



Special Economic Zones from the Top-Down in Zanzibar: Political Leadership and a Coherent Economic Strategy?

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KEY TAKEAWAYS

The government of Zanzibar administers its own Special Economic Zone (SEZ) regime, which is influenced by, but independent of, that prevailing in Tanzania.

This policy brief reviews the 2020 Manifesto of the ruling Chama Cha Mapinduzi (CCM) political party, as well as two other key policy and planning documents – Zanzibar Development Vision 2050: responsibly transforming livelihoods and the Zanzibar Blue Economy Policy – to understand the role of SEZs in the Zanzibari policy making process.

Two key findings emerge: i) there is no evidence that senior political leaders in Zanzibar are giving strong backing to the SEZ scheme; and ii) there is no evidence that SEZs are an integral and sustainable part of the broader development strategy in Zanzibar.

The policy brief concludes that it is unlikely that SEZs will make a significant contribution to transforming Zanzibar's economy in accordance with Vision 2050.

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.

This policy brief asks two questions about the role of the government that wider studies have found to be crucial in determining the success (or otherwise) of a government-dominated SEZ program such as that found in Zanzibar:

- I. Does the SEZ program receive support from the senior political leaders in Zanzibar?
- II. Is the SEZ program carefully integrated into a wider development strategy in Zanzibar?

One of the most important success factors for SEZ programs is strong support and active commitment to the program at the highest levels of government.

A review of the ruling Chama Cha Mapinduzi (CCM) political party's 2020 *Manifesto* found no evidence that the senior political leaders in Zanzibar (or Tanzania) were giving strong backing to the SEZ scheme.

Additionally, to succeed an SEZ program needs to be an “*integral and sustainable part of the broader, development strategy*”¹.

A review of two key policy and planning documents of the current government of Zanzibar, *Zanzibar Development Vision 2050: responsibly transforming livelihoods* and the *Zanzibar Blue Economy Policy*, found no evidence that SEZs were thoughtfully embedded within a comprehensive development plan for Zanzibar.

Without clear political leadership and integration in the island's development strategy, it is unlikely that SEZs will make a significant contribution to transforming Zanzibar's economy in accordance with *Vision 2050*.

1. Introduction

The government of Zanzibar administers its own Special Economic Zone (SEZ) regime, which is influenced by, but independent of, that prevailing in Tanzania². In Zanzibar, legislation in 2018 labelled economic zones as Free Economic Zones (FEZs). Further legislation in 2023 changed the name to the more commonly accepted Special Economic Zones (SEZs). The zone program is administered by the Zanzibar Investment Promotion Authority (ZIPA), a semi-autonomous government institution. ZIPA reports to the Minister for Labour, Economic Affairs, and Investment. ZIPA is not just responsible for administering the SEZ program, but also for the promotion and facilitation of domestic and foreign investment in Zanzibar³.

On its website, ZIPA defines FEZs as “*geographical areas that have more enticing incentivized economic regulations than the rest of the country*”⁴. This is a widely accepted definition among both 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*”⁵. The designation FEZ was altered to the more widely accepted Special Economic Zones (SEZ) in 2023 legislation.

As of August 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. Maruhubi 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*”⁶.

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 Honduras⁷. The survey found that SEZs were more effective in countries with strong state capacity, but where state capacity was weaker private sector management could help ensure SEZ success.

Another policy brief from the African Urban Lab (AUL) in this series found that across five globally successful investment promotion agencies (IPA), in Costa Rica, Mauritius, Rwanda, Ireland, and Singapore, there was a very strong role for the private sector⁸. This role was achieved in two ways. First, the IPAs reported to an independent board, the membership of which contained significant representation from the private sector⁹. Survey evidence from 2002 shows that the effectiveness of IPAs (in terms of FDI attracted to its priority sectors) is positively related to the number of private members on the board¹⁰. A second means is for the IPA itself to be a private entity. Evidence shows that private or semi-private IPAs are significantly more likely to be effective than IPAs that are part of a government agency¹¹.

In Zanzibar, there is little private sector involvement in ZIPA. ZIPA reports to the Minister for Labour, Economic Affairs, and Investment. The ZIPA board is heavily dominated by the public sector and includes a chairperson appointed by the President, 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). The only private sector involvement is a representative from the Zanzibar National Chamber of Commerce.

This policy brief focuses on policy suggestions for reforming ZIPA and the management of SEZs in Zanzibar taking the initial low-level of private sector involvement as given. The focus is on the top-down nature of government management of the program. A future policy brief will explore options for increasing the role of the private sector. This policy brief asks two questions about the role of the government that wider studies have found to be crucial in determining the success (or otherwise) of a government-dominated SEZ program:

- I. Does the SEZ program receive support from the senior political leadership in Zanzibar?
- II. Is the SEZ program carefully integrated into a wider development strategy in Zanzibar?

2. Political Leadership, Accountability, and SEZs

The 2009 World Bank study utilized “*more than 50 years of experience*” in designing and implementing successful SEZ programs to conclude that “*one of the most important success factors for SEZ programmes in East Asia was strong support and active commitment to the programme at the highest levels of government*”¹². Leading SEZs in Asia were characterized by an ongoing public commitment to success among senior government officials and ruling political party leadership. This provided a visible signal to domestic and foreign investors that SEZs were a central component of government development strategies¹³. A senior figure that is closely associated with the SEZ program also provides a key contact, who is responsible for explaining the policy agenda and who becomes responsible for the outcome of the scheme. This high-level accountability, in turn, places pressure on those lower down the political and administrative hierarchy to ensure its success.

In 1992, Deng Xiaoping, the preeminent former leader of China, famously toured the SEZs of southern China to demonstrate his support for the strategy. In the early 1990s, more traditional and inward-looking figures in the Chinese Communist Party were gaining influence. The tour has since been celebrated as being pivotal in sustaining the process of marketization and opening up to the global economy in China. In Singapore, Prime Minister Lee Kuan Yew made a clear commitment to the central role of SEZs in the country’s outward-oriented growth strategy. In Vietnam, SEZs were a special responsibility of Prime Minister Võ Văn Kiệt, who led on both promoting and personally monitoring the scheme.

In Africa, top-level political leadership has periodically promoted SEZs – for example, by attending an SEZ opening ceremony – but too often, leaders have chosen to delegate the SEZ agenda to lower levels of government. However, where SEZs have been continuously supported by regular vocal and physical presence of the top political leadership in Africa, they have been largely successful¹⁴. In Mauritius, the political champion of SEZs was the celebrated Foreign Minister Gaetan Duval. In Ghana, where the SEZ program is less often lauded than its Mauritian equivalent, but was more successful than most in Africa, it was personally championed in its early years by President Jerry Rawlings¹⁵.

It is difficult to find any objective measure of political commitment to the SEZ program in Zanzibar. One means of doing so is from the election *Manifesto* of the ruling Chama Cha Mapinduzi (CCM) party, which has ruled in both Tanzania and Zanzibar since its creation in 1977. An election manifesto provides an important signal of the political priorities of the government to domestic and foreign investors, and to the civil service¹.

The *CCM Manifesto* is explicit in the need to “*improve the environment for doing business and investment in the country*” and plans to do this “*by implementing the Blueprint for Regulatory Reforms to Improve the Business Environment*”¹⁶. There is no mention of either the SEZ program offering investors a good business environment at a decentralized level, or of any plans to scale up these geographic islands into national-level reform. Both of these goals were central to the political leadership in China over the 1990s.

SEZs in Tanzania and Zanzibar were created to work on the basis of public-private partnerships (PPPs), whereby the government and private sector would come together while each having clearly delineated roles and responsibilities¹⁷. There is no mention of the importance of SEZs in promoting PPPs in Tanzania. Instead, this role is given to “*the National Business Council and the regional and district business councils, which facilitated consultation meetings between Governments, traders and investors in the regions*”¹⁸.

The Export Zone Processing Authority (EPZA) in Tanzania and ZIPA in Zanzibar are not discussed in a long list of aspirations related to boosting private investment, particularly in industry. These aspirations are predominantly related to implementing regulatory reform, boosting science and innovation, attracting domestic and foreign investors, reducing bureaucratic delays, issuing construction permits, and improving the availability of land for investors. Many of these are tasks that are clearly mandated responsibilities of EPZA and ZIPA as the agencies responsible for managing the SEZ program and, in the case of ZIPA, for managing and regulating investment.

In the *CCM Manifesto*, there is only one mention of SEZs, in the context of “*setting aside and developing special investment zones (EPZ/SEZ) and to provide important infrastructure such as roads, water and electricity for industries*”¹⁹. SEZs can play a crucial role in providing a resource-starved government with the means of concentrating infrastructure provision into a geographically

¹ The quotes here are taken from an English translation of the original Swahili version, so I am not able to provide page numbers to the original.

delimited area. However, this role is not elaborated upon and this single mention of SEZs in the *CCM Manifesto* is not expanded into a discussion of how SEZs can be leveraged into government efforts to improve infrastructure for export-oriented industries.

There is a special section of the *CCM Manifesto* regarding Zanzibar, particularly government aims to promote the island's private sector: *"To develop new sectors of the economy including the oil and natural gas sector, the blue economy, the creative industry and the digital economy so that they contribute to the national income"*²⁰. There is no mention of the role of ZIPA or SEZs in achieving these goals. There is one mention of the Fumba SEZ but only in the context of building houses. There is, likewise, one mention of the Micheweni-Pemba SEZ, but only in relation to the relevant master plan now being completed. It is worth noting that four years after publication of the *CCM Manifesto*, the ZIPA website suggests that no further progress has been made and describes the Micheweni SEZ as *"uninhabited and ready land for a variety of investments"*²¹.

The *CCM Manifesto* contains a long list of *"actions"* to be taken in Zanzibar *"with the aim of attracting domestic and foreign private investment, and increasing open and productive discussions between the public and private sectors"*²². Here, the *CCM Manifesto* indicates that the Ministry of Trade and Industrial Development will be directed to collaborate with the private sector, empower local investors, reduce investment costs, encourage private investment in fishing, and develop *"Special Economic Zones (FEZs) and [provide] incentives to natives, diaspora and foreigners that will stimulate investment in the country"*²³. This long list of responsibilities makes no mention of ZIPA – the investment promotion authority in Zanzibar – or to the ministry in which ZIPA is located (Labour, Economic Affairs, and Investment). Instead, responsibility is directed to the Ministry of Trade and Industrial Development.

This passing mention of SEZs indicates that they are one policy among many and does not suggest that the government views them as a political and policy priority. Tourism is a policy priority, which is very obvious in the *CCM Manifesto*. Here, again, responsibility for tourism is vested in the Ministry for Trade and Industrial Development, and there is no mention of any role for ZIPA or its parent ministry. Policy priorities include encouragement of foreign and domestic investment in high-class hotels and the improvement of the general investment climate in the sector, both of which could have been accomplished by the domestic investment promotion authority, ZIPA.

3. A Clear Vision for SEZs

The World Bank survey of 2009 found that successful SEZ programs were characterized by not just high-level political support, but also that *“senior political leaders had a very clear vision of the development path they were targeting and the specific role of SEZs on that path”*²⁴. In 1980s China, 1970s Malaysia, and 1960s Singapore, the governments had a clear vision of shifting away from an inward-looking development approach towards an outward-looking national strategy that embraced the opportunities of the global market. In all cases, the role of SEZs was clearly integrated as part of broader development strategy. In 1980s China, for example, Deng Xiaoping made specific references to the SEZs as a mechanism to help promote the outward-looking reform process. He described them as a *“window of technology, a window of management, a window of knowledge as well as a window of international policy”*²⁵.

When considering SEZs, policy coherence can be seen as working at two levels: (1) internal implementation capacity of the SEZ program; and (2) integration with wider government policy making. The internal coherence of the SEZ program is weak in Tanzania²⁶.

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 ministries²⁷. 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 default²⁸.

The incentives offered under the SEZ program are not recognized and are yet to be approved, while the SEZ regime remains non-operational²⁹. This problem has persisted for nearly two decades. These multiple administering authorities created internal policy confusion and competing interests while sending conflicting signals to potential investors³⁰. In Tanzania, there is also an inbuilt potential for the overlapping of responsibilities resulting in conflict. EPZAs are responsible for managing the SEZ program. The Tanzania Investment Centre (TIC), established in 1997, is a one-stop-shop 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 industries³¹. There are significant areas of overlap between the package of incentives offered by EPZA and those by TIC, NDC, and SIDO.

Zanzibar has clearly learned from the confusion in Tanzania. ZIPA began life in 1986 as a department in the Ministry of Finance and was converted to a government agency with a degree of autonomy in 1992. In 1992, the government also 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 significant 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 ZIPA to include economic development and included the administration of the FEZs.

Zanzibar has established ZIPA as a single organization responsible for SEZs, with core functions that include developing zones (which includes activity that is also open to the private sector in the form of a public-private partnership but has not yet been tried), operating government-owned zones, and regulating all investment activities in Zanzibar, including those in SEZs. The government also takes a lead role in promoting the SEZs to domestic and international investors³². While this may cause some potential conflict of interest³³, this structure gives investors the benefits of organizational clarity.

The second aspect of coherence is in terms of outward links between the SEZ program and wider government policy making. Too often, including in Zanzibar, SEZs appear to be operating as a separate system within the national economy that has little connection with the overall development strategy³⁴. To succeed, an SEZ program needs to be an *“integral and sustainable part of the broader, development strategy”*; consequently, successful countries are those that *“adopt a well-structured strategic approach towards SEZs which they can effectively execute and continuously evaluate and manoeuvre over time”*³⁵.

There are good examples of how SEZs have been tied into a broader development strategy. In the 1960s, South Korea launched an import-substituting industrialization drive, focused on fertilizer, cement, steel, machinery and oil refining. To counter the anti-export bias of this inward-looking policy regime, the government adopted an SEZ program to attract foreign investment into export-oriented light manufacturing. In the same period, Taiwan utilized SEZs to attract domestic and foreign investment into small and medium enterprises in light manufacturing, and leveraged SEZs to promote early technological upgrading and linkages with the domestic economy³⁶.

China used SEZs to experiment with policy reforms in its shift away from inward-looking state socialism towards a more market-oriented openness in the 1980s. The city-sized SEZs opened in China were also crucial in promoting economic decentralization towards regional and city-level government³⁷. Additionally, China set up SEZs that were central to government efforts to promote technological modernization³⁸. Such SEZs often included an industrial research university within their geographical premises. These included National Economic and Technological Development Zones (ETDZ) and High-End Industrial Development Zones (HIDZ), the latter being a co-responsibility of the Ministry of Science and Technology.

In Mauritius, the SEZ strategy was launched in the 1970s as a response to the twin problems of a failing import substitution industrialization strategy and an excessive dependence on sugar exports. The SEZ strategy allowed for the emergence of an export-oriented light industrial sector employing mainly young women. The SEZ strategy was compatible with domestic Mauritian politics, because it allowed for the emergence of new economic sectors without threatening existing industries, employing a majority of a unionized male labor force with a close political link to the ruling political party³⁹.

The *Zanzibar Development Vision 2050* offers key insights into whether the island's SEZ strategy has been comprehensively integrated into its broader development strategy. Published in 2020, the document gives a thirty-year vision for the development of Zanzibar, by which time the island aspires to have transitioned from lower-middle to upper-middle income status. The economic growth underpinning this transformation will *“involve a reorientation of the economy away from subsistence-based agriculture to higher value-added activities, both in the primary and secondary sectors, as well as ensuring the service sector is enlarged beyond high-volume tourism”*⁴⁰. Economic growth will be based on industrialization: *“As part of efforts towards greater economic diversification, industry is expected to nearly double in share*

from 18% in 2019 to 35% in 2050 while agriculture as a share of GDP is estimated to halve from 21% in 2019 to 10% in 2050”⁴¹.

Central to *Vision 2050* is the importance of generating linkages in the economy: *“Economic gains may be reaped by recognising and reinforcing the strong backward and forward linkages between economic sectors, such as the contribution of agriculture to tourism and industry as well as the interplay between industry and tourism”*⁴². A concrete example is the aspiration to increase domestic processing of agricultural products, including the commercialization of *“cloves, fisheries, oils, seaweed and dairy through canning, drying, refinement and distillation”*⁴³. Tourism is also highlighted as a sector prime for the cultivation of more local linkages: *“Insufficient linkages with agriculture and other socio-economic sectors [are] resulting in the leakage of employment and tourism dollars out of Zanzibar. This is because: (i) hotels prefer to buy imported produce due to the realistic perception of better quality and ability to source larger quantities; (ii) hotels prefer to hire more skilled foreign nationals, especially in management; (iii) challenges in enforcement lead some hotels to engage in tax avoidance; and (iv) tourism products”*⁴⁴.

SEZs are clearly not an *“integral and sustainable part of the broader, development strategy”* as judged by a content analysis of *Vision 2050*. *Vision 2050* contains only four mentions of SEZs, all casual asides in a discussion focused on other topics. For example, *“trade prospects are further challenged by the underutilisation of free economic zones (FEZs) and limited export-based infrastructure”*⁴⁵. All the goals from *Vision 2050* – industrialization, building linkages with the local economy, and adding value to domestic production – are goals pursued successfully in SEZ programs elsewhere. There is no mention of ZIPA, regardless of the fact that *Vision 2050* is full of policy goals that are equivalent to the government-mandated goals of ZIPA, such as boosting industrialization, exports, and employment growth.

Another key policy document, *Blue Economy 2020*, is more focused, but clearly *“aligned with Vision 2050,”* insofar as its ultimate goal is also to lift Zanzibar to upper-middle-income status by 2050. *Blue Economy 2020* focuses on the weak development of the blue value chain, which *“hinders the potential of the fisheries and aquaculture sector due to a shortage of suitable infrastructure and equipment”*⁴⁶. An explicit example is that *“nearly all seaweed grown in Zanzibar is exported as a raw material, without any value-added processes or refinement taking place”*⁴⁷. Again, *Blue Economy 2020* focuses on the importance of tourism and laments the *“high level of ‘leakages,’ which is the loss of tourist incomes from the local economy and the failure of tourist expenditure at hotels, restaurants, curio shops and the like to end up satisfactorily in the pockets of Zanzibaris”*⁴⁸.

Blue Economy 2020 also explains how bureaucratic inefficiencies have hindered both importers and exporters. For example, “*there are about eight documents needed to import goods into Zanzibar and seven documents for exports*” and “*entry clearance is often time-consuming as freighters may be expected to visit up to 14 offices to complete forms and request permission as part of customs*”⁴⁹. There is no mention here of the role of SEZs as islands of good governance where such bureaucratic procedures have been streamlined. There is also no mention of ZIPA, which by legislation in 2018 has been mandated to provide all of those services to investors in a one-stop-shop⁵⁰.

Blue Economy 2020 promises to create an “*autonomous [blue economy (BE)] institution to be created within the Ministry responsible for national planning...[which] shall act as the central coordinator of all BE activities, taking ownership and responsibility for implementing the BE Policy. It shall primarily play a coordinating role and oversee the development of various sectors, ministries, departments and agencies (MDAs), institutions, industries and associated programmes relevant to BE*”⁵¹. The implementation of the BE Policy will be variously supported by the ministries responsible for Finance, Fisheries and Aquaculture, the Environment, Trade and Industry, Tourism, Local Government, and the Planning Commission. Specifically, the Ministry of Finance will be responsible for “*extending favourable terms and conditions of investment to local investors*”⁵². There is no mention of ZIPA having any role in this new BE strategy. The implied responsibilities of the BE institution related to attracting domestic and foreign investment, promoting exports, and building the local value chain imply a major diminution of the role of SEZs and their parent organisation, ZIPA.

4. Conclusion

This policy brief discussed the independent Special Economic Zone (SEZ) regime, administered by ZIPA on behalf of the government of Zanzibar. This brief focused on the likely success of the SEZ program in relation to its own stated goals. The ZIPA website states that “*Free Economic Zones were created specifically to attract investment, particularly foreign direct investment (FDI), in labour-intensive projects to increase exports*”⁵³. The brief also considered whether the SEZ program can contribute to the government’s wider goal for Zanzibar to achieve upper-middle-income levels by 2050.

This policy brief asks two questions about the role of the government that other studies have found to be crucial in determining the success (or otherwise) of a government-dominated SEZ program. First, does the SEZ program receive support from the senior political leadership in Zanzibar? A review of the 2020 *CCM Manifesto* of the ruling Chama Cha Mapinduzi (CCM) political party found no evidence that the senior political leaders in Zanzibar or Tanzania were giving strong backing to the SEZ scheme.

Second, is the SEZ program carefully integrated into a wider development strategy in Zanzibar? A review of two key policy and planning documents of the current government of Zanzibar, *Vision 2050* and *Blue Economy 2020*, found no evidence that SEZs were an “*integral and sustainable part of the broader development strategy in Zanzibar*”⁵⁴.

The SEZ program in Zanzibar accords more closely to African norms whereby the top-level political leadership has periodically promoted SEZs, but preferred to delegate the SEZ agenda to lower levels of government, and has failed to create a consistent policy link between the SEZ programs and wider strategies for industrialization. Without clear political leadership, and the use of SEZs as an integral part of the national development strategy, it is unlikely that SEZs will make a significant contribution to transforming Zanzibar’s economy in accordance with *Vision 2050*.

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51. Revolutionary Government of Zanzibar, The (2020b:27).
52. Revolutionary Government of Zanzibar, The (2020b:27).
53. <http://www.zipa.go.tz/about-zones-2/>
54. Aggarwal (2019:29).

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