authority (EPZA) in Tanzania provides welcome details on the composition of the zone authority board. On the positive side, the board includes the most senior civil servant (the Permanent Secretary) from the Ministries of Finance, Energy, Water, and Local Authorities, which will help in coordinating cross-ministerial endeavors, such as the Africa-wide problem of connecting SEZs up to utility service provision (water and energy). The board is chaired by a senior Minister for Industries, which, as noted earlier, is typical of many zone programs in Africa. This does deprive the board from acquiring a derived authority from the office of the President or Prime Minister.

It is doubtful that the Minister of Industries alone can compel cooperation from the most senior politicians and civil servants from other ministries. EPZA would be more effective if it was anchored to the highest possible level of government, a central rather than a line ministry such as the Prime Minister's or the President's office, or even the Ministry of Finance[31]. The presence of the Attorney General, the senior most legal authority in Tanzania, is an important addition, and will help resolve any cross-cutting legal issues related to the development and operation of economic zones. The presence of the private sector is rather limited but does include the President of the Tanzania Private Sector Foundation and the President of the Tanzania Chamber of Commerce, Industry, and Agriculture, which should give the board a wide representation in the private sector[32]. It would be beneficial to expand private sector participation to include a representative of the zone developers and zone operators.

The ZIPA board in Zanzibar is more limited and has less implied authority than the EPZA in Tanzania. The chair of the board is appointed by the President. The chair is required to have a degree related to investment and at least 7 years' experience. There is no requirement for the chair to be an official from the office of the President, which has the potential to weaken the authority of the board. The board also includes the Executive Director of ZIPA and one member each from the Ministry of Finance, Ministry of Trade, Commission for Lands, and the Tanzania Revenue Authority (TRA). This includes some of the important ministries and departments but there is no representation from the key agencies related to power, water, or transport. The members from these ministries are not required to be a senior minister or civil servant (as in Tanzania) and only have to have to hold a related degree and at least 7 years' experience, which could result in the appointment of a relatively fairly junior member. The only private sector involvement is a representative from the Zanzibar National Chamber of Commerce, which, again, could result in a junior member and, at any rate, represents limited private sector involvement.

4.3 Zone Authority and One-Stop-Shops (OSSs)

A zone authority that has sufficient autonomy and influence over the rest of the government can set up OSSs in each zone, or in the case of smaller zones a single facility to cover multiple zones. Being located in a single physical location enables investors to acquire all the necessary permits and permissions to operate, and where any problems can be resolved on the spot without reference to ministries or other government departments.

Authority is normally granted either directly in the SEZ law or through the delegation of authority from ministries. Hence, buy-in to the SEZ program from the different government departments and ministries is necessary[33]. Among six African zones surveyed by the World Bank in 2009, only the Promotion des Investissements et Grands Travaux (APIX) in Senegal had this delegation of authority[34]. There are few African countries where central SEZ authorities have had decision-making power over the regulatory activities in the OSS[35]. Generally though, in practice, civil servants working in OSSs are seconded from ministries and simply implement policies. They lack the independent authority to issue licenses, resolve disputes, or solve problems and pass decisions back to their parent ministry.

Lesotho introduced an OSS for investors in 2007, but the physical co-location of agencies did little to resolve the problems of facilitation because officers still reported to individual ministries. The head of the facility, thus, had no authority to ensure that the officers worked efficiently and provided a quality service[36]. The China-Singapore Suzhou Industrial Park (SIP) is a joint venture between the governments of Singapore and China. SIP firms enjoy an efficient green lane and independent customs supervision, which has operated 24 hours a day, seven days a week, since 2003[37]. In Vietnam, the government decided from the outset to establish formal, empowered, OSSs in each zone, along with dedicated onsite customs clearance. Zone-based firms in Vietnam reported the shortest waiting times for approving applications, obtaining business licenses, construction permits and utility connections, and the shortest customs clearance times of almost any country in the survey[38].

The 2009 World Bank survey of six African SEZ programs found that respondents in EPZs in Nigeria, Senegal, and Kenya report clearance times that are faster, on average, than what is reported by exporters in the national economy. Respondents in Ghana, Lesotho, and Tanzania reported clearance times that suggested the environment inside the zone was actually worse than in the wider economy. Across the four non-African EPZs, the reported clearance times inside the zones averaged more than three times faster than those reported outside the zones, with only one EPZ in the African sample (Nigeria) reporting such a relative improvement, with the remainder only offering marginal improvements or even indicating a decline. While most EPZ programs implemented on-site customs clearance services, not all the African programs offered this across all their zones[39].

Tanzania and Zanzibar have both set up OSSs. There is conflicting evidence about the success of the scheme in Tanzania. Some recent research has concluded that the service centre for SEZ investors, which was established in the Benjamin William Mpaka Zone, has significantly streamlined the administrative procedures for zone investors, especially in the areas of licenses, taxes, customs, work permits, visas, residence permits, and land matters. The average time needed for operators to obtain a license in the Benjamin William Mkapa Zone after meeting all the requirements has decreased considerably. In 2011, it took 2-3 months; by 2015 it took three days[40]. Yet there are three concerns with this optimistic outlook. First, even if everything is cleared by the OSS in Tanzania, there is no guarantee those clearances will be recognized elsewhere in the Tanzanian government. CCI's policy brief on tax concessions in Zanzibar SEZs noted that tax concessions offered by EPZA may not be recognized by the TRA[41]. In the early years of the SEZ program in Tanzania, many investors complained that while clearance procedures for SEZ firms were established in law, too often customs agents working at the port or airport were not aware of the duty-free arrangements of the system[42]. Secondly, rapid clearance by the OSS does not guarantee rapid procedures elsewhere. The effectiveness of on-site clearance cannot be separated from the efficiency of the ports. Many of the African SEZ programs, including that of Tanzania, suffer from serious port-related delays, which undermine much of the potential value of the privileged customs administration in the zones[43]. Thirdly, there is some dispute about the efficacy of the OSS process in Tanzania. The research noted above reported a significant reduction in the speed with which SEZ investors could obtain a license in Tanzania. The EPZA Strategic Plan for 2019-2014 notes that Tanzania is still struggling and pledges to establish and operationalize a "fully-fledged One Stop Service Centre" and to reduce the "time taken to obtain work permit and residence permit reduced from thirty (30) days to four (4) days"[44].

ZIPA also offers an OSS service, which the website promises "provides investors with a single place to pick up all documents and approvals that are statutorily needed to set up their investment projects." The website also states "the following services shall be provided at ZIPA offices under One-Stop Center from July 2018." These include registration of companies, provision of a tax payer identification number, project approval, acquisition of land, environmental issues, building permits, investment incentives, work and residence permits, opening of foreign and local accounts, and business permits and licenses[45]. The website proudly proclaims that: "Through its One Stop Centre the work and resident permit are processed within 24 hours given all the supporting documents have been approved[46]."

4.4 Policy Recommendations

The ZIPA board reports to the Minister for Labour, Economic Affairs, and Investment. This weakens its ability to induce cooperation and coordination across the various ministries that are required to make SEZs function successfully. ZIPA should report directly to the office of the President.

The ZIPA board is too small and should increase its representation from other ministries and government departments, particularly those responsible for delivering transportation, energy, water, and national law. The board should also include greater representation from the private sector, particularly of firms engaged in developing and operating SEZs. The board should also strive to appoint senior officials from the ministries, rather than those with simply the mandated 7 years' experience.

On paper, the ZIPA OSS fulfils all of the requirements of a good facility. There are concerns, however, about the functioning of the OSS in Tanzania, which provides an urgent rationale to study how it functions in practice for investors in Zanzibar.

5. Promotion of SEZs

In most countries, the SEZ authority has primary responsibility for marketing and promotion of the SEZ program, while a separate national Investment Promotion Authority (IPA) performs these roles for FDI outside the zones[47]. This is generally a sensible division of labor as SEZ authorities usually lack the scale, international reach, and marketing expertise to be effective in investment promotion. Close cooperation with national investment promotion agencies is often critical. In Tanzania, the EPZA is responsible for promoting the SEZ program and as noted by the website, it should: "[p]repare national and international programs for appropriate promotion of EPZ and SEZ Schemes[48]." In practice, each private sector SEZ developer tends to promote its own zone, such as Start City located in the Morogoro region, Vigor SEZ Project in the Kisarawe Coast region, and the coastal Bagamoyo SEZ[49]. The Tanzania Investment Centre (TIC) is responsible for promoting FDI into Tanzania and as the website proclaims, "[t]o coordinate, promote and facilitate investments in Tanzania and advise the Government on policy matters in order to create a competitive, attractive and sustainable investment climate"[50]. There is obvious overlap here, but also an absence of a formal institutional link between the agencies, such as representation on each other's boards or the formation of joint committees[51]. The 2009 World Bank survey showed that a lack of coordination of marketing, planning, and execution of promotional support to SEZs was common across the six African countries surveyed[52]. An exception is the Ghana Gateway, a project to establish Ghana as a regional export hub (anchored on the free zone program), which established a board that includes the Ghana Free Zones Board, the Ghana Investment Promotion Centre (GIPC), and the main stakeholders involved in trade facilitation (ports, airports, and customs). Marketing and promotional efforts were coordinated under the authority of this project board[53].

In Zanzibar, and other smaller countries such as Sri Lanka, Ireland, and Uganda, SEZs are both managed and promoted through the national investment promotion agency[54]. In the case of Zanzibar, this is done by ZIPA.

This lack of coordination can help to explain the relative failure of many African zones. Most successful zone programs followed a strategy, in which substantial effort is put into attracting specific, targeted, high-profile investors at the outset of the SEZ program. These anchor investors play an important signalling role to other potential investors and often bring with them a network of suppliers and partners. In Costa Rica, great effort went into early and successful negotiations with Intel. Vietnam actively pursued and created favourable conditions for high-profile anchor investors such as Canon, Samsung, Panasonic and Intel, all of whom brought with them their own supporting investors[55]. A 2018 survey of investors in the Bole Lemi Industrial Park in Ethiopia found that almost half the investors interviewed chose Ethiopia because of the government's strong support and 75% of firms surveyed reported that they had been pro-actively approached by the government of Ethiopia[56].

The Fumba SEZ has recently attracted two anchor-tenant investors. The African School of Economics (ASE) plans to open a campus in Fumba to serve the East African higher education market. This investment has been publicized by the private sector developer of Fumba, CPS[57]. The Indian Institute of Technology (IIT, Madras) opened its first university campus outside of India in Fumba. The IIT chain of universities in India has a global reputation and this expansion was discussed across the national Indian media[58]. As yet, there is no mention of either of these investments on the ZIPA website. There is no evidence that ZIPA has carefully considered the impact of these investments, or that it seeks to target educational institutions or further FDI from firms that can support university investment. The ZIPA website continues to ignore education as a targeted sector.

There is a disconnect between the activities of the SEZs in Zanzibar and the promotional efforts being made by ZIPA.

6. Capacity of Zone Authorities

There is compelling evidence that the EPZA in Tanzania lacks sufficient capacity to carry out its mandate to support the SEZ program. EPZA has no clear idea of how many firms are invested in the SEZs in Tanzania or how many firms have exited the scheme. Data from fieldwork surveys reveal data at variance with data listed by EPZA. EPZA data on the operational status, employment, and exports of firms located in economic zones has been called "contradictory, patchy and unreliable"[59]. Recent fieldwork finds that EPZA does not have the capacity to monitor exports by individual SEZ firms, or verify if they are meeting the requirement to export 80% of their production[60]. To ensure that a zone regulator is effective, the government needs to give the zone authority sufficient financial and human resources.

In Tanzania, the budget for EPZA is allocated by the Ministry of Industry and Trade. The EPZA budget is both insufficient and unpredictable, and the budget fluctuates in response to other issues of national or political interest[61]. This situation deprives EPZA of any independent budgeting authority to plan and carry out its activities. The EPZA needs independent, multiyear budgeting and the right to solicit funds directly to supplement its budget[62]. The EPZA Strategic Plan, 2019-2014 seeks "[t]o secure stable and sustainable financing mechanisms for EPZA's operations and projects"[63].

During its early years of operation, EPZA operated with such reduced staffing levels that it was unable to properly engage with early investors. A 2008 survey estimated EPZA staffing needs at 44 but by 2009 EPZA had only 17 permanent staff. More optimistically, the EPZA Strategic Plan for 2019-2024 does not devote any substantial attention to problems relating to staff shortages, dwelling instead on working conditions, staff health, and staff training. In 2024, the EPZA website shows that all 14 senior management positions in EPZA are filled[64].

The best practice is to link the budget of the zone authority to the success of the zone program in order to incentivise the zone authority. CCI's policy brief on tax concessions in Zanzibar SEZs concluded that the SEZ model in Zanzibar, based on extensive tax and other concessions, as well as the cost to government of building infrastructure (rather than incentivising ZIPA to develop SEZs), instead linked the creation and expansion of SEZs with costs on ZIPA and other agencies and ministries of the government of Zanzibar. There is no data for ZIPA, but a similar set of SEZ incentives in Tanzania left the SEZ promotion agency, EPZA, to run 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[65]. When developing, promoting, and regulating an SEZ generates costs but no revenue; consequently, ZIPA will have fewer incentives to promote the scheme.

The revenue from SEZs must be correctly assigned between local and national authorities to avoid coordination challenges and institutional conflicts. In its early years, the China-Singapore Suzhou SEZ, a joint venture between the governments of China and Singapore, suffered from misaligned incentives. The SEZ authority was allowed to keep all of the tax revenues generated. The local government was expected to provide local public goods and services, but derived no revenue from the project, so invested instead in competing projects. The national governments of Singapore and China then re-arranged the tax-sharing formula to strike a better balance, and give the local municipality greater incentives to invest in the SEZ[66].

There is a lack of data and understanding of how ZIPA receives its finances and whether these are sufficient and reliable. There is a clear need for more research and a fuller understanding of how the finances of ZIPA affect its operational capacity. There is also a need to ensure that the financing of ZIPA helps boost the incentives of ZIPA to ensure the success of the SEZ program. There are no legal constraints to maximizing these incentives. The Act setting up ZIPA in 2018 as the zone authority makes it clear that ZIPA funding will comprise "a subvention from the government." The Act also makes it clear that there is scope to tie ZIPA finances to the success of the zone project. ZIPA can receive "sums of money as may be paid as fees or rent" and "all such sums of money as may be received by the Authority for its operations from any other sources." The 2023 Act notes that ZIPA will receive "such sums as may be appropriated by the House of Representatives," but also that ZIPA will receive "money's received for the services rendered by the Authority." A welcome development is the rule, in terms of incentives offered to ZIPA, that ZIPA "shall retain 100% of money's collected by it."

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Acknowledgments: Special thanks to Jeff Mason and Jidy Chitta for providing invaluable feedback, Anna Gilliland for copy-editing, and Katie Estes for designing this policy brief.

This publication was made possible through the support of Grant 63321 from the John Templeton Foundation. The opinions expressed in this publication are those of the author(s) and do not necessarily reflect the views of the John Templeton Foundation.

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