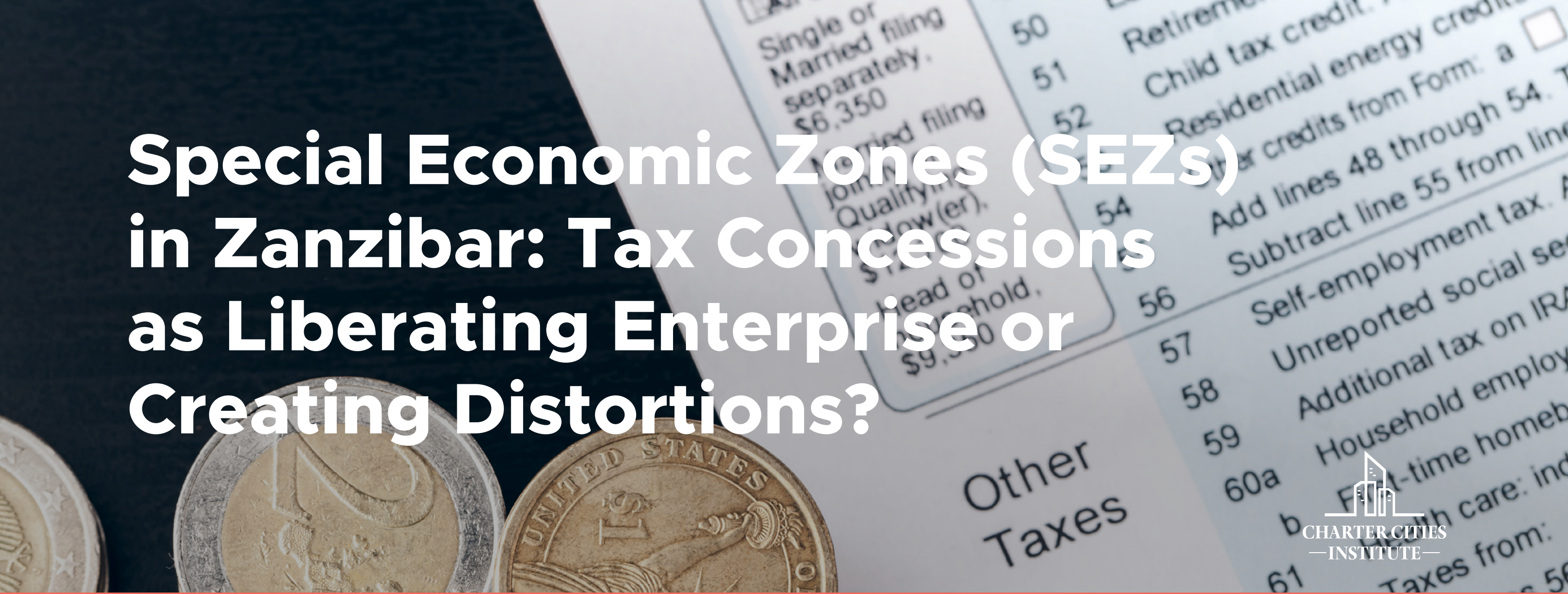
Special Economic Zones (SEZs) in Zanzibar: Tax Concessions as Liberating Enterprise or Creating Distortions?



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2024

KEY TAKEAWAYS

Firms locating in Special Economic Zones (SEZs) in Zanzibar are granted significant tax and other incentives.

Research shows that tax concessions do not have a positive impact on the performance of SEZs, 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 government of Zanzibar should not extend tax concessions further, should focus their efforts on improving provision of reliable utilities and transport connections, ensure the business regulatory environment is functioning well, and plan for the longer-term phasing out of tax concessions.

Executive Summary

Firms locating in Free Economic Zones (FEZs) 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 utilized in production. Since 2023, FEZs have officially been re-named Special Economic Zones (SEZs) in Zanzibar which is the term widely accepted internationally among academics, policy makers, and the general public – and the one that will be used throughout in this policy brief. Export-oriented firms exporting 80% of production receive these tax concessions and, in addition, 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. These tax concessions are the focus of this policy brief.

Since the 1980s, there has been a global popular movement to cut taxes in the belief that this will motivate firms and workers to invest more, to work longer hours, and to be more innovative and entrepreneurial. Incentives are increased because workers keep more of the extra profits and wages that they earn.

This policy brief examines the tax concessions offered to investors in FEZs in Zanzibar and asks whether they will help FEZs fulfill the goals assigned to them by the Zanzibar Investment Promotion Agency (ZIPA). The ZIPA website notes that the FEZs were originally *"created specifically to attract investment, particularly foreign direct investment (FDI), in labour-intensive projects to increase exports"*[1].

Research shows that tax concessions do not have a positive impact on the performance of SEZs and that tax concessions are not an important factor for firms in making a decision on whether to invest in an SEZ. They have **no** long-term impact on the performance of those firms once they locate inside an SEZ.

There is a puzzle here. The importance of tax concessions in stimulating economic benefits has been widely acknowledged globally over more than four decades, and more recently by the government of Tanzania in a 2022 Budget speech. Why do tax concessions, then, especially related to corporate tax, have a negative impact on SEZ performance?

There are five reasons why tax concessions do not have a positive impact on the performance of firms inside SEZs in Zanzibar:

- The FEZ model in Zanzibar is based on extensive tax and other concessions. This means that developing, promoting, and regulating an FEZ generates costs but no revenue; consequently, ZIPA has fewer incentives to promote the scheme.

- There is a conflict of interest in Zanzibar, as ZIPA is responsible for regulating and promoting all the zones in a country. In the future this could include zones developed and operated by the private sector, as well as those from the public sector. ZIPA is likely to be more reluctant to issue a license to a potential private SEZ or private firm entering an SEZ that offers competition to an established public SEZ, which could threaten to undermine employment or profits, as well as resulting revenue for the government.

- Lack of monitoring capacity in ZIPA means that some firms will register as stand-alone SEZs to benefit from the associated tax concessions but not export 80% of their output as required by the rules.

- Under the SEZ incentive scheme, firms are granted 10-year holidays on various taxes. This can encourage firms to open, with a concentration around efforts to help the parent organization avoid taxes rather than with a focus on exports, investment, and technology.

- In Zanzibar, the structure of tax concessions gives domestic supplier firms a double disadvantage. Firstly, imported inputs can enter SEZs tax-free whereas local supplier firms have to pay tax on sales and profits. This structure of incentives encourages firms to source imported rather than locally produced inputs. Secondly, local supplier firms have less incentive to enter SEZs to supply firms already located there because they need to export 80% of their production in order to qualify for the most significant tax incentives.

There are three major policy recommendations from this policy brief:

- The government of Zanzibar should not extend tax concessions further.

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

- The government of Zanzibar should plan for the longer-term phasing out of tax concessions.

1. Special Economic Zones (SEZs) in Zanzibar and Tax Concessions

The government of Zanzibar administers its own Special Economic Zone (SEZ) regime, which is influenced by, but independent of, that prevailing in Tanzania[2]. In Zanzibar, these zones were initially called Free Economic Zones (FEZs). Since 2023, FEZs have officially been re-named Special Economic Zones (SEZs) in Zanzibar which is the term widely accepted internationally among academics, policy makers, and the general public – and the one that will be used throughout in this policy brief. since 2023 have been renamed 'Special Economic Zones'. As of March 2024, the administering agency, the Zanzibar Investment Promotion Authority (ZIPA), lists five SEZs in Zanzibar: Fumba Zone, Micheweni Free Economic Zone, Amaan Industrial Park, Maruhubi Free Port Zone, and Airport Free Port Zone.

ZIPA defined FEZs (now SEZs) in their website as, *"geographical areas that have more enticing incentivized economic regulations than the rest of the country"[3]. This is a widely accepted definition among academic and policy makers. ZIPA is also clear that "Free Economic Zones were created specifically to attract investment, particularly foreign direct investment (FDI), in labour-intensive projects to increase exports"[4]*.

ZIPA welcomes *"the private sector in infrastructure development in the Free Economic Zones through Public-Private Partnership (PPP) arrangements"[5]* and offers various incentives for private zone developers, including wide-ranging tax concessions. The incentives targeted to those building the zones are not the focus of this policy brief.

ZIPA offers investors three types of incentives to locate in SEZs: (i) infrastructure, where ZIPA *"offers potential investors land, office space, and warehouse space for lease in the zones" (p.*); (ii) less red-tape, as "[c]ompanies that locate their operations in these designated areas of Zanzibar generally benefit from simplified customs and other administrative procedures"* (p.*); and (iii) various tax concessions. The tax concessions offered to investors (i.e. firms establishing production inside the zones) were made under section 31(3) of the Zanzibar Investment Promotion and Protection Authority Act No. 14, 2018 and are the central focus of this policy brief.

There are two sets of tax concessions, which differ depending on whether firms in the SEZs are primarily exporters (exporting 80% plus of their output) or firms whose markets are more oriented towards Tanzania and Zanzibar. The incentives are much greater for export-oriented firms, indicating the importance the government of Zanzibar places on SEZs becoming a platform for exports. Firms producing for sale to the local market receive exemption from customs duty, value added tax (VAT), withholding taxes on the interest paid on foreign loans, and any taxes charged on raw materials and goods of capital utilized in production. Export oriented firms receive these tax concessions and also a 10-year tax holiday for corporation tax, withholding tax on rent, dividends, interest and all taxes and levies imposed by the local government for products produced in an SEZ.

2. The Politics and Economics of Tax Cuts

Taxes have various economic roles. They raise revenue for the government, help manage demand in the economy[1], influence the use of resources[2], influence the pattern of income distribution[3], and provide incentives to workers, producers, consumers, savers, and investors. The incentive-based argument is sometimes known as 'supply-side economics' and contends that lower taxes, particularly on work and profits, will motivate firms and workers to invest more, to work longer hours, and to be more innovative and entrepreneurial. This is because they have more incentives as they keep more of the extra profits and wages that they earn.

The importance of the incentive role played by taxes rose to prominence in the 1980s, particularly under the UK Conservative government led by Prime Minister Margaret Thatcher (1979-90) and the US Republican government led by President Ronald Reagan (1980-88). These political arguments have since had a global influence and continue to animate political debate in Zanzibar, the US, and elsewhere.

In the 1980s UK, the influence of taxes on incentives (supply-side economics) was particularly associated with two Chancellors of the Exchequer (equivalent of a finance minister), Geoffrey Howe (1979-1983) and Nigel Lawson (1983-1989), who spearheaded the effort to transform Britain from a state-dominated economy towards a free market one. During these years, the standard rate of income tax was cut from 33% to 25% and the top rate on high earners cut from 83% to 40%. In the 1984 Budget, the rate of tax on company profits (corporation tax) was reduced from 52% to 35%. There was a sustained effort to cut tax rates and to simplify the tax system. Throughout the 1980s, the government of Margaret Thatcher made a sustained and very public case for the benefits of lower and simplified taxes. In his 1987 Budget speech, Nigel Lawson said:

> *"Lower rates of tax sharpen up incentives and stimulate enterprise, which in turn is the only route to better economic performance. And it is only by improving our economic performance that we will be able to afford to spend more on public services; and only by improving our economic performance that we will be able to create jobs on the scale that we all want to see[6]."*

These arguments had a powerful impact globally, and continue to inform tax policy across the world, with recent US Vice President Mike Pence quoted as saying:

> *"When President Kennedy cut marginal tax rates, when Ronald Reagan cut marginal tax rates, when President Bush imposed those tax cuts, they actually generated economic growth. They expanded the economy. They expand tax revenues."*

In the 2022 Budget, the Tanzanian Finance Minister proposed waiving income tax for strategic investors to boost FDI into Tanzania[7].

This policy brief examines the tax concessions offered to investors in SEZs in Zanzibar and asks whether they will help FEZs fulfill the goals assigned to them by ZIPA.

1. The British economist John Maynard Keynes in the 1930s recommended cutting taxes to stimulate demand in a recession, and raising taxes to reduce demand in an economic boom. This combination has come to be known as 'Keynesian Economics'.

2. Many countries charge higher taxes on environmentally damaging activities such as fossil fuel industries or lower taxes on desirable activities such as medicine.

3. It is common for higher-income individuals to be charged a higher rate of income tax.

3. Tax Concessions, Choice of Investment Location, and Firm Performance

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 inside an SEZ.

3.1 Tax Concessions and Choice of Investment Location

A survey of 25 SEZ firms in Tanzania found that tax incentives were the most important factor cited by respondents as to why they invested in the scheme. The survey also found that access to infrastructure, inputs, and customers were less important[8]. The survey had only a limited sample and more comprehensive surveys have produced very different results. The World Bank in 2009 conducted a wide-ranging survey of more than 600 firms located in SEZs across 10 countries, including in Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania, as well as Bangladesh, Vietnam, the Dominican Republic and Honduras. The survey was based primarily on semi-structured interviews conducted in each country with investors, zone developers and operators, regulatory authorities, government representatives, and other stakeholders[9]. Table One shows that the survey found that the level of corporate taxes was only rated as the fifth most important factor cited by African SEZ firms in their choice of investment location and sixth for non-African firms. More important for African SEZ firms were the provision of utilities (electricity, water), access to transport infrastructure, and the business environment.

Table One: Criteria for Selecting an Investment Location according to Surveyed SEZ Firms (Ranking by Country, Top Five Highlights)[10]

Investment Criteria	African Zones	Non-African Countries
Cost and quality of utilities	1	3
Access to transport infrastructure	2	2
Business regulatory environment	3	5
Tariffs, duties, and rules of origin	4	8
Level of corporate taxes	5	6
Access to highly skilled labor	6	4
Access to suppliers	7	7
Access to low-cost labor	8	1
Availability/ cost of land and buildings	9	10
Access to local and regional markets	10	9
Access to technology	11	11

A 2010 survey by the United Nations Industrial Development Organization (UNIDO) of 7,000 companies in 19 Sub-Saharan African countries across several sectors found that tax incentives ranked 11 out of 12 options as drivers of investment location decisions[11].

3.2 Tax Concessions and Firm Performance

There is no evidence to suggest that the tax concessions given to SEZ firms have a positive impact on their economic performance.

The 2009 World Bank survey found that the provision of significant fiscal incentives, especially tax holidays, was associated with poorer performance in terms of exports and employment in zones, over the long-term[12]. A study of 346 zones in 22 countries used nightlight data from satellite readings between 1990 and 2012 as a measure of SEZ performance. Nightlights in SEZs are found to be closely related to the number of firms and to employment within SEZs, so can be used as a measure of economic activity within the zone. The results show that the impact of corporate tax holidays depends on the level of development, but has a negative impact on SEZ performance, as measured by nightlights, among poorer countries. At a GDP per capita of $5,100, corporate tax holidays start having a positive impact on zone performance[13]. Per capita GDP in Zanzibar is around $1,200, suggesting that corporate tax holidays will have a negative impact on the performance of SEZs.

4. Why Tax Concessions in Economic Zones Do Not Work

There is a puzzle here. The importance of tax concessions in stimulating economic benefits has been widely acknowledged globally over more than four decades, and recently by the government of Tanzania in the 2022 Budget speech[14]. Why, then, do tax concessions, especially related to corporate tax, have a negative impact on SEZ performance?

This section identifies five reasons why tax concessions do not have a positive impact on the performance of firms inside SEZs.

4.1 Impact on incentives of Zone Managers

The most successful example of SEZ development was that seen in China from the early 1980s onwards. By 2010, China was home to an estimated 2,500 SEZs, which between them had generated more than 30 million jobs, produced 22% of national GDP, 60% of national exports, and attracted almost half of the FDI flowing into China[15]. In China, local and municipal governments are responsible for managing SEZs, and they have a huge incentive to make SEZs work. Local and municipal governments were given control over the leasing and sale of land and, crucially, could retain any revenue generated. The successful development and functioning of an SEZ would raise the value of land to investors, the leasing or sale price to investors, and so the revenue to local government. In 2000, land sales on average made up 9.3% of China's municipal government revenue. By 2011, this had ballooned to 74.1%. One survey showed that China's local municipalities were making 40-times more money per acre of land than they were paying to acquire it for development[16]. Between 2003 and 2006 in Jiangsu, Zhejiang, and Guangdong provinces land tax revenues accounted for 40% of government budgetary revenue[17].

By contrast, there are no equivalent incentives for ZIPA to promote the growth of SEZs. The wage and other costs of running ZIPA are paid for directly by the government of Zanzibar. The SEZ model in Zanzibar, based on extensive tax and other concessions, as well as the cost to government of building infrastructure, imposes 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 (Export Processing Zones Authority - 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[18]. When developing, promoting and regulating, an SEZ generates costs but no revenue. Consequently, ZIPA will have fewer incentives to promote the scheme.

4.2 A Conflict of Interest when ZIPA Develops and Regulates Zones

As the government zone developer, ZIPA in Zanzibar, as well as EPZA in Tanzania and many other African countries, is also responsible for regulating the zones and their investors once they are operational. Over time the presence of the private sector in the initial building of zones, and in managing zones once constructed, has increased. This legacy structure has become a growing problem. There is a conflict of interest when the government is responsible for regulating and promoting all the zones in a country, including some zones developed and operated by the private sector and other public sector zones[19]. The government is likely to be more reluctant to issue a license to a potential future private SEZ or private firms entering an SEZ that offers competition to an established public SEZ, which threatens to undermine employment or profits and resulting revenue for the government.

4.3 Tax Concessions and Exports

Zanzibar offers single firms the opportunity to become a stand-alone SEZ. They are eligible for all the tax and other concessions provided that they export 80% of their production and do not need to be physically resident inside an economic zone. A recent survey in Tanzania found evidence of 100 companies registered and operating under the EPZ/SEZ licensing scheme, where more than 70% of them had been issued a stand-alone licence EPZA does not have the capacity to monitor effectively whether these factories are complying with the conditions of operating as stand-alone SEZs, particularly the requirement that they export 80% of their output. There is reasonable suspicion that many of these firms are selling onto the domestic market but claiming to be export-oriented in order to gain tax concessions[20].

There is no equivalent evidence for Zanzibar, but fieldwork evidence from Tanzania suggested that some tax collection officers from the Tanzania Revenue Agency (TRA) may actually be interested in encouraging SEZ firms to ignore their export obligation. By reducing exports and selling more onto the domestic market, firms will be relieved of the onerous task of accessing international markets. TRA also gains because profits from domestic sales are taxable and subject to VAT payment and domestic sales incur import duties on any imported inputs they have used[21].

4.4 The Impact of Tax Concessions on Firms

Under the SEZ incentive scheme firms in Zanzibar are granted 10-year holidays on various taxes. This can encourage firms to open and is structured around efforts to help the parent organization avoid taxes, rather than to focus on exports, investment, and technology. In countries with limited bureaucratic capacity to monitor foreign investors, once a firm reaches the end of the 10-year tax holiday, a spurious change of ownership on official registration documents can be used to re-start another 10-year tax holiday[22]. Tax holidays may also encourage firms to follow a 'footloose' investment model, opening low-technology factories with minimal levels of investment that can be moved and re-opened elsewhere to take advantage of a new round of tax holidays. Firms will also divert energy from entrepreneurial effort to lobbying government officials to extend the duration or depth of any tax concessions, what Anne Krueger called unproductive 'rent-seeking'[23].

4.5 FEZs Firms Attracting local Suppliers

It is common in China that when a large manufacturing firm enters any SEZ it will invite its network of input suppliers also to re-locate to the same SEZ. In Zanzibar, this process is unlikely to happen as local supplier firms face a double disadvantage. Firstly, imported inputs can enter SEZs tax-free whereas local supplier firms have to pay tax on sales and profits. The structure of incentives encourages firms to source imported rather than locally produced inputs. Secondly, local supplier firms have less incentive to locate in SEZs to supply firms already operating there because they need to export 80% of their production in order to qualify for the most significant tax incentives.

5. Policy Recommendations

This section shows that even if tax concessions have little or even a negative impact on the economic performance of firms located in SEZs, it is difficult to make any changes. Tax concessions, especially tax holidays, are widely used across SEZs worldwide and SEZ managers are likely to be compelled to offer similar tax concessions to attract SEZ investors. The global SEZ regime is locked into a regime of dysfunctional tax concessions.

5.1 Do Not Extend Tax Concessions Further in Zanzibar

Section 3 provided evidence that tax concessions are not an important factor in the location decisions of firms and have a negative impact on the subsequent economic performance of those firms. Does it follow that removing these tax concessions and subjecting EPZ firms to the normal tax rules of Zanzibar will have no impact on location decision, a positive impact on firm performance AND raise revenue for the government?

Unfortunately, the answer is no!

There are two reasons for this conclusion relating to government credibility and international competition.

The first is that one challenge to phasing out fiscal incentives, particularly corporate tax breaks, is maintaining credibility with investors regarding the policy regime in the SEZs. In 2007, Malawi eliminated a corporation tax-holiday after which there was a departure of firms from SEZs and the near total collapse of the scheme[24]. Vietnam eliminated tax concessions for new firms entering SEZs, while maintaining them for existing firms under the scheduled expiry. However, the government in Vietnam had achieved a degree of credibility with investors by delivering on promises related to utility connections, a streamlined bureaucracy, transport infrastructure, and easy customs clearance[25]. The SEZ scheme continued to expand and attract more foreign investors. Eliminating tax breaks could easily send a message to investors in Zanzibar that the government could not be trusted to stick to its promises regarding SEZs.

The second reason is that tax concessions may not have much influence on the decision of firms where to invest because they are very similar across economic zones worldwide. If they are suddenly much less generous in Zanzibar than elsewhere, investors will shun Zanzibar. There are numerous opportunities for firms interested in investing in an SEZ. In 2018, there were an estimated 4,500 SEZs across 147 countries[26].

Table Two shows the results of a survey conducted by the author[4] (February, 2024) on nine different SEZ tax incentive regimes in Zanzibar and eight comparable countries. The takeaway from Table Two is that the tax concessions offered by Zanzibar are a little more generous, but very similar to those offered in other countries. Reducing those tax concessions significantly in Zanzibar would create a sudden difference and deter foreign investment. Further policy briefs in this series related to SEZs and utilities, transport connections, and to the business regulatory environment show that these factors, unlike tax concessions, vary enormously between SEZs in different countries, hence they should be the focus of government reform efforts in Zanzibar, rather than any increase in tax concessions.

4. See Appendix One at the end of this policy brief for a list of the sources for this data. It was interesting to see how much easier it was to find detailed and relatively clear information on the functioning of SEZs in African countries (where they were generally available on the relevant government ministry website) compared to the (admittedly small) two-country Asian sample, where I had to rely on information from a consultancy firm (Vietnam) and a single SEZ (Cambodia). All praise then to African transparency!

Table Two: Tax Concessions in Zanzibar SEZs and SEZs in Comparable Countries

Country	Corporate Taxation	Import Tariffs for inputs and capital equipment	Withholding tax on rent, interest, and dividends	VAT on local purchases
Zanzibar	10-year holiday	Zero	10-year tax holiday	Exemption
Tanzania mainland	10-year holiday	Zero	10-year tax holiday	Exemption
Kenya	0-10 years at 10% 11-20 years at 20% 21+ years at 30%	Zero	5% rate on interest, management, and royalty	Exemption
South Africa	15%	Zero	n.a.	Exemption
Mozambique	Exemption 0-3 years, 50% reduction 4-10 years, and 25% reduction 11-15 years	Exemption	n.a.	Exemption
Uganda	10-year tax holiday[5]	Exemption	Exemption on petroleum, petroleum products, plant and machinery, human or animal drugs and supply/importation of raw material	Exemption
Zambia	10-year tax holiday, 50% profits taxed year 11-13, 75% of profits taxed years 14 and 15	Exemption on capital equipment and machinery	Zero on dividends for 0-10 years	
Cambodia	9-year tax holiday	Exemption		Exemption
Vietnam	0-2 years exemption, 3-7 years 50% exemption, 8-18 years 17%			

As a perusal of Table Two suggests, the tax concessions offered to SEZ investors in Zanzibar do have the merits of being simple and easy to understand. However, the first policy conclusion is that there is no case for ZIPA extending further tax concessions to SEZ investors in Zanzibar.

5. Tax holiday for economic zone firms having invested at least $10 million (foreign) or $2 million (Ugandan citizens).

5.2 Listen to Investors

There is significant evidence from surveys that investors base their choice of SEZ location on non-tax factors. For Africa, the most important of these relate to the provision of utilities, transport connections, and the business regulatory environment. Subsequent policy briefs will explore these three factors in greater detail and also demonstrate that they, unlike tax concessions, do vary enormously between SEZs both between and within countries.

For Zanzibar, while it is relatively easy to find detailed information from ZIPA about the tax concessions offered to investors in SEZs, it is less easy to locate information on how ZIPA helps investors with these non-tax aspects of EPZs.

Under 'About Zones' we are told: *"Companies that locate their operations in these designated areas of Zanzibar generally benefit from simplified customs and other administrative procedures." And also that: "As the custodian of the Free Economic Zones, Zanzibar Investment Promotion Authority (ZIPA) readily offers potential investors land, office space, and warehouse space for lease in the zones"*[27].

Under FEZ Incentives there is additional information confirming, *"exemption from pre-shipment or destination inspection requirements"* and that *"hundred per cent foreign ownership is allowed"*[28].

Under Work and Residence permits it is stated that: *"The Zanzibar Investment Promotion and Protection Act No.14 of 2018 provides an opportunity for the approved projects to employ expatriates in key positions that are determined by ZIPA. Through its One Stop Centre the work and resident permits are processed within 24 hours given all the supporting documents have been approve"*[29].

There is no survey or other evidence to indicate how well these non-tax incentives function in Zanzibar. In Tanzania, the EPZA Strategic plan for 2019 to 2024 noted that there were some *"notable challenges during the implementation process"* of the SEZ programme, including providing serviced land to existing and new investors[30]. The plan also notes that Tanzania is still struggling and pledges to establish and operationalize a *"fully-fledged One Stop Service Centre"* and also to reduce the *"time taken to obtain work permit and residence permit reduced from thirty (30) days to four (4) days"*[31].

The second policy conclusion is that ZIPA and the government of Zanzibar should listen to investor priorities, and so 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.

5.3 Plan for the Longer-term Phasing out of Tax Concessions

It is apparent that the immediate removal of tax concessions to SEZ investors in Zanzibar would undermine the credibility of government policy making and reduce the incentive of firms to locate in SEZs in Zanzibar rather than those in other countries.

There are some examples of countries successfully phasing out tax concessions. China and Vietnam gradually adjusted the tax levels in SEZs to match those of the local economy. In

Vietnam, companies that had already invested in the zones were allowed to keep their original tax-concessions, while newly investing firms operated without them. Both countries could rely on attracting FDI by providing excellent utilities, good transport connections, an efficient business regulatory environment, a large and rapidly growing domestic market, and a rapidly growing network of domestic suppliers. Mauritius, by comparison, extended SEZ benefits to the whole of the domestic economy[32].

Some pressure for the reduction of tax concessions in Zanzibar will come from the East African Community (EAC). The EAC is a trading bloc comprising the Democratic Republic of the Congo, Burundi, Kenya, Rwanda, South Sudan, Uganda and Tanzania. The EAC does not support the extension of tax concessions to SEZ firms in Zanzibar or elsewhere, fearing this will allow foreign firms to open in SEZs and then produce and export to EAC countries with an unfair advantage over local-domestic firms[33]. A multi-country agreement may help gradually eliminate tax concessions. If the EAC removes tax concessions in a coordinated manner, it will help eliminate the problem of a single country reducing tax concessions unilaterally and suddenly becoming relatively less attractive to foreign investors than its neighbors.

In Tanzania, the EPZA fully recognizes this problem. In its 2019-2014 *Strategic Plan*, the EPZA noted that there were *"notable challenges encountered during the implementation"* of SEZs related to *"[a]ccess to regional markets by SEZ firms as a result of restrictive legal frameworks"*[34]. The plan called for EAC member states to harmonize their SEZ laws and to form an SEZ association by June 2024[35]. It is not clear what, if any, progress has been made towards fulfilling these aspirations.

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Appendix One: Source of Data on Incentives given to SEZ firms

Cambodia: Koh Kong Special Economic Zone **https://kksez.com/investor-relations/**

Kenya: SEZ Authority **https://sezauthority.go.ke/fiscal-incentives**

Mozambique: Investment and Export Promotion Agency (APIEX) **https://apiex.gov.mz/special-economic-zone/**

Tanzania: Export Promoting Zones Agency **https://www.epza.go.tz/**

South Africa: The Department of Trade, Industry, and Competition (DTIC) **http://www.thedtic.gov.za/sectors-and-services-2/industrial-development/special-economic-zones/**

Uganda: Uganda Free Zone Authority (UFZA) **https://freezones.go.ug/licensing/incentives-to-freezone-investors/**

Vietnam: Grant Thornton (consultancy firm) **https://www.grantthornton.com.vn/insights/articles/tax/bloomberg/tax-incentives-for-foreign-investors-in-vietnam/**

Zambia: Zambia Development Agency (ZDA) **https://www.zda.org.zm/investment-incentives/and The Ministry of Commerce Trade and Industry https://www.mcti.gov.zm/comesa/?page_id=572**

Zanzibar: Zanzibar Investment Promotion Agency (ZIPA) **https://www.zipa.go.tz/**

Endnotes

1 www.zipa.go.tz/about-zones-2/
2 www.zipa.go.tz/about-zones-2/
3 https://www.zipa.go.tz/about-zones-2/
4 https://www.zipa.go.tz/about-zones-2/
5 https://www.zipa.go.tz/about-zones-2/
6 www.margaretthatcher.org/document/111448
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9 Farole (2011b).
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11 Alexianu et al. (2019).
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24 Njima (2007:2).
25 Farole (2011a:179).
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27 www.zipa.go.tz/about-zones-2/
28 www.zipa.go.tz/fez-incentives/
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30 EPZA (2019:8).
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32 Farole (2011a:178).
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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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