A One-Stop Shop (OSS) in Zanzibar: Hopes for the New Legislation

Professor Matthew McCartney
Head of Research, Africa Urban Lab (AUL)
matthew.mccartney@aul.city

CHARTER CITIES INSTITUTE

AUL AFRICA URBAN LAB

2024

KEY TAKEAWAYS

Early in 2024, the Government of Zanzibar passed the Zanzibar Investment Act (hereafter The Act). In the next few months, this legislation will be followed with new regulations (hereafter The Regulations) to establish a One-Stop-Shop (OSS) under the national investment promotion agency, the Zanzibar Investment Promotion Authority (ZIPA).

There are four key priorities that The Regulations need to address to help ensure the OSS is a success:

i) Greater autonomy for the OSS.

ii) Consolidation of officers from disparate Ministries relevant to investors to the OSS.

iii) Streamlining of the customs clearance process and the provision of automatic clearance for tax-exempt goods.

Executive Summary

Early in 2024, the Ministry of Labour, Economic Affairs, and Investment for the Revolutionary Government of Zanzibar passed the Zanzibar Investment Act No. 10 (hereafter The Act). In the next few months, this legislation will be followed with new regulations (hereafter The Regulations) to establish a One-Stop-Shop (OSS) under the national investment promotion agency, the Zanzibar Investment Promotion Authority (ZIPA). The Regulations guiding this process can be implemented by the Ministry without parliamentary approval based on authority conferred in The Act.

To be successful, an OSS needs to create benefits for potential and actual investors. A good OSS is seen by investors as being on their side and offering help in resolving problems with the host government. Using evidence from economic theory, the experience of both Tanzania and Zanzibar, and examples of best practice in other countries, this policy brief suggests provisions to be included in The Regulations to create an efficient and effective OSS in Zanzibar.

Policy Recommendations

There are four provisions which should be included in The Regulations to help increase the efficiency and authority of the OSS:

I. **Greater autonomy for the OSS:** The Regulations should transfer the following functions to the OSS: the reception of all applications from the investor (registration, permit, license, authorisation, and clearance); the processing of each application in a timely manner; the final decision on issuing (or rejecting) a certificate of investment; help to investors in securing licenses and authorizations; and ensuring that any licenses or incentives granted by the OSS are fully respected by other agencies of the government (such as customs).

   To be successful, The Regulations need to be supported by a clear and broader political strategy to pass on the control of these functions to the OSS. One possibility is for officers from the relevant ministries and government agencies to physically re-locate to the OSS. This will require a buy-in from these ministries and government agencies to release their officers. Those officers seconded to the OSS should work under the direction and executive authority of the head of the OSS, which in Zanzibar is the Executive Director. This should be formalized in The Regulations.

II. **Consolidation of officers from disparate Ministries relevant to investors to the OSS:** The Regulations should transfer officers from the Commission for Lands, Zanzibar Revenue Authority, Tanzania Revenue Authority, Business and Property Registration Agency, Customs, Development Control Unit, Zanzibar Environment Management Authority, Immigration Services Department, Labour Commission, and the Zanzibar Building Agency. Those officers that are assigned to the OSS should have sufficient seniority and expertise to carry out the work required by the OSS. When senior officers are assigned to the OSS, they should be able to make decisions personally, rather than passing them back to their home ministry for decision making.

III. **Streamlining of the customs clearance process and the provision of automatic clearance for tax-exempt goods:** It is crucial that officers from customs are assigned to the OSS in Zanzibar. The effectiveness of customs extends far beyond the gates of the zones and depends critically on the facilities and operations at ports and airports. Efficient onsite customs clearance is of limited value if there are long delays in moving the goods through ports or airports later. The OSS should strive to give automatic clearance for all tax exemptions on goods meeting the specified criteria, not force investors to apply for the exemption every time they need to utilize it.

IV. **A commitment to timely decisions concerning investor applications:** The Regulations should indicate that once the documentation is submitted to the OSS and appraised, the OSS should be authorized to either accept the application and certify the investment, reject the application and notify the Investor (together with reasons for its rejection) or put the application on hold and ask for more information. The Regulations should specify the time frame in which all such decisions would be made.

This policy brief is, however, constrained in offering full and complete policy advice on The Regulations due to the lack of data and analysis about the current functioning of SEZs in Zanzibar and how they relate to ZIPA, not only with regard to initial investments, but also on an ongoing day-to-day basis. More research is needed in order to advise on the future implementation of The Regulations.

1. Introduction

Early in 2024, the Ministry of Labour, Economic Affairs, and Investment of the Revolutionary Government of Zanzibar passed the Zanzibar Investment Act No. 10 (hereafter The Act). In the next few months, this legislation will be followed with new regulations (hereafter The Regulations) to establish a One-Stop-Shop (OSS) under the national investment promotion agency, the Zanzibar Investment Promotion Authority (ZIPA). The Regulations guiding this process can be implemented by the proposing ministry without parliamentary approval based on authority conferred in The Act.

Using evidence from economic theory, the experience of both Tanzania and Zanzibar, and examples of best practice in other countries, this policy brief suggests provisions to be included in The Regulations to create an efficient and effective OSS in Zanzibar.

The creation of an OSS in Zanzibar, and its formal designation and support in legal legislation, is a positive development and will help ZIPA further its wider agenda of promoting and facilitating investment in Zanzibar. Without an OSS, potential investors must visit numerous government ministries and agencies, which is likely to increase the time and cost burdens on potential investors significantly. An OSS 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 authorizations from government[1]. The services provided by an OSS may extend beyond the authorizations associated with the initial investment to involve help with ongoing interactions between the newly established firm or infrastructure project and the government bureaucracy of the host country[2].

However, the setting up of an OSS is only a starting point; it is its functioning, not just its existence, that will help achieve wider economic goals.

Zanzibar is late in joining a decade long global trend. The number of SEZs globally has increased from an estimated 176 zones in 47 countries in 1986 to 3,500 zones in 130 countries in 2006, and to 5,400 zones across 145 countries, with 500 SEZs in the pipeline by 2019[3]. Having an OSS is the objective of virtually all of those 145 countries hosting SEZs worldwide[4]. The World Bank conducted an in-depth study of SEZs in 2009; although relatively out-of-date, it remains the best of its kind, illustrating the need for new research covering the functioning of OSS's. The research was conducted across six African countries (Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania) and two countries each in Latin America (Dominican Republic and Honduras) and Asia (Bangladesh and Vietnam). The study found "***no correlation between the existence of a one-stop shop service and SEZ outcomes***"[5]. This was strong evidence to support the contention that creating an OSS is not enough in itself to ensure any positive outcomes.

2. Autonomy of the OSS

Global best practice is for an OSS to be set up with independence and autonomy from any single ministry, while maintaining sufficient authority and political backing to "*compel other agencies and institutions to support the zone programme*"[6]. Autonomy is usually judged in terms of the OSS being able to issue licenses, visa applications, and approve tax incentives, without reference to other government agencies, and then to have those decisions respected by other government agencies.

In Africa, most OSSs and zone authorities are established and operated as agencies reporting to a parent line ministry (usually the Ministry of Trade and Industry). This is true in the case of the proposed OSS in Zanzibar, which comes under ZIPA, which is in turn responsible to the Ministry of Labour, Economic Affairs, and Investment.

A second factor that promotes autonomy is having a sufficient and predictable budget that is not vulnerable to political influence[7]. There is a lack of data and understanding on how ZIPA receives its finances and whether its finances are sufficient and reliable enough to maintain its operational capacity. Autonomy can also be enhanced by enabling ZIPA to achieve a degree of financial independence from the government. The legal framework has been established for this in The Act, which makes it clear that funding will comprise "*such sums as may be appropriated by the House of Representatives".* The Act also noted that ZIPA can receive "*income made from Investment made by the Authority*" and that "*the Authority shall retain one hundred percent (100%) of money's collected by it*"[8].

The Regulations should confirm that a senior officer, appointed by the Executive Director of ZIPA, will be in charge of running the OSS. The Regulations should also ensure that the Executive Director of ZIPA has full and final executive authority over the functioning of the OSS. The role of the OSS should not be simply that of collecting documents and transferring them to the relevant ministry for a decision but rather it should be the final adjudicator over investment activity in Zanzibar, with the responsibility of accepting documentation and approving (or rejecting) the granting of the final certificate of investment.

To be successful, The Regulations have to be supported by a clear and broader political strategy to pass on the control of these functions to the OSS. One possibility is for officers from the relevant ministries and government agencies to re-locate to the OSS physically. This will require a buy-in from these ministries and government agencies to release their officers for re-location. Those officers seconded to the OSS should work under the direction and executive authority of the head of the OSS, which in Zanzibar is the Executive Director. This structure should be made clear in The Regulations.

3. Consolidation of Functions

In Vietnam, the government decided from the outset to establish an OSS in every SEZ, each with dedicated onsite customs clearance. This worked well and firms located in Vietnamese SEZs reported the shortest waiting times for the approval of applications, obtaining business licenses, construction permits, utility connections, and of particular importance, the shortest customs clearance times of any country in the 2009 World Bank survey[9].

There is a problem in transferring this lesson to Zanzibar and most other developing countries. There are not enough specialist officers in ministries and other government agencies in Zanzibar to transfer staff to sit in a separate OSS in each of the five SEZs currently in operation. Only very large zone programs would consider spending the resources needed to develop or acquire such expertise. Current zones in Zanzibar are too small to require separate OSS's. For Zanzibar, the more practical option, and one that should be included in The Regulations, is to have staff from ministries and government agencies seconded to a single OSS.

The collection of seconded ministry and agency staff into an OSS will create inherent challenges related to authority[10]. In 2017, the government of Lesotho created an OSS in the capital, Maseru, intended to streamline investor services. This OSS offered a package of services related to licenses, permits, and visas. It was characterized by long delays in granting authorizations, as the staff located in the OSS still reported to their individual ministries, making it difficult for the manager of the OSS to coordinate activities and enforce discipline[11].

While The Regulations should clarify the functions that are the responsibility of the new OSS, there needs to be a clear and broader political strategy to pass on the control of these functions to the OSS. One possibility is for officers from the relevant ministries and government agencies to physically re-locate to the OSS. This will require a buy-in from these ministries and government agencies to release their officers. A second option is an *"enabled and integrated system where information is shared, and decision-making is done on a real-time basis"*[12].

The Regulations should make clear which “officers” shall “compose” the OSS. They should be drawn from many departments: Commission for Lands, Zanzibar Revenue Authority, Tanzania Revenue Authority, Business and Property Registration Agency, Customs, Development Control Unit, Zanzibar Environment Management Authority, Immigration Services Department, Labour Commission, and the Zanzibar Building Agency. The officers that are assigned to the OSS should have sufficient seniority and expertise to carry out the work of an OSS. When senior officers are assigned to the OSS, they should be able to make decisions personally, rather than passing them back to their home ministry for decision making.

Those officers seconded to the OSS should work under the direction and executive authority of the head of the OSS, which in Zanzibar is the Executive Director. This should be made clear in The Regulations.

The Regulations should transfer the following functions to the OSS: reception of all applications from the investor (registration, permit, license, authorisation, and clearance); ensuring that each application is processed quickly; making the final decision on issuing (or rejecting) a certificate of investment; helping investors to secure licenses and authorizations; and ensuring that any licenses or incentives granted by the OSS are fully respected by other agencies of the government (such as customs).

When setting up the OSS, it is crucial to make it very clear what functions have been assigned to the OSS. These functions are almost always the current responsibility of another ministry or government agency. There is an inherent possibility of overlap, inter-ministerial conflict and investor confusion, so clear legislation is vital[13].

There are functions that The Regulations should not transfer to the OSS. While the OSS should report on investment activities, it should remain an implementation agency and should not be undertaking more reflective research. The production and dissemination of research should be the responsibility of the existing Research and Planning Department in ZIPA. The responsibility for proposing and advocating policy reform should also be the responsibility of the specialist ZIPA Research Department. Additionally, developing and managing serviced land should remain the responsibility of ZIPA in collaboration with specialized ministries elsewhere in government.

4. Customs Administration Must Be Included

The best functioning SEZs and OSS's around the globe prioritize the integration of customs decisions into the OSS. For example, the Suzhou Industrial Park (SIP) in China – a collaboration between the governments of Singapore and China – established a dedicated customs office inside the park from its launch in 1999. SIP now operates as a virtual port and is allowed to handle customs clearance of exports and imports directly[14]. Firms located in the SIP, "*enjoy an efficient green lane for import and export clearance that since 2003 has operated 24 hours a day, 7 days a week*"[15].

The Rwandan Development Board (RDB) is another example of a highly successful model for an investment promotion agency that is credited with contributing to rapid and sustained economic growth, despite the recent (1994) genocide and the landlocked geography of Rwanda[16]. The RDB includes customs officers in its OSS. It is crucial that officers from customs are assigned to the OSS in Zanzibar. The ZIPA website already promises that customs officials will conduct "*on site customs inspection of goods in the Free Economic Zones*"[17].

If customs are not integrated into the OSS in Zanzibar this would be a real cause for concern. The World Bank survey from 2009 found that SEZs generally had a poor record in Africa. The clearance time for exporting firms to acquire all the necessary authorizations was much faster in the four non-African than the six African countries. Among those African countries, firms in Ghana, Lesotho, and Tanzania reported clearance times in the SEZs that were actually slower than in the wider national economy[18]. The crucial difference between SEZs in African and non-African countries, and countries within Africa, was the performance of customs operations, which were identified as a critical source of competitive advantage[19]. The 2009 World Bank study showed a clear relationship between the availability and quality of on-site customs services in SEZs and the performance of SEZs in clearance times[20].

There are good reasons for the importance of customs in the functioning of SEZs. Firms inside SEZs often use a significant amount of imported capital equipment and inputs of raw materials. In Zanzibar, investors in SEZs are offered duty-free imports of those raw materials and capital goods, meaning they will have a close engagement with customs. Taxes on imports are often an important source of revenue for government, which may generate a conflict between customs authorities anxious to collect taxes and OSS's equally anxious to offer tax incentives to SEZ investors[21].

However, the effectiveness of customs goes far beyond the gates of the zones. It depends critically on the facilities and operations at ports and airports. Efficient onsite customs clearance is of limited value if there are long delays later in allowing the goods through ports or airports. The effectiveness of the on-site clearance cannot be separated from the efficiency of ports and airports. The 2009 World Bank survey found that many of the African EPZ programs, including those in Tanzania, suffered from serious port-related delays, which undermined much of the potential value of the privileged customs administration in the zones[22]. The 2009 World Bank study found that in Tanzania "***many investors complained that while clearance procedures for EPZ firms were established in law, too often customs agents working at the port or airport were not aware of the system***"[23].

5. Investor Decisions and Certificate Clearance Times

There is some evidence that the establishment of the OSS in Tanzania reduced clearance times for potential investors to access all their necessary authorizations. For example, the creation of an OSS for the Benjamin William Mpaka Zone in Tanzania is reported to have reduced the average time needed for investors to obtain a license from 2-3 months in 2011 to 3 days in 2015[24]. For Zanzibar, the procedures for potential investors to obtain the final certificate of investment after submitting all the necessary documentation should be covered in The Regulations. This section makes a case for automaticity whereby if a potential investor receives no response either as an acceptance or rejection, or a request for more information, after 30 days the authorization would be automatically granted[25].

The Regulations should specify that potential investors may submit their documentation online or make a physical application. This would be good practice, but the ZIPA website would need to be greatly improved to make the online option operational. The Regulations should also indicate that a confirmation of receipt will be sent to applicants within twenty-four hours after receiving the application. The Regulations should also indicate that the OSS may conduct a site verification and project appraisal if needed and that this would be carried out within a clearly indicated, speedy, time-frame.

The Regulations should indicate that once the documentation is submitted to the OSS and appraised, the OSS either accept the application and certify the investment, reject the application and notify the investor together with reasons for its rejection, or put the application on hold and ask for more information. The Regulations should specify the time frame in which all such decisions will be made. The Regulations should note that while the OSS may reject the application, they should clarify the procedures that investors can follow to appeal against any such decision.

Section 7 of The Act confirms that ZIPA has the authority to "*issue, modify, or cancel the Certificate of Investment*"[26]. The Regulations should confirm that the authority to approve an application and grant the final certificate of investment rests solely with ZIPA. ZIPA should not merely accept the application and transmit it to the Ministry of Labour, Economic Affairs, and Investment as the final approving agency.

The Regulations should list the reasons the OSS will utilize in replacing an existing certificate of investment. These should be limited to such acceptable reasons as changing ownership of the investment or changing the nature of the business activity from that specified in the certificate. Investors should not need to apply for a new certificate of investment if additional capital is invested. Any such requirement would be very burdensome in practice, especially for firms undertaking regular investment in their business, and given the long list of documentation required to issue a new certificate of investment.

The OSS should strive to give automatic clearance for all tax exemptions on goods meeting the specified criteria, not force investors to apply for the exemption every time they need to utilize it. Any requirement in The Regulations that firms need to submit applications for tax exemption on customs duty every time imported goods arrive in Zanzibar would be counter-productive and impose an unnecessary handicap on firms that need to iport goods at short notice to meet changes in consumer demand or their production shedule. Modern Just-in-Time delivery systems accommodate firms placing orders and expecting deliveries in a few hours.

The Regulations should give clear deadlines for decisions, such as issuing an investor a certificate of investment, granting a potential investor Strategic Investor status, or for approving the change of ownership of a certificate of investment.

One way to bring greater clarity to the entire system of clearances under the OSS is to switch to the principle of automaticity, whereby firms are granted a certificate of investment by default after 30 days. This switch would necessitate a clear service agreement between the OSS and relevant ministries and government agencies. This is the approach taken by the national investment promotion agency in Senegal, the Promotion des Investissements et Grands Travaux (APIX). When a potential investor makes an application to APIX but receives no response or a request for more information after 30 days, the authorization is automatically granted[27].

6. Conclusion: Transparency and Reliability

This policy brief has made the case that The Regulations should focus on four priority areas in order to ensure the planned OSS in Zanzibar can help promote investment-led rapid and sustainable economic growth. These were to give the OSS greater autonomy, to consolidate officers from disparate Ministries relevant to investors to the OSS, to streamline the customs clearance process by providing automatic clearance for tax-exempt goods, and by committing to timely decisions concerning investor applications.

Any analysis of the functioning of SEZs in Zanzibar and corresponding policy advice is hampered by the relatively poor quality of easily available research and data. The last major research project on the functioning of SEZs (across ten countries) was conducted in 2009 by the World Bank[28]. Although this research covered Tanzania, it offered no separate data on Zanzibar. More recently, a two-year research project surveyed firms operating in SEZs in Tanzania, but again offered no separate data on Zanzibar[29].

This policy brief has highlighted throughout that lack of transparency on the current Zanzibar SEZ regime has constrained full and complete policy advice on The Regulations. There is little understanding about how SEZs function in Zanzibar, how they engage with ZIPA, and how they operate on an ongoing day-to-day basis. More research is needed to advise on the future implementation of The Regulations.

In particular, more research is needed to understand how ZIPA functions in relation to potential and existing investors: How does ZIPA currently relate to potential and existing investors and what problems in this relationship could be corrected by an OSS? How much autonomy does ZIPA have? Is ZIPA able to compel other ministries and government agencies to abide by its mandate to promote domestic and foreign investment? Or is ZIPA and its parent ministry able to co-ordinate between those various ministries and government agencies to ensure an ease of doing business for domestic and foreign investors?

The most important relationship is between ZIPA and the prospective OSS and customs, hence how quickly and efficiently customs recognize the trade-related incentives granted to foreign and domestic investors is a key issue that should be assessed. For example, the extent to which customs staff in airports and ports recognize those incentives and minimize delays for domestic and foreign investors is a key consideration. The operation of the existing finances of ZIPA and the prospective finances of the OSS have to be clarified, and issues relating to whether or not the budgets are multi-year and predictable, which would allow ZIPA/OSS to plan for the future free of any political influence, has to be explored.

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Acknowledgments: Special thanks to Jeff Mason and Jidy Chitta for providing invaluable feedback.

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

Professor Matthew McCartney
Head of Research
Africa Urban Lab (AUL)
matthew.mccartney@aul.city