
**THE REVOLUTIONARY GOVERNMENT OF
ZANZIBAR**



ZANZIBAR INVESTMENT POLICY (ZIP)

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LIST OF ABBREVIATIONS

ADB	African Development Bank
AGOA	African Growth and Opportunity Act
BWS	Bonded Warehouse Scheme
EAC	East African Community
EAFAIPA	East African Association of Investment Promotion Agencies
ECA	Economic Commission for Africa
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICSID	International Centre for Settlement of Investment Disputes
IFC	International Finance Corporation
ILO	International Labour Organization
IPA	Investment Promotion Authority
M&E	Monitoring and Evaluation
MIGA	Multilateral Investment Guaranteed Agency
P&M	Promotion and Marketing
PTA's	Preferential Trade Areas
R&D	Research and Development
SADC	Southern African Development Community
UNDP	United Nations Development Programme
VAT	Value Added Tax
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organisation
ZAFREZA	Zanzibar Free Zone Authority
ZFPA	Zanzibar Free Port Authority
ZIP	Zanzibar Investment Policy
ZIPA	Zanzibar Investment Policy Authority
ZPRP	Zanzibar Poverty Reduction Plan

1.0 INTRODUCTION

1.1 OVERVIEW

As a young developing Island, Zanzibar endeavours to build a strong and sustaining economy focused on the development of its natural and human resources. In terms of vision, the Government would like to see a society of educated and healthy individuals with a dynamic culture and sustainable economy. This vision can only be realized if the government works together with the private sector, with each one of them playing a complementary role.

Zanzibar has made major progress over recent years towards putting in place a general policy environment that is more favourable for private sector expansion and sustainable economic development. The role of the government in achieving economic development is changing and will continue to change overtime. Under the ongoing economic reforms the governments' role will be confined to the provision of public services; policy management and implementation; monitoring and evaluation of the various policies and strategies and promotion of an enabling environment for private sector investment in production, trade and in the provision of some social and economic services. The government will be responsible for putting in place an effective regulatory framework in order to create fair competition in the various markets, to protect the environment and to guarantee quality of products.

This investment policy is one of the macro policies intended to contribute to the realization of the vision summarized above. It presents an outline of the Island's profile and economic development with regard to the political, economic, infrastructure, communication and legal systems. It also presents both broad and sector-specific investment policy objectives and their accompanying strategies. Current priority sectors for investment have been identified to include: Financial and business services, including offshore and Freeport center activities, Tourism, Agriculture (crops, livestock and fish and marine products), manufacturing, Trade, and transportation.

1.2 CONTEXT OF THE ZIP

Zanzibar is part of the United Republic of Tanzania. As such she is entitled to benefit from the regional groupings to which Tanzania is a member. Tanzania presently belongs to two regional groupings, namely the East African Community and the Southern African Development Community (SADC), both of which will have customs union and common markets. These two communities together have membership of sixteen countries, with diverse economies. Hence membership to these two groupings enhances the strategic importance of Zanzibar's role in trade and financial services.

Tanzania is a member of the WTO, which has qualified for Africa Growth Opportunity Act, which grants special access to African export to the US markets, and enjoys benefits

from the extension of Lome V terms on non-reciprocal treatment for African, Caribbean and Pacific countries up to 2010. All these may help to jump-start the location of labour intensive; export oriented manufacturing industries to African countries and hence improve the development prospects of Zanzibars' hinterland. This will provide an opportunity for Zanzibar to upgrade itself to service the industrial development of countries in the region.

1.3 NEED FOR THE INVESTMENT POLICY

Zanzibar is geographically an island; it is nevertheless part of the global village. Its economy must meet the unfolding challenges from globalization and abject poverty among its population. Both of these challenges require speedy transformation including diversification of the economy with the objective of attaining high sustainable and broad based growth. Without attracting huge investments from both foreign and local sources into the economy, it would be almost impossible to meet those challenges, which are clearly stated in the Zanzibar Development Vision 2020.

The formulation of this Investment Policy is also due to inadequate economic performance emanating from economic reforms already undertaken. While economic performance emanating from economic reforms responded favourably in terms of GDP growth and reduction in inflation rate among others, such performance is far below the needed economic growth (of about 10 percent) for poverty reduction. The economic reforms by themselves have not attracted huge local and Foreign Investments. Such investments are critical for revitalizing and raising the level of productivity in the leading sectors.

Zanzibar has not received much FDI. Local investments have always been more important for growth than foreign investment. But the little FDI that has come, particularly in the tourism sector, has shown some impact in creation of new and better paid jobs and skills.

In terms of trends, FDI into Zanzibar rarely exceeded USD 19 million in any one year. Between 1986 (when the Investment Act was passed) and 2002, Zanzibar received total FDI inflows of \$ 440 million, mainly from Britain, Bahrain, Germany, Italy, Kenya, South Africa, Mauritius and the United Arab Emirates. Most of these investments went into tourism, business services , sea transport and manufacturing; other areas are fisheries, air and agriculture.

With the ongoing economic reforms that emphasize the role of the private sector and liberalized markets, more investments are expected to increase. This policy will help increase the speed of investment inflows.

In addition future growth will have to come from efficiency gains and upgrading of production in established sectors and from the development of new growth poles, such as

regional business and financial services. Unlike manufacturing where competition is global, services can be more regionally based.

In order to sustain high growth, Zanzibar wants to shift more forcefully into higher value sectors including, financial services, business services, information technology and tourism. Growth in these sectors is derived from knowledge networks and a sophisticated support infrastructure that demands substantial capital and expertise. Foreign Direct Investment (FDI) can help Zanzibar establish attributes needed to compete globally in these high value service sectors. In order to attract FDI of this kind, Zanzibar will have to undertake a focused promotional strategy and a substantial change of the policy and operational framework for FDI in line with worldwide “best practice” standards. This policy, therefore, is intended to guide this need for attracting investments into high value sectors.

2.0 BACKGROUND

2.1 ZANZIBAR PROFILE

Zanzibar, which is part of the United Republic of Tanzania, consists of two main islands of Unguja and Pemba and about 50 other small islets. The islands are located 40km off the Mainland coast of East Africa in the Indian Ocean between latitude 5 and 6 degrees South and longitudes 39.5 and 40 degrees East. The two main islands are 50km apart separated by the 700 metre deep Pemba channel. The total surface area of the islands of Zanzibar is 2,654 square kilometers, Unguja, the larger of the two main islands has an area of 1,666 square kilometres, while Pemba has an area of 988 square kilometres.

The 1988 census indicated that the total population of Zanzibar was 640,685. The population has risen to 984,531 in year 2002. The population growth rate between 1988 and 2002 is 3.1 percent.

Socio-cultural formation in Zanzibar is a reflection of its contacts with foreign nationalities. Through trade relations Zanzibar has integrated African Culture with those of Asia and Europe. The socio cultural mix is reflected in the islands architecture, way of life, language and the racial mix of its people. Kiswahili is a lingua franca for the country, however other languages like English, Arabic, Italian and French are also in use.

2.2 THE ECONOMY

2.2.1 Economic Management

Up to the mid-nineteen eighties, Zanzibar followed a centralized system of economy, in which the government was responsible for the operation and provision of most of economic and social services. Apart from agriculture, which was totally under the private sector, the remaining economic activities were to a large extent controlled by the government.

Beginning 1984, the Government began the process of transforming the Zanzibar economy away from a centralized to liberalized system. Trade liberalization policy was followed by a number of other policy reforms including:

- The Economic Recovery Programmes of 1986 and 1988
- The Zanzibar Investment Protection Act 1986
- The Banking and Financial Institution Act 1991
- The establishment of Export Processing Zone in 1992
- The establishment of Free-Port facilities in 1998
- The Institution of Fiscal Policy Reform focusing on transparency, comprehensiveness and effectiveness of fiscal management.

The major objective of undertaking various reforms is to achieve a stable macroeconomic conditions and sustainable economic environment that can generate higher economic

growth, lower inflation rate, stable currency, and low-cost provisions of services. Zanzibar is geared towards undertaking public enterprise reform, through rehabilitating and maintaining infrastructure, improving social delivery systems as well as raising productivity of the public sector.

2.2.2 State of the Economy

Between 1986 and 2000 Gross Domestic Product (GDP) has shown an increasing trend with an average growth rate of 3.7 percent. The highest figure in GDP growth rate was recorded in 1996 when it reached 7.2 percent. However, there was a slight decline in GDP growth rate from 4.5 percent in 1999 to 4.2 percent in 2000. This decline was partly due to a decline in the level of agricultural production (particularly cloves), low investment levels and general poor economic performance. Inflation rates have settled at a single digit, while the level of both private and public capital formation is on the increase.

During the period 1986-2000, agriculture, trade, tourism and services sectors were the major contributors to GDP making up to 90 percent of its total value. Agriculture accounts for more than one third of the GDP, although in recent years its contribution has registered a constant downward trend. The declining contribution of agriculture in both relative and absolute terms has tended to have a negative impact on the growth of GDP.

The trade sector that involves business of traded goods and services begun to increase in terms of revenue contribution, employment generation as well as attracting investments. Tourism has shown prominence in the economy of Zanzibar as observed in many Island State economies. Overall, the rate of growth of tourism is greater than the agricultural sector. The share of the trade sector in the total GDP shows a cyclical trend from 17 percent in 1986 to 30.2 percent in 1994 down to 23.1 percent in 2000. The variation was due to a low trade volume registered during recent years. Through transit trade, offshore trade services and first class tourism, Zanzibar can be an all season tourist destination center. A special package of incentives is therefore needed to motivate investors and thus enhance the sectors contribution to GDP.

Other economic indicators include a declining trend in the prices of goods and services to consumers where the rate of inflation has been seen to decline from an average level of 30.0 percent during the 1990s, down to a single unit of 4.2 percent recorded at the end of 2001.

Trends in capital formation have not shown clear patterns. There has been observed a growing trend in absolute values of annual capital formation between the years 1986 and 2000. But the contribution of total fixed capital formation to GDP has declined from 35.4 percent in 1986 to 11.15 percent in 2000. This is a result of limited implementation of public sector projects compared to initial years of implementation of economic reform measures. Revitalization of investment activities is the main impetus for this policy.

On fiscal policy aspects the government has taken various measures; which include the restructuring of the tax system aimed at facilitating private investment mobilization in order to expand the tax base.

2.2.3 Sector-Focus

2.2.3.1 Agriculture

The agricultural sector includes fisheries, livestock and forestry. Currently it is the most important sector of the economy in terms of its contribution to GDP and employment. However, in the recent past, its contribution to GDP has been declining, from 43 percent in 1990 to 39.3 percent by 2001, partly in view of the increasing role of the tourism sector.

Notwithstanding these developments, and in view of close linkage between agriculture and tourism there is ample potential in agriculture particularly in commodities like coconuts, seaweed, fruits, spices and horticultural products. This potential is well reflected in the agriculture policy.

2.2.3.2 Fish and Marine Products

Zanzibar's fishing is almost entirely artisanal and is conducted in the shallow waters along the coast. The entire fishing grounds are about 4,000 square kilometers for Unguja and 2,720 square kilometers for Pemba.

Much of this area has coral reefs and a variety of flora and fauna making the region ideal for fishing. Indeed, there is an enormous potential for increased production of marine products, through offshore and deep-sea fishing including processing, for both domestic and export markets.

2.2.3.3 Manufacturing Sector

Zanzibar's manufacturing sector accounts for between 5-6 percent of the GDP. However, the potential for raising its contribution to the economy is abundant through promotion of micro, small and medium industries. The sector will be progressing towards attracting labour intensive industries (agro processing, fish and marine products, leather, textile, cooking oil etc.), which will take advantage of trainable and productive labour force.

2.2.3.4 Trade

Zanzibar has a long tradition of import and export trade in the East African region. The sector contributes between 15 to 18 percent of GDP.

Historically, the economy has been heavily dependent on export of cloves to the tune of 98 percent of total exports. However, the clove export trend is declining and new export

commodities, such as seaweed and spices are emerging. The potential of these non-traditional exports has yet to be exploited, both in terms of increased production, processing (value-addition) as well as broadening the product mix.

Further, in terms of trade, Zanzibar is one of the best geographically located islands in the world. As such she has competitive and comparative advantage regionally in directing exports and re-exports to the rest of the world.

2.2.3.5 Tourism

Tourism is a promising sector for attracting private investments.

Currently the sector contributes between 5 to 8 percent of GDP. Zanzibar has taken institutional measures to develop the tourism sector. As a result, the capacity to accommodate tourists has also increased. The Zanzibar Tourism Development Plan prepared by UNDP in 1983 revealed that in that year there were only 10 unclassified accommodation units, providing 215 rooms and 467 beds. However by 1990 there were 45 hotels and several establishments providing a total of 548 rooms and 1063 beds, which indicates an increase of 39 percent and 44 percent respectively. By the year 2000, the tourism sector has grown considerably and Zanzibar had 173 accommodation units under operation, which provided 6,159 beds. This marked an increase of 82.7 percent of the bed capacity.

The strategic economic and social importance of the tourism sector has also grown tremendously. There are numerous and attractive opportunities for investment in the tourism sector. The opportunities range from world class business hotels, conference centers, restaurant/catering facilities, including those providing traditional services, cruise ship transport, diving and game fishing, publication/printing, tourism and hotel training centers, conservation and site attractions.

3.0 DEVELOPMENT GOALS

Zanzibar's overall development goals are to eradicate absolute poverty and attain sustainable human development.

Achieving these goals requires raising the level of investment inflows from both public and private sector within and outside the country. To ensure sustained growth of the economy investment inflows must be raised from the current level of 10-15 percent to at least 20-25 percent of GDP, as long as absorptive capacity of the economy allows.

The accomplishment of the goals also requires the attainment of the following:

- Building social and macroeconomic stability

- Raising economic growth rate from the level of 4.5 percent (2001) to 6 percent by 2005, up to between 7 and 8 percent by the year 2010 and ultimately attain a growth rate of between 9 and 10 percent by 2020.
- Raising the per capita income of its people to that of middle-income countries
- Building a diversified semi industrialized economy led by the following priority sectors, (a) tourism (b) small and medium scale industries (c) trade (d) transport and communication (e) agriculture and (f) construction
- Having a well trained, healthy human resource base responding to the demand of the labour market
- Attaining peace, political stability and the rule of law
- Creating an environmental friendly development atmosphere

The attainment of these development goals and their specific targets would require clear investment policy objectives and strategies. These are outlined below.

4.0 INVESTMENT POLICY OBJECTIVES

In order to address the challenges of globalization and abject poverty, the ZIP objectives are grouped into two categories, overall and sector-specific objectives.

4.1 OVERALL INVESTMENT POLICY OBJECTIVES

The overall policy objectives will include the following:

- Promote domestic production of goods and services for export in order to enhance the development of a competitive export sector.
- Attract and optimize FDI's to complement local private sector efforts.
- Mobilize investments that are socially and economically beneficial as well as environmentally sound in order to protect Zanzibar's natural heritage.
- Encourage and facilitate the adoption of new technologies that have a direct bearing on productivity, quality and increased competitiveness.
- Reform the public administration in order to establish an efficient bureaucracy.

- Develop transparent legal framework, which facilitates and gives guarantee of protection to all investors.
- Deregulate and speeding up of the investment approval process.
- Improve linkages among the various economic sectors.
- Empower women by encouraging them to invest into areas where they have comparative advantage.
- Encourage investment in Research and Development (R&D), particularly in the productive sectors.
- Promote training and skills development for employment opportunities in all sectors of the economy.

4.2 SECTOR-SPECIFIC POLICY OBJECTIVES

Zanzibar has potential to attract FDI of a high quantity and quality commensurate with opportunities that its geographical location, political stability and economy offer. The areas opened to FDI and national private sector investment broadly include:

- Financial and business services, including off-shore and Freeport centre activities
- Tourism
- Manufacturing, especially with an export orientation.
- Regional headquarter for financial and business services
- Fish and Marine sub-sector
- Trade.

Particular priority is attached currently to the development of Zanzibar as a regional financial and business services hub.

The government does not encourage FDI in primary agriculture (except for some activities in Marine sub-sector). Nevertheless, joint ventures with national investors in high value products such as horticulture, spice and in agro processing are welcomed.

In order to achieve investment climate transformation, the sector-specific policy objectives are:

4.2.1 Regional Financial and Business Services

Zanzibar will take advantage of its unique location to tap regional opportunities in financial services. The key policy objectives to help Zanzibar to take on this role are to:

- Promote Zanzibar as a regional centre for the provision of financial and business services.
- Allow a liberal immigration policy for expatriate business and financial professionals.
- Organise training of finance and business related professionals.
- Attract back Zanzibar's financial and business professionals presently located abroad.
- Initiate sustainable credits facilities in order to promote micro, small and medium enterprises.

4.2.2 Tourism

- Expand and diversify the tourism sector by providing supporting services such as infrastructure and strengthening tourism institutions.
- Promote high quality tourism and ensure that investment in tourism attracts the type of tourism markets that are compatible with Zanzibar culture, tradition and resource limitations.
- Identify and attract tourism investments in areas that have strong linkages with other socio-economic activities.

4.2.3 Information/Communication Technology

Zanzibar has identified information technology as a potential growth sector. This is an ideal sector for industrial development as it is a high value sector that creates high wage jobs and is not substantially sensitive to issues of domestic market size or geographical location. There are four policy objectives for this sector. They are to:

- Designate information technology as a strategic focus for the development policy on Zanzibar.
- Encourage greater competition in the provision of telecommunications services in order to reduce the high telecommunication costs and hence facilitate the expansion of the IT industry.
- Market and promote Zanzibar as an IT centre among international firms in IT consulting, Internet and Software development, and call centers.
- Consult international experts in designing the IT facilities and bring them up to global standards in order to attract world-class electronic business companies.

4.2.4 Manufacturing

- Transform the Zanzibar economy to a more diversified and semi industrialized economy, with emphasis on agro and marine product processing.
- Promote SMEs that serve both the domestic and export markets.

- Identify and promote micro enterprises that have potential for output expansion, employment generation and which serve both the domestic and export markets.

4.2.5 Agriculture (Crops and livestock sub-sectors)

There are very close linkages between agriculture and other sectors of the economy. Agro-processing industries, some agro-based manufacturing industries and some portion of the transport, trade and financial sector depend largely on the volume and value of agricultural output. On the other hand, the development of agro-based enterprises, trade and marketing, and improvement of physical infrastructure and expansion of tourist activities etc. will promote agricultural production.

While agriculture is the most important sector currently, the policy is not to encourage FDI into the crop and livestock sub-sectors, due to shortage of land and the fact that the sector provides employment to many Zanzibaris. Hence emphasis will be put on attracting national investors. The objectives and agriculture sector in this policy are:

- Promote and redirect food production and commercial farming to meet food demand by the tourist industry and other consumers.
- Promote commercial production in the livestock sector, including processing and marketing of high quality livestock products.
- Institute a secure land tenure system that promotes maximum use of land resources.
- Undertake research in high value agricultural products such as horticultural produce for exports.

4.2.6 Marine Sub-Sector

The marine sector is an important sector in the Zanzibar economy. The fisheries sub sector though small in terms of its contribution to GDP (about 2.5 percent of GDP), is important in contributing to employment and also as a source of foreign exchange.

The fisheries sub-sector offers by far the best prospects for future development. It consists of large-scale commercial fishing, small-scale artisanal fishing, sport fishing, aquaculture and fish processing and marketing. While the inshore artisanal fisheries are overexploited, there are investment opportunities in deep sea fishing.

Therefore, policy objectives in the marine sector are:

- Attract investments in deep sea fishing
- Promote investment in fish processing.

4.2.7 Trade

- Develop the capacity to disseminate knowledge and information on trading activities.
- Strengthen Zanzibar's engagement in regional and international trade agreements with a view of promoting markets for its exports.
- Encourage the export oriented investment of high value commodities.
- Facilitate the participation of national private sector in trade through joint ventures.

4.2.8 Energy

- Promote the adoption of energy systems of production, procurement, transmission and distribution, which are efficient and cost effective.
- Promote investments in the development of all possible commercial sources of energy.

4.2.9 Transportation

Since Zanzibar is an island, water and air transport are crucial means for promoting exports and imports. Roads are critically needed for ensuring efficient transportation of goods within the islands. Hence, investment policy objectives in transportation are:

- Promote investment in maritime and air facilities including the harbour and airport.
- Develop an efficient road network within Zanzibar to support air and maritime transportation.

4.2.10 Social Services

- Encourage investment partnership between the private, public and communities in the provision of social services, particularly education, health and water, power and telecommunication.
- Encourage private and public investments in skills development particularly in sectors that involve women
- Improve the standards of social services in terms of increased accessibility and good quality and price competitiveness.

5.0 INVESTMENT POLICY STRATEGIES

In order to achieve the investment policy objectives, six strategies will be implemented. The first strategy is the provision of an efficient institutional framework including the

role of the Government, Investment Promotion Authority and other supporting institutions particularly financial institutions. The second strategy will be to put in place adequate and effective fiscal and non-fiscal incentives for the mobilization of local and foreign investments. The third strategy is to establish transparent legal framework that facilitates the promotion and gives due guarantee of protection to all forms of investment activities. The fourth is the provision of adequate, quality and reliable socio-economic infrastructure and utilities. The fifth is the implementation of the policy that seeks to promote growth of exports by strategically employing scarce natural, social and capital resources through efforts such as establishment of EPZ, industrial processing sites and Free Port. Lastly is the focus on investment promotion and marketing. All these strategies are elaborated in here.

5.1 INSTITUTIONAL FRAMEWORK

5.1.1 The Role of the Government

The prime role of the Government in the investment policy include properly managing the macro economic variables in order to ensure their stability and placing Zanzibar in a competitive world economy. Provision of a transparent policy, investment guidelines, stimulation and promotion of investment in all potential sectors will also be the Government's role.

Government's specific strategies include the following:

- Undertaking public sector and enterprises reform, providing reliable and efficient infrastructure, and improving social- infrastructure delivery systems.
- Improving the financial sector through the reduction of the role played by the state. Government efforts will also be directed towards promoting lending facilities to small and medium enterprises.
- Promoting good governance, political stability, property rights and general security to ensure an attractive environment for investment.
- Attracting world-class investments as well as creating an enabling investment climate for local investors.
- Promoting foreign and local partnership. This is because local investors provide knowledge of the islands as well as high level of commitment to achieve benefits to their national economy. Foreign investors on other hand, bring in capital, experience, skills and contacts with the rest of the world.
- Combating corruption on a sustainable basis.
- Enhancing investment in human resources development.

5.1.2 The Investment Promotion Authority (IPA)

The Government will merge the existing Investment Agencies (ZIPA, ZAFREZA and ZFPA) put in place unified institutional framework with transparent and streamlined processes, procedures and regulations for promoting investment. This Authority will be a focal point for the promotion, coordination and monitoring of local and foreign investments. It will also be a custodian as a one-stop center, to oversee the implementation of the investment policy and compliance with all regulations. The IPA will market Zanzibar as the prime investment destination in the region using leading-edge knowledge, tools, methods and techniques. The IPA will be responsible for:

- Undertaking promotional activities, which include dissemination of information to investors on investment conditions and opportunities in Zanzibar.
- Establishing and administering simplify procedure of approving investment projects by granting certificates and licenses.
- Facilitating investments through the provision of assistance in the sourcing of finance and in forming joint ventures.
- Assisting investors in solving regulatory problems and identification of new markets or opportunities for the expansion of business.
- Assisting in acquiring land for investment purposes.
- Facilitating the speedy acquisition of all due incentives, necessary authorisation and decisions required by investors including work and resident permits, land leases and other infrastructure services.
- Playing an advisory role to the government in all investment matters.
- Overseeing the formation and effective functioning of Business Council with view to foster interactions between the business community and the government..
- Promoting the entrepreneurial function in the local private sector through training and facilitating contacts.
- Promoting close working relationship with international investment organizations such as WAIPA, EAFAIPA and AFRIIPA for investment guidance and facilitation.
- Seeking advice from experienced international organization, such as the UNIDO, UNDP, ITC, World Bank, MIGA, UNCTAD, IFC, ADB and merchant banks to assist in negotiations.

- Establishing links with experienced investors in Europe, USA, Middle East, and Africa, etc.

5.1.3 Other Investment Support Institutions

The structure and pace of investments are also greatly influenced by the behavior of regulatory institutions. In this regard, the following investment policy strategies will be undertaken:

- Ensuring greater transparency, accountability and the rule of law.
- Developing sound public enterprise management system that ensures efficiency, responsiveness and integrity.
- Ensuring that line ministries and private sector institutions closely work with investors and the IPA to stimulate investments.

5.1.3.1 Financial Institutions

An efficient financial system is one of the key pre-requisites for economic growth and development to be achieved.

Financial intermediation facilitates efficient mobilization of savings and channeling them into investments. Given this important role the following critical policy strategies will be implemented.

- Attracting, strengthening and broadening venture capital companies, finance companies and insurance companies, among others, through investments by public, private local and foreign investments.
- Putting in place appropriate incentives and institutions that will promote savings habits.
- Promoting a competitive and efficient financial system including offshore banking and capital markets.

5.2 INVESTMENT INCENTIVES

Investment incentives are inducements offered by the government to mobilize increasing magnitudes of appropriate local and foreign investments. Hence the investment incentives provided will facilitate the achievement of investment policy objectives, will be competitive and directed in areas that are most important to Zanzibar's economic and social development.

In order to avoid high administrative costs associated with a large number of incentives differentiated by sectors and activities, the Government has decided to broadly standardize the incentives. However, certain incentives which are performance-based will be granted to investors subject to meeting performance criteria as reflected in investment plans and agreed upon with IPA.

Zanzibar offers fiscal and non-fiscal incentives, which shall be broadly harmonized to serve the interests of both investors and the country. These are detailed below.

5.2.1 Fiscal or Tax Incentives

The fiscal incentives include the provision of:

- Corporate tax relief.
- Investment allowances on capital expenditure;
- Reinvestment allowances on capital expenditure;
- Infrastructure allowances on infrastructure expenditure;
- Preferential tax rates for withholding tax on dividends, royalties and interest;
- Preferential rates on indirect taxes;
- Double deductions of approved and/or specified costs and expenses.

The tax system will be more competitive relative to neighboring economies in the region. The system is meant to facilitate an efficient and cost-effective tax administration.

The tax system in Zanzibar will also take into account the harmonization of the tax rates currently taking place within EAC and SADC. As Tanzania is entering into more double taxation avoidance agreements with other countries to improve the environment for profitable investment, Zanzibar will also apply such agreements.

The simplified tax incentive will be provided and maintained in the Investment Code as follows: -

(a) Corporate Tax

The Corporate tax applied shall be affordable and competitive enough to assure profits and thus stimulate investments.

(b) Investment Allowance on Capital Expenditure

There will be reduction in tax liability on a capital expenditure of an investing company to be known as Investment Allowance. The expenditure on new capital assets will be encouraged by various kinds of allowances and annual depreciation will be recognized as an expense of the investment in calculating tax liability.

(c) Re-investment Allowances on Capital Expenditure

There will be re-investment allowances to cover capital expenditure for re-investment and rehabilitation purposes. This is treated as equivalent to normal capital expenditure.

(d) Withholding Tax on Dividends, Royalties and Interest:

(i) Dividends

There shall be preferential rate of withholding tax on dividends that will ensure attractive profit to the shareholders of the investment company.

(ii) Royalties

To encourage innovation and the transfer of appropriate technology, in manufacturing, production and service withholding tax rates on royalties on imported technology shall be preferential but based on the gross amount payable, while an incentive arrangement applicable to domestic based technology will be worked out.

(iii) Interest Payable on Foreign Loans

In cognizance of the recent trend to mobilize international capital flows, emphasis is laid in reducing the burden of foreign debts, accordingly. Zanzibar encourages investment in equity rather than loan. Nevertheless, the withholding tax rates on interest payable on foreign loans will be low, affordable and competitive.

(e) Indirect Taxes

Indirect taxes are differentiated between those charged on investment goods and those charged on production inputs. The following are some of indirect taxes which will be exempted for approved investment projects;

- (i) VAT, import duties and excise taxes payable on imported investment goods. The investment goods will include machinery, equipment, vehicles, construction materials and other goods that are necessary and exclusive to investment project.
- (ii) VAT and export levy and “subject” for review from time to time.
- (iii) Imported inputs for production in the Export Processing Zones and Transit trade by subjecting them to a Bonded Warehouse Arrangement (BWA). Full remission of

import duties shall be granted on imported inputs used to manufacture the exported goods.

- (iv) Imported raw material and other production imports during production trial.
- (v) VAT, imports duty and excised duty on spares for heavy-duty machinery.

(f) Infrastructure Allowance

Since the Investment Policy recognizes the need to improve the infrastructure, an allowance for infrastructure expenditures will be provided to attract private investors in this area. Infrastructure allowance at 100% on infrastructure capital expenditure (on roads, bridges, substations, etc.) may be applied on assessed statutory income.

(g) Double Deductions of Specified Approved Costs and Expenses

Certain expenditure and costs have significant impact on encouraging investment in desired directions, in respect to manufacturing, construction, agriculture, research and development and tourism.

The following double deductions are allowed:

- (i) Promotion costs and expenses in respect of exports.
- (ii) Export credit and insurance premiums.
- (iii) Expenditure on feasibility studies, research and development in approved sectors.

(h) Double - Taxation Avoidance Agreements

As part of Tanzania, Zanzibar will honour all agreements concluded by Tanzania with other countries for the avoidance of double taxation. Since such agreements provide relief for foreign investments undertaken in Zanzibar by nationals of the countries in question.

(i) Accelerated Depreciation Allowances

Accelerated depreciations will be computed on the basis of gains or profits from those investments with strategic importance such high-tech industries / firms with high linkages with local industries and whose machinery / equipment depreciates over a long period.

In order to ensure quick recovery of the investment expenditure, depreciation allowances at an accelerated rate in respect of the approved capital expenditure will be provided.

(j) Specified Sectoral Tax Incentives

The Investment Policy objective focuses on the promotion and encouragement of investments in identified priority sectors and desired directions within the sectors. To achieve this, the specified Sectoral tax incentives will involve:

- Investment and re-investment allowances on capital expenditures;
- Accelerated depreciation on specified capital expenditures; and
- Double deductions of specified approved costs and expenses.

These tax incentives are provided in relation to eight areas, namely: export orientation, use of domestic materials/resources, promoting sectoral linkages, adoption of new technologies, generating local employment, local equity participation, location in designated areas, and location in non-designated areas.

5.2.2 Non-Fiscal Incentives

There are two types of non-fiscal incentives to be offered in Zanzibar. These are tangible and non-tangible incentives.

5.2.2.1 *Tangible Non-fiscal Incentives*

In order to facilitate investment, tangible, non-fiscal incentives are necessary. These include:

- Access to land.
- Priority connections to utilities, transportation and communications services.
- Employment of expatriates and skills that are not available locally, particularly if such personnel will facilitate the acquisition and adoption of skills by the local people.
- Benefits accruing from access to regional and sub-regional markets such as in EAC and SADC to which Tanzania is a member.
- Smooth repatriation of funds.

5.2.2.2 *Non-tangible Non-fiscal Incentives*

Non-tangible, non-fiscal investment incentives include the provision of:

- Public security.
- Social and political stability.
- Judicial system is fair, effective and accessible.

5.3 LEGAL AND REGULATORY FRAMEWORK

The legal framework for implementing economic reforms and enhancement of investment are in place.

The principal legislation governing the regulation, promotion and protection of investment is the Investment Protection Act, 1986. Other legislations, which cater for specific investments, are the Zanzibar Free Economic Zones Authority Act, 1992 that promotes and facilitate investment in Export Processing Zones and the Zanzibar Freeport Authority Act, 1998 that oversees investments in transit trade. Apart from the above legislations there is Concessional Projects Act (1999), which was enacted to facilitate investments in Concessional Projects by way of Build Operate Transfer or Build, Operate, Own and Transfer and other forms of joint investments.

In addition to those Acts there are other legislations that govern various sectors such as land, labor, taxation, trade and environment protection. These also provide the enabling environment for implementing the policy and attracting investment. However, these legislations are open for review as need arises.

Zanzibar is determined to continue instituting an acceptable legal and regulatory framework based on transparency, competence and sustainability.

It is also envisaged to harmonize and rationalize investment related legislations in conformity with international best practices. In line with this, the process shall be initiated to formulate enabling practice on corporate governance.

The process of reviewing Labor Laws has begun and is done in collaboration with the International Labor Organization (ILO) and the United Nations Development Programme (UNDP) with the intention of enhancing better investment climate.

More efforts are underway to streamline Investment and Business Licensing Procedures to ensure conformity and avoid multiplicity of licensing authorities and procedures. The protection of intellectual property rights as promoted by the World Trade Organization (WTO) will be guaranteed.

Investors have the opportunity to acquire land on a long-term renewable lease of 49 years from the Government. There are also plans to establish land banks that provide smooth acquisition of land for investment purposes.

Taxation laws are being reviewed so as to provide uniform and transparent procedures to govern taxation matters.

5.3.1 Protection of Rights

The Legal Framework assures investors the rights to property and protection against expropriations. The Zanzibar Constitution of 1984 provides that there shall be no

compulsory acquisition of property without payment of adequate compensation. Moreover, Tanzania is a member of the Multilateral Investment Guarantee Agency (MIGA), which is an affiliate of the World Bank, and which provides guarantee against expropriation of foreign investments.

5.3.2 Mechanism of Settling Disputes

Zanzibar Legal Framework provides an elaborate mechanism for settlement of disputes through arbitration and judicial process. Besides, Tanzania is signatory to the Convention of Recognition and Enforcement of Arbitration Award, and also is member to the International Centre for Settlement of Investment Disputes (ICSID) which provides assurance to fairness in the settlement of investment disputes.

5.3.3 Contractual Agreements

Contractual rights are guaranteed by the Law of Contract, which spells out contractual obligations between parties. Though this law is an old but still in force and there are initiative to review it in accordance with best international practices.

5.3.4 Harmonization with East Africa Community Investment Codes

Zanzibar supports the spirit envisaged in the harmonization of East Africa Investment Codes with a view of promoting cross border investment.

5.4 PROMOTION OF SOCIAL-ECONOMIC INFRASTRUCTURE AND RELATED SERVICES

5.4.1 Economic Services

5.4.1.1 Energy

Tanzania has substantial and diverse energy resources waiting to be exploited. Within Zanzibar there is considerable biomass resources in terms of agricultural and forestry residues. Potentials exist for the economic conversion of these resources for energy use.

Currently Unguja Island gets its electrical energy through a submarine cable connected from mainland Tanzania. The maximum capacity so far released is 45MW while the existing demand is just 20MW. The supply represents a 7.5 percent load growth for both domestic and commercial uses.

Pemba on the other hand gets its electrical energy from diesel driven engines with maximum capacity of 4.5MW. Nevertheless the demand for the moment is just 2.7MW with a load growth of 7.5 percent, similar to Unguja.

5.4.1.2 Communication

Communication is an integral part of economic development. Given the inadequacy in its coverage in terms of communication networks, in both rural and urban areas, the need for more private investment in expanding the network need to be underscored.

To the effect that Zanzibar is part and parcel of the global networked community, significant increases in the national telephone lines, computers and software, ICT training centers, and other ICT supporting services are evidently needed. In this regard, Governments reform efforts have been geared towards increasing the participation of the private sector in provision of the requisite ICT related services. In order to foster competition and improve efficiency in the provision of these services more private sector investment is needed. There are currently a number of centers providing mobile phones and Internet café but more will be needed.

5.4.1.3 Transport

Transport sector is growing in importance to the economy of Zanzibar.

(i) Sea Ports

Zanzibar has three functioning seaports, one in Unguja and two smaller ports in Pemba. The seaport in Unguja serves as a gateway for Zanzibar's exports and imports as well as for inter-coastal travels in the East African Coasts. Zanzibar needs a new and expanded seaport to cater for passenger and cargo uses. The potentiality for further investment in ports development is there, and prominent investors are invited.

(ii) Airports

There are two airports in Zanzibar one in each island. Of recent, Zanzibar has experienced an increase in the regional and international flights as a result of increasing recognition of the island as a tourist destination and an important trade and service centre. Increased activities and operations of air transport services, considerable expansion and development of the air transport sector are envisaged.

(iii) Road Transport

The state of the roads in Zanzibar as a whole is enabling to investment since most of the roads are tarmacked and/or passable. However, most of the rural roads, which are a main source of transporting agricultural products and other service areas, require upgrading and rehabilitation. This therefore calls for increased investment in rural roads. The government ensures rehabilitation and maintenance of road network.

5.4.1.4 *The Role of Land*

The Government recognizes that land has value and hence can facilitate access to capital. In this regard the Government has instituted a land tenure system that supports responsible use, allocation, leasehold and management. This system will support investment in agriculture and industrial development. The Government is giving priority consideration to the needs of entrepreneurs to access suitably located, well-priced land for commercial agriculture, industrial purposes and other uses.

5.4.2 *The Social Front*

Development of human resources plays a major role as a vehicle not only for social progress but also for building a strong, diversified and competitive economy. Health, education and water together are the major inputs in developing human resource. Therefore investment in education, health and water will contribute in achieving both social and economic development.

5.4.2.1 *Education and Training*

All stakeholders acknowledge the importance of education and training sector as a major contributor to investments and economic growth. If investments are to flourish and their benefits are to be shared with the Zanzibaris, development of human capital is absolutely necessary.

The Government of Zanzibar is committed to the objective of Education for All and the policy direction, long-term development vision and poverty reduction plan are all geared towards that aim. Major emphasis is placed on expanding access and improving the quality of education so as to produce skilled and trainable manpower to serve in different sectors of the economy. The Government of Zanzibar is committed to expanding formal and technical education at all levels with emphasis on quality and skills development.

Private investment in education is encouraged. Most investments in this area have gone into pre-school and primary education. However, there are further opportunities for investments in secondary and tertiary education in terms of skill development.

5.4.2.2 *Health*

The Government of Zanzibar has succeeded in substantially expanding primary health care services in many communities. The great majority (90 percent) of the population lives within five kilometers of primary health care facilities that provide both curative and preventive services. While important gains have been realized in terms of extending public health service coverage, further investments are still needed to improve effectiveness and quality of services. Public/private partnership is necessary in attracting such investments.

Emphasis is placed on reducing morbidity and mortality through, among others, strengthening preventive and curative services. In this regard, private investment in all aspects of health is welcomed.

5.4.4.3 Water

Zanzibar has abundant water resources. The total yield of ground water resource zones is about 290 mm³/annum in Unguja and 46 mm³/a in Pemba.

These estimated yields indicate that water potential is sufficient to meet national demand for a long time to come if investments in appropriate technologies are applied. While the Government has made progress in improving the supply of water both for domestic consumption and investment activities, there is more room for investments.

5.5 PROMOTION OF EXPORTS THROUGH EPZ AND FREE PORT

The Investment Promotion Authority will ensure an optimal utilization of the EPZ scheme and the Free Port as instruments to attract FDIs as well as domestic investment mobilization for the radical transformation of the economy through industrialization.

5.5.1 Specific Objectives and Functions of EPZ

Efforts to promote investment will be accompanied by strategies that aim at increasing export-processing zones. The aim is to promote investments that increase exports and utilize the opportunities available in the ECA, SADC, AGOA and the European Union.

The management of such zones is normally the Government's responsibility. The EPZ specific policy strategies will include:

- Identifying and determining suitable incentives for promotion of investment in a demarcated zone.
- Identifying industries that are instrumental in job creation and transfer of technology.
- Promotion of Investment in exports manufacturing, assembly, processing and recycling.
- Promotion of local resources-based investments with backward linkages.
- Promotion of service-based investments that have positive impacts on site preparation and development.
- Ensuring development of essential infrastructure in all EPZ sites to increase industrial estate capacity and balance their locations.
- Setting clear and transparent criteria for eligibility to export processing zones.

- Promotion of active interaction with institutions and systems that provide basic information on export markets, market research, trade fair support, etc.
- Establishing a simplified procedures for project approval and licensing.

5.5.2 Specific Objectives and Functions of Free Port

Another targeted area for investment is the Zanzibar Free Port. Again due to Zanzibar's geographical location a Free Port will provide neighbouring countries with easy access to imports. To facilitate this, the Government has already established a Free Port area. The specific objectives of the Free Port include:

- Contributing to the diversification of the economy through providing a window for transit trade as well as stimulating the establishment of support services.
- Administering a regime that includes importation, exportation and warehousing of general merchandise.
- Ensuring adequate storage facilities and other infrastructure to cater for effective operation of the trade sector.
- Creating an efficient management system for effective re-exportation of goods.

5.6 INVESTMENT PROMOTION AND MARKETING STRATEGIES

Zanzibar's history in trade and its geographical location provide the Island with a unique advantage in the Promotion and Marketing (P&M) of the investment potentials that prevails in Zanzibar. This is augmented by easy accessibility to the surrounding market in the Region.

The primary objective of P&M is to stimulate the flow of investments into the country. The expected result of the investment promotion drive and marketing strategies will be to make the islands the investment hub of the East, Central and Southern African Region.

One of the strategies in attracting investments worldwide is to focus or target strategic economic sectors and activities. These include tourism, trade, export processing zones and communication sector.

Zanzibar is an important point in the tourism circuit in the East and Central Africa region. Its proximity to the rich wildlife destinations provides for opportunity to plan and blend a complete holiday that comprises the enjoyment of important ingredients of tourism such as safaris, adventure tourism, trekking, mountain climbing and beach tourism.

6.0 INVESTOR RIGHTS AND OBLIGATIONS

Zanzibar is determined to ensure the sanctity of rights and obligations of investors. Each right and obligation will be adhered to and upheld with utmost respect.

6.1 INVESTOR RIGHTS

- The Government will ensure that law protects Investor-property; there shall be no compulsory acquisition of property and on exceptional circumstances any acquisition made will be fully and promptly compensated after due process of law.
- Investors shall be guaranteed that once incentives are granted, they shall not be changed or modified to the detriment of the investors. If changes become necessary due to unforeseen circumstances, prior negotiations shall take place between the investor and Government to resolve the matter.
- Transferability of funds by investor outside the country shall be unrestricted as long as such funds are processed through authorized Banks.
- Investor enquiries and applications shall be efficiently attended.
- Information received by the government from investors shall be handled responsibly.
- Investors will be given the right to employ key expatriates specified in the Investment Act.
- Investors shall have access to all legal assistance available in the country.

6.2 INVESTOR OBLIGATIONS

The Government, through broad and specific fiscal and non-fiscal incentives, has provided a competitive investment climate. In turn, the government expects that investors will seriously take this opportunity to invest and participate in the development of the Island. In doing so all investors are required to obey the laws of Zanzibar. Hence investor's obligations are to:

- Observe and uphold all laws of Zanzibar and those of the United Republic of Tanzania.
- Create employment and impart modern skills and technology to Zanzibaris with a view to training them for key positions in the investment enterprises.
- Provide access to relevant government authorities on information of the enterprise.

- Observe and implement all tax obligations as required by revenue laws and to refrain from misuse of fiscal and non-fiscal incentives.
- Observe all environmental protection laws and regulations.
- Abstain from engaging in negative speculative activities.
- Implement projects in the manner and purpose stated and as submitted to the IPA. Similarly any desirable project modification including expansion and extension shall be carried out in the same manner after approval of IPA.
- Compensate adequately local land occupier in case of acquisition of such land by an investor.

7.0 IMPLEMENTATION STRATEGY

The government is committed to an implementation process that will involve the private sector and other stakeholders. This is in recognition of the central role of the private sector which is playing in business and production sectors. The role of the local private sector in designing the implementation strategy of this policy cannot be overemphasized. Their knowledge about the Zanzibar economy gives them an advantage over foreign investors and can use it in designing implementation plans.

8.0 MONITORING AND EVALUATION (M&E)

One major objective of the Investment Policy is to promote investments in those backward sectors in order to alleviate poverty. Therefore this policy is a major contributor to poverty reduction efforts. In this context the monitoring and evaluation of this policy will have to be consistent with the M&E framework as designed under the Zanzibar Poverty Reduction Plan (ZPRP). However the responsibility for compiling, monitoring and evaluating reports falls into the hands of the IPA. Such reports shall be used to advise the Government accordingly.

9.0 CONCLUSION

To become a successful business hub for the region, Zanzibar must be internationally competitive and be viewed as one of the most open, investor friendly and progressive business environment in the world. The government is committed to changing people's mindset towards becoming one of the most competitive provider of financial and business services in the region and to the region. This Investment Policy document focuses on strategies to attract both foreign and local investments in order to make use of the opportunities available.

This Investment policy document strives to set out the blue print for such developments and streamlining efforts. It brings to the fore the salient opportunities available and strives for the increase in the flow of investments. It is intended not only to provide confidence to potential and existing investment stock but also to provide them with information on current and subsequent structural reforms, legal and institutional framework.

In this Investment Policy, a vision for future investment in Zanzibar is provided. The focus is on:

- Further Liberalizing the economy and creating broad-based growth as contained in the investment strategies. This is important for poverty reduction.
- Instituting good governance, including the rule of law, and ensuring political stability.
- Developing the local capacity in terms of human resources, local scientific and technological know how and ensuring the transfer of new technologies.
- Making Zanzibar a hub of trade and service provider for the East, Central and Southern Africa region, as well as the Indian Ocean Rim.
- Promoting export-led investments.
- Empowerment in skills and opportunities for all groups of Zanzibar with specific focus on gender relations.
- Instituting transparent and effective system of revenue collection and taxation to ensure benefits to both investors and the host country.
- Formulating and implementing consistent investment policies.