

The Republic of Kenya
SEZ Authority (SEZA)

**TECHNICAL ASSISTANCE FOR
MOMBASA SEZ (DK SEZ)
DEVELOPMENT PROMOTION**

Final Report (Volume 4)

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Annex 8 Deliverables of EAC SEZ Survey

- **Comparative analysis and Impact Assessment Report Volume 1 and 2**
- **Questionnaires to governments in EAC countries**
- **Draft EAC SEZ policy**

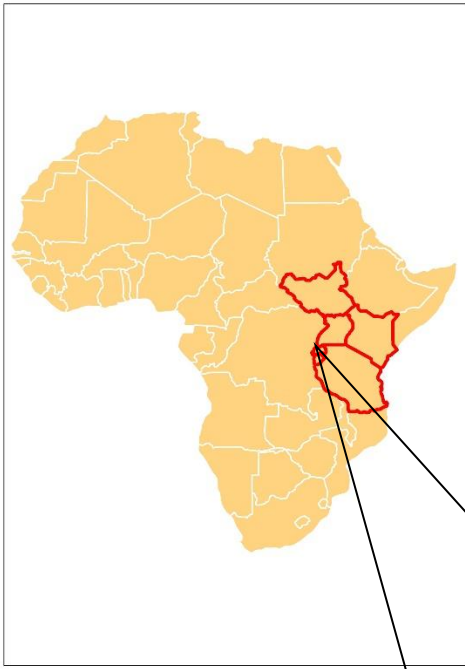
**CONSULTANCY SERVICES FOR
ASSESSMENT OF EAC PARTNER STATES' SEZ POLICY
FRAMEWORKS**

**Comparative analysis and Impact
Assessment of SEZ in EAC Report**

KOEI AFRICA

**Volume 1
November 2021**

Location Map



Africa



Source: JICA Study Team

EAST AFRICA COMMUNITY (EAC)

EXECUTIVE SUMMARY

The Study's target countries are the EAC Partner States i.e. the Republic of Kenya, the Republic of Uganda, the United Republic of Tanzania, the Republic of Rwanda, the Republic of Burundi, and the Republic of South Sudan. The specific objectives include: Analysis of the extent to which existing SEZ (SEZ is considered an umbrella policy which includes zones or areas with special incentives and customs bonded such as EPZ, FZ, and any other) compete with domestic firms in order to address the sales threshold issue, Assessment of economic impact of SEZs in the Partner States in terms of investments, exports and employment, nature of SEZs in the EAC Partner States and whether investments are local or foreign. Identify backward and forward linkages of the SEZs in the EAC Partner States, Recommendations for addressing the issue of the EPZ threshold and Revision of the draft EAC SEZ Policy.

The literature review revealed the following as pertinent to SEZ among other key issues:

- Robust legal frameworks that clearly defines SEZ and special privileges
- Socio-economic-political environment that is stable
- Dynamic policy that provides for onsite and offsite infrastructural development that supports SEZ
- One-stop-shop that supports SEZ and reduces bureaucratic red tape for administrative procedures
- Accessibility to skilled and non-skilled labour without punitive restrictions
- Proactive political leadership that champions for SEZ

This Study used a qualitative approach in collecting and processing data whereby a questionnaire was developed and targeted specific key stakeholders as respondents. Secondary data was also collected.

Study Findings shows that there is a common understanding for SEZ in the region and the laws and policies of the Partner States generally SEZ is defined as spatially delimited areas within a country where the rules of business are different from those that prevail in the rest of the national territory. These zones are also provided with business environment that is more liberal from a policy perspective and more effective from an administrative perspective than that of the rest of the national territory. Notably the SEZs are clearly defined in the laws/policy/regulation of Partner States to imply the following: free trade zones, export-processing zones, industrial parks, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones, and ICT Parks are also encompassed. The establishment of SEZ/EPZ in the EAC region is as follows:

- i. Burundi has had a free trade zone since 2001 and by the end of the year 2014 a special economic zone was established;
- ii. Kenya has had a working Export Processing Zone (EPZ) under the Act Cap 517 since 1990. In 2009 Kenya started her walk towards SEZ was started culminating into SEZA Act 2015;
- iii. Rwanda started the SEZ way back in 2006 and it was designed to address the free trade zone and industrial park needs of the country;
- iv. South Sudan Investment authority in 2015, established EPZ and thereafter Juba SEZ was established;
- v. Tanzania established EPZ in 2002 and later established Special Economic Zones in 2006; and
- vi. Uganda developed their free zone in 2014 with the aim of creating an enabling environment purposed for export-oriented industrial activities.

The Partner States in the EAC have made significant strides towards Special Economic Zones even though much progress has not been realized in South Sudan and Burundi (both countries SEZ is still at infancy).

Regarding Impact Assessment of SEZ in EAC this Study noted that there had been significant impact of the preferential zones in the EAC especially the EPZ which started early than the other forms of preferential types. Notably SEZ has been gaining prominence in the region as witnessed with the steady growth and impact of SEZ in Kenya, Rwanda and Tanzania while Uganda has maintained the Free Zones and Industrial Parks with positive impacts. In assessing the impact of the preferential trade zones the following variables: Trade (exports and imports), Sales, DDI, FDI, Employment, Knowledge Transfer, and Forward and Backward Linkages were used.

In assessment of trade vis-à-vis the preferential zones, the EAC Partner States Export performance had improved. The goods exported from preferential zones account to a significant share of national exports in Kenya, Rwanda, Tanzania and Uganda.

The Study notes that since preferential trade zones are in formative stages in Burundi and South Sudan and therefore there are no backward and forward linkages but for the other member states it was noted that even though backward and forward linkages are minimal but there is effort towards improving them. For example, in Kenya, the government of Kenya through 'Buy Kenya Build Kenya' policy enhanced backward linkages with EPZ firms acquiring raw materials from the local markets. While in Rwanda it was noted that there was improved forward linkages through services provided by local firms which includes logistical services, printing services, Logistical Services Printing Transport Cleaning Building and constructions Services. Moreover, in Uganda it was noted that the backward linkages had greatly improved with increase in the amount of raw materials sourced locally while forward linkages also had improved, with increase in the services that are provided by local firms like logistical services, printing services, building and construction, cleaning services

In gaps analysis this Study noted that in case where there were no deliberate measures by the government to harness the growth of SEZ and tapping it into local economy then the indirect benefits from the SEZ were not being realized due to weak forward and backward linkages that stifles domestic economy, human resources development and this weakness SEZ weakens knowledge and technology transfer and this hinders the perceived policy purpose of economic growth and industrialization. Moreover, this Study also notes that overemphasis on fiscal incentives to enhance export and attract FDI in the SEZ in the EAC by the Partner States rather than engaging the competitive edge of its comparative advantage is counterproductive with investors ready to invest and withdraw when the fiscal incentives are relaxed.

In conclusion this Study noted that preferential trade zones are an opportunity that presents investors with a more attractive investment opportunities that has additional benefits like improved security, support for local financial intermediation, improved access to serviced land and/or buildings and protection of land rights, catalysing the rebuilding of the business environment, linkages to local economies, and reliable electrical and water supply. This Study further notes that the SEZs have the potential to support local SMEs by either encouraging them to enter the zone directly by lowering entry costs or facilitating these local companies to become suppliers to firms in the zone by making procurement processes easier and more competitive. Notably therefore, SMEs can become catalysts for a broader entrepreneurial culture.

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Assessment of EAC Partner States' SEZ Policy Frameworks
Comparative Analysis and Impact Assessment of SEZ in EAC Report
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Abbreviations

Term	Definition
CoO	Certificate of Origin
DFR	Draft Final Report
EAC	East African Community
EPZ	Economic Processing Zone
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
FZ	Free Zone
JICA	Japan International Cooperation Agency
JST	JICA Study Team
KSEZ	Kigali Special Economic Zone
FR	Final Report
Industrial Parks	IP
PPP	Public-Private Partnership
RDB	Rwanda Development Board
RFDA	Rwanda Food and Drugs Authority
RRA	Rwanda Revenue Authority
RSB	Rwanda Standards Board
SEZ	Special Economic Zone
SCO	Simplified Certificate of Origin
SEZ	Special Economic Zone
SME	Small or Medium Enterprise
ToC	Table of Content
ToR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Chapter 1: Background and Objective

1.1 Background

The East African Community (EAC) is a regional intergovernmental organization of the Republic of Kenya, the Republic of Uganda, the United Republic of Tanzania, the Republic of Rwanda, the Republic of Burundi and the Republic of South Sudan, with its headquarters in Arusha, Tanzania. Figure 1 below shows the member countries of the EAC.

1.1.1 Special Economic Zones in Africa

The World Bank Report on Special Economic Zones in Africa reports that there has been a meteoric rise in economic zones (export processing zones (EPZs), free trade zones (FTZs), special economic zones (SEZs)). "In 1986, the International Labour Organisation's (ILO's) database reported 176 zones in 47 countries; by 2006, it reported 3,500 zones in 130 countries."¹ This has resulted to growth in foreign direct investment (FDI), exports, and employment. In East Africa most Economic Zone programs were initiated in the 1990s.

Exports from SEZs can account for a significant share of national exports. Most African economies whose exports are growing the fastest, have a well-developed SEZ programme with one or more SEZs. SEZs have also led to export diversification. From raw agro-products to high value added agro-processing exports and from apparel and textile to electronic components. The SEZ impact on trade growth is stronger in the short-term and relatively weaker in the long-term. SEZs have a greater positive impact on exports when outward-looking and export-oriented policies are in place at the national level.

SEZs have given a significant boost to FDI flows to Africa which increased by 11% in 2018 to \$46 Billion. The prospects for 2021 are positive and FDI is expected to increase. SEZ can create attractive investment conditions and enhance foreign direct investment. In many African countries, SEZs account for significant share of country FDI, for example, it is 21% and 10% in South Africa and Kenya respectively. SEZs can influence the type of foreign investment especially in high-technology and professional sectors. Sectors located in SEZs can be linked with high economic growth rates and investment return.

SEZs through economic development have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 5 years, more than 60 million jobs have been created the majority in Agro-processing instead of traditional farming. Zones have created direct jobs and indirectly through supply chains in construction, manufacturing, mining and utilities and in highly skilled sectors such as telecommunications and digital products. The rate of job creation in SEZ programmes has significantly outpaced the total employment growth in the country. SEZs can be linked with increased labour productivity and skills improvement.

SEZs programmes are usually adopted to meet countries' quantitative growth goals (i.e.

¹ Farole, Thomas, (2011) Special economic zones in Africa : comparing performance and learning from global experiences, Library of Congress Cataloging-in-Publication Data. World Bank Publication

investment attraction, trade promotion, job creation and exports increase), dynamic (i.e. industrial upgrading, skills development, economic diversification and structural change, as well as integration into value chains) and socioeconomic (i.e. sustainable development, quality of employment and environmental protection) objectives. Although the objective of most SEZs in Africa, especially in Sub-Saharan Africa, is to enhance manufacturing and exports in low-skill, labour-intensive industries such as garments and textiles, some countries are targeting diverse sectors and higher value addition

1.1.2 SEZ/EPZ in the Protocol establishing EAC Customs Union

The Protocol Establishing the East African Community Customs Union contains provisions on Export Promotion Schemes and Special Economic Zones. In Article 25 of the Protocol, “the Partner States agree to support export promotion schemes in the Community for the purposes of accelerating development, promoting and facilitating export-oriented investments, producing export competitive goods, developing an enabling environment for export promotion schemes and attracting foreign direct investment”. Such schemes are specific to exports, and, in the event that such goods are sold in the customs territory, they attract full duties, levies and other charges provided in the Common External Tariff (CET). The article also makes provision for all goods being sold in the customs territory to be subject to authorization by a competent authority and to be limited to 20% of the annual production of a company.

The Partner States agreed to support the following export promotion schemes as outlined in Articles 26 – 30 in the Customs Union Protocol:

Scheme	Purpose
<i>Duty Drawback schemes</i>	✓ This entails refunding of the duty paid on imported inputs used in the production of exports. According to WTO rules on duty draw backs the scheme can be used if the amount of refund does not exceed the amount of duties paid, and a verification has to be made that the duties have actually been paid on input imports.
<i>Duty and value added tax remission</i>	✓ This scheme allows a waiver of duty or refrainment from exacting of duty. The Remission scheme is firm and product specific. Part X, sections 138-140 of the EAC Customs Management Act (EAC, 2004) provides for duty remission for industrial inputs imported for manufacture goods.
<i>Manufacturing under bond schemes</i>	✓ This scheme allows manufacturers to import plant, machinery, equipment and raw materials tax free, exclusively for use in during manufacturing of those goods for that are exported.
<i>Export processing zones (EPZ)</i>	✓ EPZs are designated customs area or region where participants can import machinery, resources used for the manufacture of export goods without paying duty. The imported goods are subject to customs control at importation, through the manufacturing process, to the time of sale/export, or duty payment for home consumption.

Export promotion schemes in place in each Partner State are different from one another and in addition, Partner States have not established all the schemes as stated in the Protocol.

Given that the Customs Union Protocol restricts the sale of goods in the customs territory to 20 per centum of the annual production of a company, a number of Partner States, consider this threshold small especially for EPZ enterprises that largely depend on the EAC as their main market.

There have been some efforts in trying to harmonize the EPZ and SEZ schemes in the EAC in accordance with Article 32 of the Customs Union Protocol. These include:

- Assessment of the EAC Customs Union on the existing EPZ firms with the aim of assisting Partner States to reach an agreement on the threshold for regional sale of goods produced in EPZ firms. The study, which considered related initiatives such as Special Economic Zones and Economic Development Zones, was discussed extensively by the Partner States from 2011 to 2013, however there was no consensus on the thresholds.
- Development of a draft EAC Special Economic Zones (SEZ) Policy which would ensure the establishment of SEZ programmes in the EAC Partner States in a structured and harmonized manner. However, since Partner States could not agree on the thresholds of EPZs products in the customs territory, the adoption of the EAC SEZs Policy has been delayed since 2015.

1.1.3 The EAC Regional Forum on Special Economic Zones (SEZ)

The EAC Secretariat convened the EAC Regional Forum on Special Economic Zones (SEZ) in September 2020 whose objective was to facilitate an interactive session among the stakeholders in order to achieve consensus on the appropriate framework for the EAC regional SEZ framework.

Among the recommendations of the Forum was that the EAC Secretariat should undertake an analysis on the economic impact of SEZs in the EAC and the extent to which existing SEZ firms compete with domestic firms in order to address the sales threshold issue; assessment of the economic impact of SEZs in terms of investments, exports and employment, nature of SEZs in the EAC Partner States and whether investment are local or foreign; backward and forward linkages of the SEZs in the EAC Partner States. Low investment in R&D and technology which hinders zones to play a key role in the transition towards higher value-added activities.

1.2 Objective

As per the aforementioned EAC Regional Forum on SEZ this Project was commissioned. Thus, the overall objective of this project is to undertake a comprehensive assessment of the EAC Partner States SEZ policy frameworks with a view to developing recommendations that can contribute to resolving the sales threshold issue in the EPZs and the adoption of a SEZ Policy.

Specific Objectives and Activities

The specific objectives and key activities to be performed in this project are listed below. These are:

- Analysis of the extent to which existing SEZ (SEZ is considered an umbrella policy which includes zones or areas with special incentives and customs bonded such as

EPZ, FZ, and any other) compete with domestic firms in order to address the sales threshold issue.

- Assessment of economic impact of SEZs in the Partner States in terms of investments, exports and employment, nature of SEZs in the EAC Partner States and whether investments are local or foreign.
- Identify backward and forward linkages of the SEZs in the EAC Partner States.
- Recommendations for addressing the issue of the EPZ threshold.
- Revision of the draft EAC SEZ Policy

The specific activities vis-à-vis the specific objectives is elaborated in the table below:

Table 1-1 Specific objectives and activities for the Study

Specific Objectives	Activities
1. Analysis of the extent to which existing SEZ firms compete with domestic firms in order to address the sales threshold issue.	<ul style="list-style-type: none"> ✓ Identify and analyse differences and similarities in the policy frameworks, regulations and incentives conferred on and utilised by the SEZ firms vis-à-vis competing firms; ✓ Types of schemes within the SEZ registered over the past decade, ✓ SEZ firms in operation; Number, sizes and other salient characteristics of SEZ firms and their domestic competitors or firms in similar sectors; ✓ Investments and sources of investments and productivity trends in SEZ firms over the past decade and investment plans for the near future; ✓ Analysis of trends in SEZ firms output production and sales between domestic and export markets; ✓ Domestic market size of SEZ firms vis-à-vis competing firms; ✓ Guiding minimum and maximum (range of) possible economic threshold values for SEZ, in particular EPZ sales on the domestic market; ✓ Perspectives on the definition of the “domestic” market – partner state or region; ✓ To contextualize, analyse the main reason and extent to which EAC SEZ firms source inputs from non-EAC countries, and what explains the high/low volume of sales exports to non-EAC countries.
2. Assessment of economic impact of SEZs in the Partner States in terms of investments, exports and employment, nature of SEZs in the EAC Partner States and whether investments are local or foreign.	<ul style="list-style-type: none"> ✓ Multi-sector modelling of the SEZ activities and impacts on key economic variables including <ul style="list-style-type: none"> • investment, • production, • exports, • balance of payments, • trade tax revenues, • employment, • income/welfare, • industrialisation and regional trade/economic integration.
3. Identify backward and forward linkages of the	<ul style="list-style-type: none"> ✓ Identify, and analyse trends in, SEZ firms' sources/suppliers of inputs and main markets for their products by their country of origin, volume, value, stage of production of input/output (raw material, intermediate, final, consumer);

Specific Objectives	Activities
SEZs in the EAC Partner States.	<ul style="list-style-type: none"> ✓ Challenges and opportunities of sourcing inputs within partner state and the region; ✓ To contextualise, analyse the main reason and extent to which EAC SEZ firms source inputs from non-EAC countries, ✓ What explains the high/low volume of sales exports to non-EAC countries.

Source: EAC Secretariat and it is extracted from ToR

1.3 Target Countries

The study's target countries are the EAC Partner States i.e. the Republic of Kenya, the Republic of Uganda, the United Republic of Tanzania, the Republic of Rwanda, the Republic of Burundi, and the Republic of South Sudan.

1.4 Methodology of Data Collection

1.4.1 Literature Review from International Perspectives

This Study also reviewed literature on SEZ in order to extract global best practices and lessons notably the cases of China, South Korea, Singapore and OECD nations were reviewed. Also cases of Mauritius, Ethiopia and Egypt in Africa were reviewed.

1.4.2 Primary Data Collection from Target Countries

This Study used a qualitative approach in collecting and processing data whereby a questionnaire was developed and targeted specific key stakeholders as respondents. The questionnaire survey was undertaken at the height of the third wave of COVID 19 infections with some countries implementing total lockdowns to minimize the spread of the virus and this led to some stakeholders taking longer than expected in completing the questionnaire.

(1) Questionnaire contents

Three types of questionnaires were developed and administered. **Type One** of the questionnaire targeted government officials including SEZ authorities; **Type Two** targeted SEZ developers and operators both public and private and **Type Three** targeted the SEZ enterprise or users. The general outline of the questionnaire for government official was as follows:

PART A: About the respondent

This section sought information on the respondent and their contact information in case of a follow-up. It also sought to understand the mandate of the organisation that the respondent belongs to as relates to SEZ.

PART B: Special Economic Zones Laws, Policies and Regulatory Framework in Partner Stated

This section sought to establish the existing legal, regulatory, and policy framework for SEZ in the respective Partner States

PART C: Registration, taxation and Licensing of companies in special economic

zones:

This section sought to establish the existing practice relating to SEZ registration taxation and licensing of the firms in the Partner States.

PART D: Special Economic Zones Data:

This section sought to establish the existing SEZ data including the information collected. Data on the sectors and clusters and also Foreign Direct Investment, Employment Record, Profitability, Percentage of goods sold in the domestic market, Exports to non EAC countries readily available.

PART E: Characteristics of Special Economic Zones:

This section sought to establish the characteristics of SEZ in respective Partner States and sought to know the percentage of the foreign skilled labour, regulations on the type of products that are manufactured by firms operating in SEZ, the structure of SEZ and the trends of performance in the last ten years.

PART F: Investment Climate:

This section sought to establish whether there were political champions for SEZ in the respective Partner States, whether the political environment was conducive for SEZ growth, infrastructural development including the responsible entity and whether there was policy for investment in infrastructure including ICT.

PART G: Identify Backward and Forward Linkages:

This section sought to establish whether there are investment promotions for SEZ; also the section sought to establish whether there were incentives for SEZ firms to use local raw materials as inputs, the intermediate goods from the domestic market; barriers that protect domestic industries from undue advantage enjoyed by SEZ firms

PART H: The Incentives offered at SEZ in EAC Member State:

This section sought to establish whether there were fiscal and non-fiscal incentives for SEZ and which incentives were in place

(2) Questionnaire survey steps

The following steps were undertaken during the questionnaire survey:

Step 1: EAC Secretariat sent out a letter of introduction to all the Ministries of EAC in the Partner States that introduced the Consultant and requested the various stakeholders in the respective Partner States to accord cooperation to the Consultant.

Step 2: On 19th April 2021, the Consultant sent a draft questionnaire to JICA Experts and EAC Secretariat. The Consultant received feedback 23rd and 29th April from JICA Expert and revised accordingly and reached concurrence on 2nd May 2021 and thereafter sent the revised questionnaire to the EAC Secretariat for review and feedback on improvement. On 25th May 2021, the Consultant received comments on the questionnaire from the EAC Secretariat and revised accordingly and after reaching concurrence with the EAC Secretariat, the questionnaire was finalized.

Step 4: Sending out the questionnaires to stakeholders commenced on 27th to 30th May 2021,

where the Consultant distributed the questionnaire to all the key stakeholders in the respective Partner States.

Step 5: The Consultant made a follow-up with the stakeholders to complete the questionnaire and submit the completed questionnaire to the Consultant.

Step 6: The Consultant started receiving completed questionnaire from 14th June 2021 and by 19th July the Consultant was still receiving questionnaire and some of the stakeholders had not completed the questionnaire and requested for more time.

Step 7: Data entry and processing commenced on 14th June and continued to 25th July 2021.

(3) Questionnaire response

JICA Study Team received concurrence on the questionnaire on 25th May 2021 from EAC Secretariat, leading to commencement of the questionnaire survey. The questionnaire was distributed to the stakeholders via email and Resident Support Staff in the respective Partner States made physical follow-ups with stakeholders in pursuit for completion of questionnaire. The questionnaires were distributed as follows:

- a) Burundi: Type 1 of questionnaire was distributed to government official for completion and since SEZ is yet to be operationalized in Burundi type 2 of the questionnaire was not distributed and type three was distributed to the private firms in Burundi that have plans to operate as SEZ firms;
- b) Kenya: All the three types of questionnaires have been distributed and currently follow-up on completion of questionnaire is ongoing;
- c) Rwanda: All the three types of questionnaires have been distributed and currently follow-up on completion of questionnaire is ongoing;
- d) South Sudan: Only Type 1 of questionnaire was distributed to government official for completion since SEZ is yet to be operationalized in South Sudan and currently follow-up on completion of questionnaire is ongoing;
- e) Tanzania: All the three types of questionnaires have been distributed and currently follow-up on completion of questionnaire is ongoing;
- f) Uganda: All the three types of questionnaires have been distributed and currently follow-up on completion of questionnaire is ongoing;

The table below is a summary of the status of questionnaire survey distribution, receiving the completed questionnaire.

Table 1-2 Status of Questionnaire as Distributed and Received

Country	No. of questionnaires		Remarks
	Distributed out	Received back	
Burundi	5	5	Ministry of Finances, Office of The President, Ministry of EAC Affairs, Youth, Sports and Culture Ministry of Trade, Transport, Industry and Tourism, ZES Warubondo.
Kenya	9	8	Export Processing Zone Authority, Special Economic Zones Authority, National Treasury and Planning, Konza Technopolis, Tatu City SEZ, Unity West (SEZ) Limited, Cold storage services and logistics services.
Rwanda	8	3	Ministry of Trade and Industrialization, Kigali Special Economic

Country	No. of questionnaires		Remarks
	Distributed out	Received back	
			Zone.
South Sudan	6	6	Ministry of Trade and industrialization, National Revenue Authority, Ministry of Investment, Ministry of East African Affairs Ministry of Finance, Planning And Investment.
Tanzania	8	5	Ministry of Trade and Industrialization Ministry of Finance and Planning.
Uganda	8	5	Uganda Free Zone Authority, Ministry of Finance, Planning and Economic Development, Uganda Investment Authority,
Total	44	32	

Source: JICA Study Team

1.4.3 Secondary Data Collection from Target Countries

Secondary data ranging from SEZ laws, policies, strategies, plans and reports (preferential trade authorities annual reports) were also collected. The data was processed and since there were no overarching issues moreover the lockdowns and tighten COVID restrictions led to the interview survey not being undertaken.

The secondary data was collected from stakeholders and from the internet in order to capture the current status of SEZ in the EAC Member States.

1.5 Challenges to the Study and Countermeasures

The table below highlights the challenges that the Study faced and the countermeasures the consultants put in place.

Table 1-3 Challenges to the Study and the countermeasures

Challenges faced in the study	Countermeasures
<p>a) Developing of stakeholders' matrix list Challenge:</p> <p>Even though the EAC Secretariat had appointed the EAC Focal Persons in each respective Partner States, the JST encountered the difficult in obtaining concurrence with the EAC Focal Persons in order to finalize the stakeholder's matrix list in the Partner States. In Burundi the EAC Focal Persons was out of the country and by the time he returned he had to observe the COVID 19 protocols in Burundi before resuming to his task. Kenya the EAC Focal had been transferred. For Rwanda, South Sudan and Uganda the stakeholder list was finalized on time as planned while in Tanzania the EAC Focal Person had to reach out to the Ministry of Trade for assistance in concurrence and getting the email addresses for the stakeholders.</p>	<p>a) The stakeholders' matrix was developed based on literature review that revealed the different types of SEZ stakeholder. Thereafter concurrence with EAC Focal persons on the matrix list was sought and this was done by email and physical follow-up by the Resident Support Staff in the respective Partner States. The JST also coordinate with EAC Secretariat leading to the EAC Secretariat enabling the cooperation with the Ministry of Trade in the respective Partner States.</p>
<p>b) Drafting of SEZ stakeholders' inclusive questionnaire:</p> <p>The JST drafted questionnaire that capture key issues as per the ToR and of necessity three types of questionnaires were developed that targeted</p>	<p>b) The need for an all-inclusive questionnaire survey was resolved with the JST developing three types of questionnaires that targeted government/SEZ authority official (one</p>

<p>government and SEZ authority official, SEZ developers and operators both public and private and questionnaire that targeted SEZ enterprises or firms. In cognizant of the above three set of questionnaires rather than one that was initialled planned. EAC Secretariat in order to review the questionnaires and give concurrence due diligence in the review was required and thus longer period for review than planned period.</p>	<p>set); SEZ developer and operators (private/public) another set and questionnaire that target SEZ user (enterprise/firms) also with a different set of questionnaires.</p>
<p>c) Impact of COVID 19 on the questionnaire survey:</p> <p>The third wave of COVID infections that affected the EAC region struck at the height of the administration of the questionnaire survey with the Partner States enforcing stringent COVID 19 restrictions including total lockdown as was the case of Uganda and Rwanda; Kenya and Tanzania and other countries also tighten the COVID 19 restrictions and encouraged most of the citizenry to work from home. Though the impact of COVID 19 was expected by JST but the magnitude far outweighed the expectation leading to longer period to respond to the questionnaire and also low-rate of returning completed questionnaire.</p>	<p>c) Enhanced use of virtual platform and mobile phone in the questionnaire survey to mitigate the impacts of the third wave COVID 19 infections in the region. JST resorted on use of WhatsApp SNS as a communication tool between the experts and the Resident Support Staff and also Zoom Platform was extensively used. The Resident Support Staff also used mobile phone for questionnaire survey follow-up and this improved the submission of completed questionnaire.</p>
<p>d) Different locations of SEZ Stakeholders:</p> <p>SEZ are not confined in one location but different locations in the country and thus make it difficult for questionnaire follow-ups. For example, in Tanzania the government officials are stationed in Dodoma, while other stakeholders are located in Dar-es-Salaam and other cities, and with mobile phone follow-up was also hampered and thus necessity for physical follow-up.</p>	<p>d) In order to reach all stakeholders, the Resident Support Staff identified the office address of the stakeholders and as need be they made physical follow-up for example in Tanzania the Resident Support Staff was facilitated by JST to go to Zanzibar and Dodoma in the questionnaire follow-up exercise.</p>
<p>e) Availability of SEZ data:</p> <p>Even though SEZ data that included FDI, employment records, sales record were requested from the stakeholders none was shared apart from the secondary data on SEZ Policy, Strategic Plans that were shared by government stakeholder.</p>	<p>e) The SEZ data on FDI, Employment, Export and Imports was not forthcoming from Stakeholders and therefore JST used the data available in the secondary data and literature</p>

Source: JICA Study Team

Chapter 2: Literature Review: International Perspectives

2.1 Documents for Literature Review

To comprehensively understand the current preferential trade areas in particular SEZ conditions in the EAC, the following documentation were reviewed:

- i. 10th edition of the African Economic Outlook. (2011). *African Economic Outlook*, 16–18. <https://doi.org/10.1787/aeo-2011-3-en>
- ii. Mugano, G. (2021). Guidelines for Special Economic Zones Development and collaboration: Evidence from Asia. *Special Economic Zones*, 79–96. https://doi.org/10.1007/978-3-030-82311-5_4
- iii. Special economic zones. (2019). *United Nations Conference on Trade and Development (UNCTAD) World Investment Report (WIR)*, 127–206. <https://doi.org/10.18356/0747a806-en>
- iv. World investment report 2019. (2019). *United Nations Conference on Trade and Development (UNCTAD) World Investment Report (WIR)*. <https://doi.org/10.18356/8a8d05f9-en>
- v. Farole, T. (2011). Special economic zones in Africa. <https://doi.org/10.1596/978-0-8213-8638-5>

In summary the literature review findings were as follows: there are various definitions of SEZ; there are salient features that are idiosyncratic to SEZ; and that there are key stakeholders for SEZ regime.

2.2 Findings from Literature Review

The literature identifies the impact of SEZ and points out that there is a correlation between FDI and SEZ and notes that Eastern Africa region received \$9 Billion in 2018 in flow of FDI and this was due to improved private enterprise climate and FDI facilitation. Literatures also observed that African economies with the highest ratio of inward FDI stock to GDP all have SEZ programmes. Another key benefit of SEZ was increased exports diversification including value addition as opposed to traditional export of raw materials. The literature notes that in cases where linkages to local economies are enhanced often stimulates technological spillover effects and clustering. Literatures also extrapolated that SEZ had spurred job creation in Africa.

2.2.1 Various definitions of SEZ

The literature revealed the definition of SEZ and also points out to the various forms of SEZ. The table summarizes on the types as extracted from the various literatures.

Table 2-1 Types of SEZ and their key features

Type of SEZ	Key features
a. Multipurpose SEZ:	The SEZ where various types of investment can be invited: such as, manufacturing, trade and distribution, tourism, entertainment, and finance. It is possible to divide it into sub-zones that have different functions and to establish development concept for each sub-zone in accordance with function.
b. Economic Zone (EZ):	A zone where policies on the economic growth and the promotion of urban development are applied; where start-up businesses and investors in the urban area are provided with tax exemption and deregulation in order to facilitate development.
c. Export Processing Zone (EPZ):	An Industrial Park where such incentives as tariff for the export of materials and corporation tax are exempted for a certain period on the condition that the tenant enterprises export all or over the fixed rate of their products.
d. Free Trade Zone (FTZ):	A small enclosed non-tariff/non-custom area, where warehouses and facilities for trade, transshipment, and re-export are installed. FTZs are set up at all customs in the world.
e. Freeport:	A "port" where the Custom Law of the country is not applied to entire or limited area inside and free trade of foreign freight is permitted, in order to promote transit trade and processing trade.
f. Free enterprises (FEs) or single factory/single unit free zones:	This is where individual enterprises are provided with FZ/EPZ status and allowed to locate anywhere on the national territory. FEs and FZs/EPZs are not mutually exclusive.
g. Industrial park	This is a zoned area for industrial use rather than residential or commercial needs that has fiscal and non-fiscal incentives like tax incentives for businesses to locate there.

Source: JICA Study Team

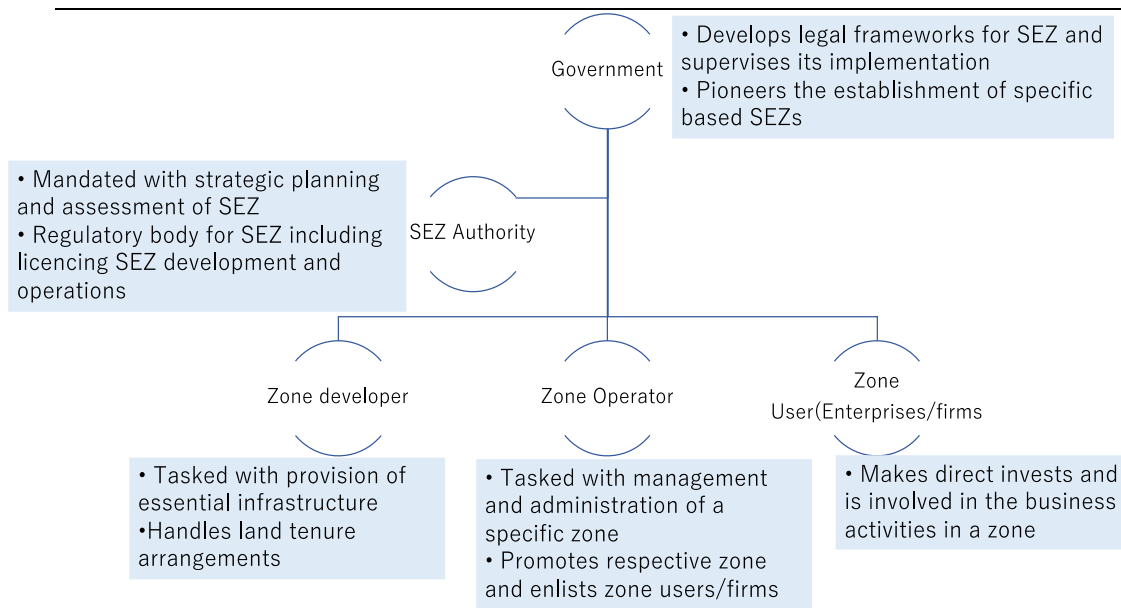
2.2.2 Salient features of SEZ

The literature further revealed the following as pertinent to SEZ among other key issues:

- Robust legal frameworks that clearly defines SEZ and special privileges
- Socio-economic-political environment that is stable
- Dynamic policy that provides for onsite and offsite infrastructural development that supports SEZ
- One-stop-shop that supports SEZ and reduces bureaucratic red tape for administrative procedures
- Accessibility to skilled and non-skilled labour without punitive restrictions
- Proactive political leadership that champions for SEZ

2.2.3 Key Stakeholders in an SEZ Regime

The literature also highlighted the SEZ stakeholders as per the figure below



Source: JICA Study Team but adapted from UNCTAD

Figure 2-1: SEZ Stakeholders Framework

2.3 Implications to SEZ Programmes in EAC

The literature revealed that SEZ can be an important policy tool that can spur development if properly harnessed and implemented. The literature further revealed that feasibility studies are important approach and notably in EAC some members states have planned for the SEZ but the choice of location has disrupted the progress as is the case of Burundi where SEZ is located in a flood prone area that has accessibility challenges. Naoko Koyama postulates that if SEZs and RTA are properly harnessed the two have the potential to facilitate regional synergies. Koyama identifies the major challenge that RTA like EAC faces in incorporating SEZs into their regulatory frameworks:

Challenge 1: Traditional EPZs vis-à-vis RTA wherein the EPZ are country specific while RTA are bilateral or multilateral in nature and with the fiscal incentives that a specific country gives to EPZ makes it difficult for RTA to allow products from that EPZ to be freely traded in RTA region because of its fiscal advantage of the local firms in the region.

Challenge 2: Tariff-jumping by EPZ firms by reason that most are foreign firm and thus jump over tariff wall to avoid trade costs of payment of requisite taxes by reason that the products of the EPZ are manufactured within a Partner State territory within an RTA

Challenge 3: Trade triangulation wherein products manufactured under SEZ scheme (financial incentives) to be sold in the RTA region and this may be catastrophic when other products use the same window through relabelling the country of origin at SEZ and enter into the region without originating from the RTA region

Koyoma thus postulates that there is a necessity of SEZ and RTA to coexist and be mutually beneficial by taking a collaborative approach that harmonize SEZ legal frameworks of the Partner States that enhances economic integration. Finally, Koyoma

recommends that:

... RTA would establish an integrated strategic framework for SEZ programs of member countries, not only establishing rules of the game with respect to financial incentives, but more broadly, enabling them to complement each other's resources and capacities and cooperate to achieve shared goals.

An integrated strategic framework can take several forms. One such form is to develop regional manufacturing or service linkages, using the SEZs as hubs. By combining and coordinating efforts to strategically foster SEZ-based clusters that take advantage of complementary endowments of different member countries, member countries can help sectors leverage SEZ infrastructure and RTA depth to overcome limitations of scale and specialization. This might facilitate improved backward linkages in critical sectors like garments. Such integration of regional value chains within SEZs might also represent an important test case toward deeper regional economic integration.²

Notably also the SEZ in EAC are export oriented compared to SEZ in South Asia that focuses on industrial development and enhance linkages to local economy and technological transfer that builds local human resource quality. In addition, the South East Asia also leverages on its large markets to attract investment rather than engaging the unsustainable fiscal incentives.

² Koyoma, N. (2011). Chapter 6: SEZs in the Context of Regional Integration: Creating Synergies for Trade and Investment. In T. Farole (Ed.), *Special economic zones: progress, emerging challenges, and future directions*. essay, World Bank.

Chapter 3: Assessment of Current Situation

3.1 Assessment of current status of SEZ in Burundi

a) Legal Framework and SEZ Definitions

Burundi legislated Free Zones in 1992 with the following legal framework : La Loi No. 1/015 du 31 juillet 2001 portant Révision du décret-Loi No. 1/3 du 31 aout 1992 portant création d'un régime de zone franche au Burundi. Free Zone are define by law as follows:

“Free zone regime: the particular legal status granted to certain companies established in Burundi under the conditions prescribed by this law and ministerial orders and under which they automatically benefit from a set of exemptions tax and customs as well as incentive measures in the fields of labour legislation, exchange control, entry and stay of foreigners”³

Special Economic Zones are well defined geographical area rests inside a country which plays a crucial role in enhancing industrial manufacturing operations and export process. They are entitled to specific government tax incentives and treatments for investors implemented in the zone.

b) SEZ Management Body and its Functions

Burundi Special Economic Zones (BSEZ) together with its Managing Authority were established in Burundi by a Presidential Decree Law to promote exports, provide an enabling environment and attract local and foreigner direct investments.

c) SEZs in the Country

The location of the SEZ is in the province Bujumbura, Mutimbuzi commune in the Gatumba zone, the Warubondo site which will host the Special Economic Zone covers an area of 5.43 km square on a territory of 536 ha. To the north and west, it is bounded by the Rukoko reserve.

d) Benefits and Incentives for SEZ

The data further points out that Burundi Special Economic Zones (BSEZ) together with its Managing Authority were established in Burundi by a Presidential Decree Law to promote exports, provide an enabling environment and attract local and foreigner direct investments. The Burundi SEZ offers a number of attractive fiscal and non-fiscal incentives including reduction or temporary tax exemption as follows:

- 0% corporate tax
- 100 % foreign ownership & 100 % capital repatriation
- Simplified procedure to obtain visas, work permits, and residence
- Offices, warehousing, and land available
- Full range of business activities
- No currency restrictions

³ Decret-029-2017

- import and export tax exemption within the Zone
- Simple and fast registration process with excellent customer support
- Modern and investor-friendly rules and regulations.

e) Challenges for SEZ

The challenges noted were as follows:

- ✓ Roads: the impassability of the road leads to Sororezo is not tarmacked and RN4 (Chanic-Gatumba), this road is impassable and this has hindered the development activities of the SEZ site; and
- ✓ The area or the land allocated to SEZs around L. Tanganyika in Bujumbura experiences flooding challenges. The Warubondo site is also swampy, and floods during the rainy season, it gets so flooded.

3.2 Assessment of current status of SEZ in Kenya

a) Legal Framework and SEZ Definitions

These two authorities are established under the following laws: Export Processing Zones Act 12 of 1990; Special Economic Zones Act, No. 16. SEZA as the managing authority grants licenses to operate in a Special Economic Zone either as a Special Economic Zones Developer, operator or enterprise.

The SEZ in Kenya are premised upon these legislative Special Economic Zones Act and Special Economic Zones Regulations 2016 in Kenya. The Act defines SEZ as:

A special economic zone shall be a designated geographical area where business enabling policies, integrated land uses and sector-appropriate on-site and off-site infrastructure and utilities shall be provided, or which has the potential to be developed, whether on a public, private or public-private partnership basis, where any goods introduced and specified services provided are regarded, in so far as import duties and taxes are concerned, as being outside the customs territory and wherein the benefits provided under this Act apply.⁴

The Act further points out that Special Economic Zones in Kenya include Free Trade Zones (FTZ), Industrial Parks, Free Ports, ICT Parks, Science and Technology Parks, Agricultural Zones, Tourist and Recreational Zones, Business Service Parks and Livestock Zones.

b) SEZ Management Body and its Functions

There are two major preferential trade zones in Kenya namely EPZ and SEZ. Export Processing Zones Authority is the managing Authority for EPZ while for SEZ, Special Economic Zones Authority is the managing authority.

SEZA as the managing authority grants licenses to operate in a Special Economic Zone either as a Special Economic Zones Developer, operator or enterprise.

⁴ Special Economic Zones ACT 2015 article 4

Functions of SEZA under SPECIAL ECONOMIC ZONES REGULATIONS 2016 IN KENYA

- Licensing of Special Economic Zone

For the development of special economic zones, the authority selects and concludes an agreement with SEZ developer to operate in special economic zone.

After review of the license application, the authority issues a licence to developers and operators to conduct business activities as per the agreement.

- Licensing of Special Economic Zone enterprises

The authority has an electronic system used for registration process. Later it evaluates the application for SEZ licence by ensuring all the technical requirements, policy requirements and environmental protection requirements are met.

- One-stop shop.

To facilitate performance of all the functions, powers and responsibilities assigned to the authority, a one stop shop is located in every SEZ and reports to the headquarters.

- Investment Rules

The Authority and all government entities offer equal treatment to both foreign nationals and local nationals with respect to all business activities.

One of the obligations accorded to an SEZ developer is that they can lease or sell land within the SEZ only after consultation with the authority. For implementation of the regulations, a service level agreement is used which involves cooperation agreements between authority and all government entities.

c) SEZs in the Country

Export Processing Zones, aims at attracting and facilitating export-oriented investments. And literature shows that there are 61 EPZ operating in Kenya.

Currently, Kenya has 10 Special Economic Zones that are either public or private

- ✓ Public SEZ: Dongo Kundu- in Mombasa County, Naivasha in Nakuru County and Konza Technopolis in Makueni County. There is a plan to add two more public SEZs: one in Miwani, Kisumu County and another in Miritini, Mombasa County
- ✓ Private SEZ: Tatu City - Kiambu; Africa Economic Zone - Uasin Gishu; Compact Free Trade Zone - Machakos; Northlands - Kiambu; SBM - Kwale; Lamu Resort City -Lamu.

d) Benefits and Incentives for SEZs

Under this Act, Special Economic Zones Act in Kenya, SEZ developer, operator and enterprises enjoy the following exemptions on investment incentives as per the Act:

- All licensed special economic zones enterprises, developers and operators shall be granted tax incentives as specified in the respective tax laws as follows

Import Duty; VAT (zero rated for goods supplied); Corporate Tax (10% for 1st 10 years; 15% for next 10 years and 30% for subsequent years); Investment Deduction under the Finance Act 2021; Exercise Duty; Stamp Duty; Withholding Tax (5% on interest; 5% on management; 5% on Royalty; Exemption on dividends); Import Declaration Forms; Export Levy; and Minimum Tax).

- The licensed special economic zone enterprises, developers and operators shall be granted the following exemptions from:
 - a. stamp duty on the execution of any instrument relating to the business activities of special economic zone enterprises, developers and operators;
 - b. the provisions of the Foreign Investments and Protection Act (Cap. 518) relating to certificate for approved enterprise;
 - c. the provisions of the Statistics Act, 2006 (No. 4 of 2006.);
 - d. the payment of advertisement fees and business service permit fees levied by the respective County Governments' finance Acts;
 - e. general liquor licence and hotel liquor licence under the Alcoholic Drinks Control Act, 2010 (No. 4 of 2010);
 - f. manufacturing licence under the Tea Act (Cap. 343);
 - g. licence to trade in unwrought precious metals under the Trading in Unwrought Precious Metals Act (Cap. 309);
 - h. filming licence under the Films and Stages Plays Act (Cap. 222);
 - i. rent or tenancy controls under the Landlord and Tenant (Shops, Hotels and Catering establishments) Act (Cap. 301); and
 - j. any other exemption as may be granted under this Act in consultation with the Cabinet Secretary for that matter, by notice in the Gazette.
- The licensed special economic zone enterprises, developers and operators shall be entitled to work permits of up to twenty per cent of their full-time employees
- Special Economic Zones in Kenya anchors on SEZA as a one stop agency for expedited licencing

e) Challenges for SEZ

Extracting some of the characteristic of EPZ from the various literature and they note as follows:

- ✓ It is noted that EPZ firms import their intermediate goods.
- ✓ It is also noted that the EPZ offer low wages and hazardous working conditions for employees.
- ✓ It is noted that EPZ are characterized with poor transport and infrastructural facilities that hindered seamless connectivity for goods/services mobility.

The World Bank Report 2011 by T. Farore, questions the rationality of tax holiday and deduce that in most cases it generates negative effects, in case of Kenya though Tax holiday led to establishment of many EPZ firms but there was no evidence of any long-term benefits to the economy and the sustainability of this firms was questionable with over 60% of the firms leaving before the ten-year period elapsing.

The major challenges SEZ face are:

- ✓ Disruptions in global supply chains, particularly for raw materials sourcing affects SEZs;
- ✓ Expensive human resource cost for skilled expertise since the domestic market cannot provide high skilled labour the SEZ has to use expatriates whose cost are high;
- ✓ Private sector promoters of SEZs, lacks an umbrella organization or company that specifically promotes SEZs across the board.

3.3 Assessment of current status of SEZ in Rwanda

a) Legal Framework and SEZ Definitions

Rwanda legislated Special Economic Zones SEZ in 2011 with the following legal framework: Law Regulating Special Economic Zones in Rwanda, No.05/2011 of 21/03/2011. The law does not define SEZ per se but stipulates on Free Trade Zones but clearly points out that Zones implies Special Economic Zones. But Rwanda Development Authority website in explaining the regulations of SEZ defines SEZ as

*Special Economic Zone (SEZ) refers to a geographically specified and physically secured area administered by a single body, offering certain incentives including more liberal and simplified economic regulations for businesses to physically locate and operate within it.*⁵

b) SEZ Management Body and its Functions

The management of Special Economic Zones in Rwanda is under the Rwanda Special Economic Zones Authority (RSEZA) which licences the developer of SEZ and also issue licence to operator of the SEZ. While the user (firms) also must be licenced by RSEZA. RSEZA operates under Rwanda Development Board (RDA).

c) SEZs in the Country

Currently, Rwanda has 2 Special Economic Zones with over 120 enterprises in them and 8 more SEZ are in the planned pipeline. The two are:

- ✓ Kigali SEZ : operated as a public-private partnership in cooperation with Prime Economic Zones (PEZ) a Rwandan firm is the operator.
- ✓ Bugesera Special Economic Zone: Still under construction but it has attracted attention of at least 20 investors.

d) Benefits and Incentives for SEZs

- The law stipulates that imported goods shall enter Free Trade Zone Areas free from customs duties. Duty-free goods may remain in storage in Free Trade Zone Areas for an amount of time as specified in the regulations for the Zone.

New Investment Law in Rwanda the Investment Promotion and Facilitation Law N° 006/2021 provides the following:

⁵ <https://rdb.rw/departments/sez-and-exports>

- Incentive relief from preferential withholding tax, corporate income tax, corporate income tax holiday of up to 5 years.
- Preferential tax incentives for a philanthropic investor.
- Incentives for specialized innovation park developers and specialized industrial park developers such as exemption from property tax and payment of land transfer fees.
- Value added tax refund.
- Talent attraction incentives. Foreigners start up and innovative entrepreneurs are eligible for a 2-year entrepreneurship visa.
- Accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets.
- Exemption from customs taxes and duties for products used in export processing zones
- Incentives for internationalization such as overseas marketing and public relation activities, participant in overseas fair trading, and overseas business development cost.
- Incentives for the mining sector where they are entitled to carry forward losses for 10 years from first year of making losses.
- Immigration incentives of recruiting 3 foreign employees without demonstrating their skills are lacking or insufficient on the labour market in Rwanda.

e) Challenges for SEZ

The challenges SEZ face in Rwanda include:

- ✓ Poor public transport links between SEZ area and the other parts of the city.
- ✓ SEZ areas lack social infrastructure like restaurants.
- ✓ Grid power is not reliable leading to additional expense of private power supply to supplement national grid provided for power.⁸
- ✓ Intermittent supply of water.

3.4 South Sudan

a) Legal Framework and SEZ Definitions

South Sudan is in its infancy stages in establishing SEZ and currently the South Sudan Investment Authority under the Ministry of Trade is responsible for the setting up of export processing zones and special economic zones. South Sudan developed the strategic plan of the country and currently both foreign and domestic firms are allowed to operate SEZ even though there is none that is operational SEZ in the country. Economic Processing Zones features in most of the documents and stands out as the SEZ in South Sudan.

b) SEZ Management Body and its Functions

South Sudan Investment Authority is responsible for the setting up of export processing zones and special economic zones.

c) SEZs in the Country

The process is still in its infancy, though the government of South Sudan in 2013 officially launched the establishment of the Juba Specialised Economic Zone (SEZ), which is an industrial area for business and investments activities it sits on a 625 square km land and is located about 30km from the South Sudan capital.

Juba SEZ is geographically designed to provide logistics for import and export of goods as well as providing socio-economic development in terms of employment and services and to enhance economic growth.

d) Benefits and Incentives for SEZs

Currently the SEZ is yet to be operationalized in South Sudan and therefore it is not possible to identify benefits and incentives of SEZs in South Sudan

e) Challenges for SEZ

The challenges Juba SEZ faces include:

- ✓ Limited physical infrastructure (Roads, Railways) to facilitate movement of goods and services for production and productivity.
- ✓ Investment climate is currently characterized by insecurity as a result of political instability, leading to investors shying off.
- ✓ Limited source power, energy is fundamental perimeter for investment and currently the power supply is limited with frequent blackouts.
- ✓ Slow pace in legal framework for fiscal incentive and administrative procedures for SEZ.
- ✓ Limited skilled labour to work in the SEZs which will lead to high cost in hiring expatriates.

3.5 Assessment of current status of SEZ in Tanzania

a) Legal Framework and SEZ Definitions

Both EPZ (operational since 2002) and SEZ (operational since 2006) are operational in Tanzania, the legislation that the two are anchored in are: Export Processing Zones Act 2002 and Special Economic Zones Act, Chapter 420, Revised edition of 2012. The Special Economic Zones Act 2006 defines SEZ as

“an area of land which shall be provided with special business environment to promote priority economic activities for faster economic growth as may be determined, from time to time, by the Authority.”⁶

b) SEZ Management Body and its Functions

The management of Export Processing Zones and Special Economic Zones is under the Export Processing Zone Authority (EPZA) which is responsible for steering and implementing government policy on promotion of Special Economic Zones (SEZ) in Tanzania. EPZA also take the lead in the development of EPZ and SEZ infrastructure,

⁶ Special Economic Zones Act 2006

provision of business services to EPZ and SEZ investors, and issuing of EPZ and SEZ licenses.

There are two major types of preferential zones operational in Tanzania namely the Export Processing Zones and the Special Economic Zones:

Export Processing Zones: The EPZ is responsible for manufacturing products for export and it exports at least 80% of the products. It can be a standalone factory unit or Industrial parks. For an enterprise to be eligible in EPZ, it has to be a new investment, export at least 80% of goods produced and the annual exports should be USD 500,000 and above.

Special Economic Zones: The SEZ involves investments in all sectors for both export and local markets. The business must locate in the zone and it can be one or more areas of the following; industrial parks, EPZs, Free Trade Zones, Free Ports, Tourist Parks, Technological Parks or any other areas prescribed by Authority. For an enterprise to be eligible in SEZ, it has to be new investment and a minimum capital of USD 500,000. There are three operational SEZ projects in Tanzania;

The agency functions are to:

- Promote investments in EPZ and Special Economic Zones.
- Develop Infrastructure with Private or Public partners.
- Facilitate Investments (One stop service Centre).
- License EPZ/SEZ investments.

Zanzibar Investment Promotion Authority (ZIPA) is tasked with investment promotion, facilitation, Free Economic Zones and Free Ports in Zanzibar.

c) SEZs in the Country

Tanzania has both public and private SEZ:

- ✓ Public SEZ: Benjamin William Mkapa (BWM) SEZ established in 2006 and thereafter MITI established Tungi SEZ. The others areas that are planned: Coast, Morogoro, Iringa, Njombe, Mbeya and Songwe Regions, Bagamoyo, Mtwara, Kigoma, Tanga, Ruvuma, Dodoma and Manyoni, and the Kurasini Logistic Centre.
- ✓ Private SEZ: Star City SEZ located in Morogoro region which is a JV between Dominion Plantation Ltd from Tanzania and Hyflux Limited from Singapore; Vigor SEZ Project in Kisarawe Coast region being developed by Turkey Group of Companies; and Bagamoyo SEZ which is being developed by JV of China Merchants Ports Holding Company of China and the State General Reserve Fund (SGRF) of Oman

Currently, Zanzibar has five Free Economic Zones (FEZs),

d) Benefits and Incentives for SEZs

The investment incentives include:

- Corporate Income Tax Holiday for 10 years
- Exemption from stamp duty;

- Exemption of VAT on utilities (electricity, water and wastewater, internet, telecommunication)
- Exemption from property tax for ten years;
- Exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for purposes of development of SEZ infrastructure ;
- Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulances, firefighting equipment, fire fighting vehicles and up to two buses for employees' transportation to and from SEZs;
- Entitlement to an initial automatic immigrant quota of up to five persons during the start-up period and thereafter, upon consultation with the Immigration Department, any additional persons deemed necessary;
- Privileged procedures on Visas, Work Permits, transfer of Profits, Dividends and Royalties, Best and fast facilitation services through a One Stop Centre.

e) Challenges for SEZ

Literature identifies the following challenges for Export Processing Zones in Tanzania:

- ✓ EPZ scheme has not effective to generate significant economic impact on the local economy because of:
- ✓ Weakened legal framework (public policy support was not well organized)
- ✓ Unreliable energy supply
- ✓ Labor of the requisite skills is not sufficiently available,
- ✓ Lack of linkages to the local economy.

Literature identifies the following challenges for Special Economic Zones in Tanzania:

- ✓ Inadequacy of physical infrastructure onsite and offsite SEZ including transport infrastructure, serviced land and factory buildings for leasing to potential investors.
- ✓ Unreliable supply of power, water, internet
- ✓ Clogged administrative procedure
- ✓ Weak linkages to the local economy
- ✓ Limited technological transfer to local SMEs
- ✓ Restrictive measures for start-ups due to high capital investment requirement currently at of USD 500,000 for foreign investors and USD 100,000 for local investors

3.6 Assessment of current status of SEZ in Uganda

a) Legal Framework and SEZ Definitions

The Uganda Free Zone act of 2014 was developed to provide guidance on the creation and management of Free Trade Zones, this led to institution of Uganda Free Zones Authority (UFZA) and Free Zones Regulations No.68 of 2016. The Uganda Free zone Act 2014 defines Free Zones as

“a designated area where goods introduced into the designated area are generally regarded, so far as import duties are concerned, as being outside

*the customs territory and includes an export processing zone or free port zone.*⁷

b) SEZ Management Body and its Functions

There are two major types of SEZ in operation in Uganda the Free Zones and Industrial and Business Parks.

The management of Special Economic Zones in Uganda is under the Uganda Free Zones Authority (UFZA) and falls under the under the supervision of the Ministry of Finance Planning and Economic Development (MFPED). UFZA is responsible for the establishment, development, management, marketing, maintenance, supervision and control of free zones and to provide for other related matters. Specifically, UFZA does the following:

- ✓ Establish, Develop and Manage Free Zones
- ✓ Regulate, Licence, Supervise and Control Free Zones
- ✓ Promote and Market Free Zones

The Industrial Parks are managed by Uganda Investment Authority (UIA). The law defines Industrial parks as geographically delimited areas for production. Moreover, the UIA operates as a one stop facilitator for investors.

c) SEZs in the Country

The Free Zones that are licensed for operation are; Kimsam Investments Free Port Zone, Shree Modern Textiles Free Zone and Block chain Technologies Free Zone. The table below shows the Industrial Parks (IP), the number of companies operational therein and the number of people employed (direct and indirect).

Table 3-1 Types of IP in Uganda

No.	IP	Operational companies	Direct jobs created	Indirect jobs created
1.	Kampala (Namanve)	77	30,000	17,500
2.	Luzira	11	2,200	4,800
3.	Bweyogerere	8	1,800	3,000
4.	Jinja	1	120	600
5.	Soroti	1	250	600
6.	Mbale	5	800	2,400
7.	Kasese	1	50	300
8.	Mbarara SME Park	35	125	600
9.	Liao Shen Kapeeka	13	3143	12,000

⁷ Uganda Free Zone act of 2014

No.	IP	Operational companies	Direct jobs created	Indirect jobs created
10.	MMP Buikwe	10	1200	8000
11.	Tian Tang Mukono	4	2,800	10,000

Source: [The status of industrial parks development in Uganda - Uganda Investment Authority](#)

d) Benefits and Incentives for SEZs

The benefits that free zone developer, operator, or manager licenses include;

- Exemption of taxes and duties on all export processing, imported raw materials, and intermediate goods, machinery and equipment, spare parts, for exclusive use in the development and production of output for business enterprise,
- Economies of Scale for the business entities resulting from well planned Zoning and Clustering of the business activities;
- Enhanced Technology uptake;
- Onsite services in form of Customs clearance and Inspection which ease movement of goods;
- Business facilitation and aftercare services in the acquisition of secondary licences, permits and approvals from other Government Agencies;
- Serviced physical infrastructure facilities and buildings within the Zones.

e) Challenges for SEZ

The challenges for SEZ include:

- ✓ Limited or poorly developed infrastructures both onsite and offsite infrastructures like roads, power, water supply, ICT
- ✓ Weak financial institutions, capital and money markets to support domestic investment in the Free Zones.
- ✓ Limited land for investment and expansion of production plants due to poor land tenure system.

3.7 Current status of sales thresholds in member states of EAC

SEZ development in EAC is still stifled by restrictive trade regimes that place the local economy at crossroads with almost unlimited imports options for inputs that compete unfairly with domestic local inputs and at the same time available options for local imports of finished goods and yet the 20% sales threshold placed for selling the same locally.

The sales thresholds are encapsulated in the export processing zones and it is placed at 20% as goods allowed to be sold in the local domestic market of the respective Partner State. Interestingly the within the EAC Member States apart from Tanzania, SEZ schemes does not place any sales thresholds for Tanzania a 20% sales threshold is placed. When the firm in preferential trade zones reaches the quota provided then any further selling of the product to the member states attracts the importation duty and other domestic taxes. The main purpose of the sales thresholds is to protect local industries and companies from the competition from the firms in the preferential trade zones.

It is noted that goods that are subject to quotas or are barred from direct entry into a Member State home market may nonetheless be admitted by default through the zone. For example, firms within the zones hoarding on goods that are under quota and just add value and make them into new items and therefore not subject to quotas, thereby making them eligible for sell in the host country. Therefore, to remedy the sales thresholds the EAC Partner States should consider engaging the Rule of Origin.

3.8 Rule of Origin in the EAC Member States

The Rule of Origin is defined as:

“The specific provisions, developed from principles established by national legislation or international agreements applied by a country to determine the origin of goods.” (Annex D, currently Annex K to the Revised Kyoto Convention). The Agreement on Rules of Origin (Annex 1A to the Marrakech Agreement establishing the World Trade Organization in 1995) provides a useful definition for the Harmonized Non-Preferential Rules of Origin and for the Preferential Rules of Origin: “Non-Preferential Rules of Origin shall be defined as those laws, regulations and administrative determinations of general application applied by any Member to determine the country of origin of goods” (Article 1.1). “Preferential Rules of Origin shall be defined as those laws, regulations and administrative determinations of general application applied by any Member to determine whether goods qualify for preferential treatment under contractual or autonomous trade regimes leading to the granting of tariff preferences going beyond the application of paragraph a of Article 1 of GATT 1994” (Annex II, Paragraph 1).”⁸

There are two types of Certificate of Origin (CoO):

- Preferential CoO which is a document that attesting that the goods in a particular shipment are of a certain origin under the definitions of a particular bilateral or multilateral free trade agreement; and
- Non-preferential CoO is a document that has no special preferences given other than those available to all World Trade Organization (WTO) members.

Notably COMESA has “Protocol on the Rules of Origin for Products to be Traded between the Member States of The Common Market For Eastern And Southern Africa(COMESA)” which outlines the utilization of Rules of Origin a the EAC Member States also have the Rules of Origin for EAC.

Notably, all of the member states under the East Africa Community share the same Rules of Origin. The implementation of custom union and application of trade measures, such as, import ban and prohibitions, discriminator restrictions, tariff quotas, among others, depend on the application of Rules of Origin.

There is the Manual on Application of East Africa Community Rule of Origin that aims:

⁸ Rules of Origin-Handbook

- To enable uniform interpretation and application of the Rules of Origin in EAC.
- To enable Customs officers and other officers involved in the clearance of goods understand the mechanisms of according the Community tariff treatment to goods traded in EAC.
- To make the traders and other stakeholders understand the procedures and requirements for goods to qualify under the internal trade regime.

The purpose of the aforementioned EAC Manual is to:

- Translate the EAC rules of origin for practical application.
- Explain the basic origin criteria under the EAC preferential trade regime.
- Provide guidance on the procedure for the approval and registration of exporters
Provide guidance on the issuing of EAC Certificates of Origin.
- Provide guidance on origin verification.
- Explain the dispute settlement procedure under the EAC trade regime.
- Give guidance on the organizational requirements for the effective implementation of the EAC Rules of Origin.

The EAC also has the Simplified Certificate of Origin (SCO) which enables the customs officials from the destination country to waive import duty on exports that do not exceed USD two thousand (\$2000) and have SCO certification.

3.8.1 Burundi Case of CoO

The CoO is issued by Burundi Chamber of Commerce. CoO are normally Attested further for export & Import purposes to Burundi. Burundi abides to EAC Rules of Origin and also COMESA Rule of Origin. In order to export to Burundi, an exporter is required to obtain Certificate of Origin Attestation for Burundi and it is obtained from Burundi Embassy. Burundi does not have a non-preferential rule of origin. It, however, apply preferential rules of origin under its participation in COMESA and EAC which is related to trade agreements which grant members access to domestic market at preferential tariffs. This is used to determine whether the good qualifies for the preferential tariff offered under the agreement.

3.8.2 Kenya Case of CoO

Kenya has preferential CoO and ordinary CoO. The preferential CoO is used in the cases where there are preferential trade agreements and Kenya has the following: African Growth and Opportunity Act (AGOA), COMESA, EAC, and European Union (EURO1). The ordinary CoO is issued solely by Kenya Chambers of Commerce while Kenya Revenue Authority (KRA) issues preferential CoO.

3.8.3 Rwanda Case of CoO

The CoO is issued by Rwanda Revenue Authority. Rwanda abides to EAC Rules of Origin and also COMESA Rule of Origin. Under the Rwandan law, customs goods wholly obtained or produced in a country shall not benefit from preferential tariff treatment where:

- Agreements on preferential tariff treatment or Laws are not in place;
- Conditions specified in the agreements on preferential tariff treatment are not

fulfilled.

3.8.4 South Sudan Case of CoO

South Sudan National Chambers of Commerce Industry and Agriculture (SSNCCIA) issues CoO for goods exported from South Sudan and the CoO is issued as per the International Certificate of origin guidelines.

3.8.5 Tanzania Case of CoO

Certificates of Origin (CoO) are issued by Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) and Zanzibar National Chamber of Commerce, Industry & Agriculture (ZNCCIA). The two institutions verifying the origin of all goods manufactured or processed in Tanzania for the export market. Tanzania also abides to EAC Rules of Origin and also SADC Rule of Origin.

3.8.6 Uganda Case of CoO

Uganda has preferential CoO and non-preferential CoO. The preferential CoO is used in the cases where there are preferential trade agreements. The CoO is issued by Uganda Export Promotion Board (UEPB). Uganda abides to EAC Rules of Origin and also COMESA Rule of Origin. For goods to be considered as originating from Uganda, they ought to meet either of the following.

- Must be wholly originating from Uganda, or all the inputs used in product are from the member country. Examples of such products include agricultural produce, minerals, products of hunting and fishing, scrap and wastes resulting from manufacturing operations within the member states among others. (P)
- If the goods have inputs from outside the member states, the value of these foreign inputs should not exceed 60% of the total material costs used in production. (M)
- The goods produced in the member state should have at least 35% value added to the original inputs. In other words, at least 35% of the ex-factory cost of the finished product should be accounted for by local inputs. (V)
- The goods produced in the member states have undergone a change in tariff heading. The tariff headings are derived from the Harmonized Commodity Description and Coding System (HS). The product (input) has transformed from one tariff classification to another (final product).

Table 3-2 Comparative Summary of Current Status in the EAC

COUNTRY/ ASPECT	BURUNDI	KENYA	RWANDA	SOUTH SUDAN	TANZANIA	UGANDA
Lead Agency for SEZ	None	Special Economic Zones Authority (SEZA) and EPZA (Economic Processing Zone Authority)	Rwanda Special Economic Zones Authority (RSEZA)	None	Special Economic Zones Authority (SEZA) and EPZA (Economic Processing Zone Authority)	Uganda Free Zones Authority (UFZA) and Uganda Investment Authority (UIA)
Fiscal Incentives	Planned to be provided	Provided in the legal framework: <ul style="list-style-type: none"> • Non-payment of taxes (Import Duty, withhold tax, VAT, Excise Duty). • Railway Development Levy and Import declaration levy) 	Provided in the legal framework: <ul style="list-style-type: none"> • Tax exemption on material exported and after-care services 	Planned to be provided	Provided in the legal framework; <ul style="list-style-type: none"> • Tax Exemption on materials exported • Non-Payment of withholding tax on rent, corporate tax, property tax for the first ten years. 	Provided in the legal framework: <ul style="list-style-type: none"> • Income and VAT exemptions for up to 10 years. • Duty free Imports to these zones.
Non-fiscal Incentives	None	<ul style="list-style-type: none"> • No requirement for Business permits, • No limitation to access to local market subject to payment of duties 	<ul style="list-style-type: none"> •Ease doing business •Assistance to access utilities (water & electricity), •Assistance with obtaining visas and work permits, •Availability of One stop centre that provides notary services, residency permit; •Getting a business license, permits for 	None	<ul style="list-style-type: none"> • Access to competitive, modern and reliable services • Provision of business visa at the point of entry to key technical, management and training staff or a maximum of two months 	They include: <ul style="list-style-type: none"> • Free land • Cheap electricity • Technical empowerment of labour

COUNTRY/ ASPECT	BURUNDI	KENYA	RWANDA	SOUTH SUDAN	TANZANIA	UGANDA
			land administration and construction as well as completing the environmental impact assessment can all be done at the One-Stop Centre; • Quick release of all import and export clearance process			
Administrative Procedures	None	One-stop service centre under SEZA (registration, licencing, work permit and visa)	One-stop service centre under SEZAR (registration, licencing, work permit and visa)	None	One-stop service centre under EPZA (registration, licencing, work permit and visa)	One-stop service centre under UIA (registration, licencing, work permit and visa)
Sales Thresholds	None	SEZ None EPZ 20%	None	None	EPZ 20%	20%

Source: JICA Study Team

Chapter 4: Impact Assessment of SEZ in EAC

There has been significant impact of the Special Economic Zones as preferential zones in the EAC and especially the EPZ which started early than the other forms of preferential types. Notably SEZ has been gaining prominence in the region as witnessed with the steady growth and impact of SEZ in Kenya, Rwanda and Tanzania while Uganda has maintained the Free Zones and Industrial Parks with positive impacts. In assessing the impact of the preferential trade zones the following variables: Trade (exports and imports), Sales, DDI, FDI, Employment, Knowledge Transfer, and Forward and Backward Linkages have been used.

In assessment of trade vis-à-vis the preferential zones, the EAC Partner States Export performance has improved. The goods exported from preferential zones account to a significant share of national exports in Kenya, Rwanda, Tanzania and Uganda

4.1 SEZ Impact Assessment in Burundi

SEZ in Burundi is still at infancy stage. There is economic impact of SEZ as of now. However, the government of Burundi is work hard to ensure the SEZ are put in place and realise the economic advantage seen by other EAC countries.

4.2 SEZ Impact Assessment in Kenya

a) Trade

Export: Kenya in the last five years there has been a rapid growth of exports from SEZ for example **in 2020, exports were estimated at \$696million compared to 2017 where exports were estimated at 587.3millions total exports of goods.** The EPZ has recorded increased and substantial exports since 2010 **where exports stood at \$ 366.1M compared to 2020 where sales were estimated at \$696M.**

b) Investment

FDI: The Foreign Direct Investment has also been increasing in the last 10years. Records from EPZ show that **in 2010 FDI was estimated at \$366.3M whereas in 2020 it stood at \$453.9M**

DDI: Domestic Direct Investment is also recorded to be improving though responses from this study show that it has been fluctuating. One of the respondents showed that in their enterprise DDI **in 2021 was \$1.2M, in 2020 it was \$1.7M, in 2019 it was \$3.1M whereas in 2018 it stood at \$1.4M.**

c) Employment

Employment: The EPZ have continuously offered work to a very high number of people. **In 2019 an estimated 60390 persons were directly employed by EPZ, which was a 5.8% increase comparing to 2018 whereby 57099 persons were directly employed.** In terms of salaries **KES 12,891,000,000** was paid out in **2019** which was **9.9% increase** compared to the salaries paid out in **2018** which was at **KES 11,728,000,000.**

d) Others

Indirect benefits include infrastructural development for example Tatu City a privately owned Special Economic Zone in Nairobi has benefited from infrastructural developments of over 20 kms of tarmacked roads that has been constructed by Government of Kenya. It is expected that after the completion of Tatu City SEZ there will be over 120 kms of tarmacked roads. The residential development, schools and constant supply of tap water has been constructed by the SEZ developer. The figure below is a picture of Tatu City SEZ



Source: [Gallery 2019 | Tatu City](#)

Figure 4-1: Infrastructure development at Tatu City SEZ

4.3 SEZ Impact Assessment in Rwanda

a) Trade

Export: In Rwanda in the years between **2013 and 2016**, the Kigali Special Economic Zone (KSEZ) has made up between **4.5-10% of all national exports** and appears to have successfully catalysed Rwanda's export promotion. KSEZ is an important source of non-traditional export products and has expanded the scope of product types exported. It has also made a positive contribution to Rwanda's trade balance for almost all quarters that it has operated.

b) Investment

FDI and DDI: According to a respondent from SEZAR two SEZ in the 2021 were able to attract **FDI and DDI at approximately \$3 billion employed 13394 permanent employees.**

From **2015 to 2019**, the KSEZ attracted **US\$ 665.8 million in investments generating US\$ 349.2 million in export revenues.**

c) Employment

Employment: Employment at SEZ in Rwanda is also significant, a respondent pointed

out that **2 firms in 2021 had employed 13,394 persons**. This is a big number for only two firms. Majority of this employees are women.

d) Others

The indirect impact of SEZ in Rwanda entails infrastructural development including setting up of ICT and Technical colleges. For example, Kigali SEZ wherein the Rwanda Development Board (RDB) bought 60 hectares within the zone to develop an ICT park and construct four (4) technical universities.



Source: [Kigali Zone - Rwanda's SEZ Experiment \(adrianoplegroup.com\)](http://adrianoplegroup.com)

Figure 4-2: Infrastructure development at Kigali SEZ (KSEZ)

4.4 SEZ Impact Assessment in Sudan

South Sudan Investment Authority is responsible for the setting up of export processing zones and special economic zones and this process is still in its infancy, though the government of South Sudan officially launched the establishment of the Juba Specialised Economic Zone (SEZ), which is an industrial area for business and investments activities. The 625 square km land is located about 30km from the South Sudan capital, Juba, and will be used for building a new modern city.

4.5 SEZ Impact Assessment in Tanzania

a) Trade

Export: According to this Study, trade in terms of export has improved significantly in Tanzania in the last 10years. **In 2010 exports from SEZ were estimated at \$300M which has now increased to \$2,286M in 2020** according to our respondent.

b) Investment

FDI: Foreign Direct Investment as a result of SEZ has also been increasing, in 2010 it was recorded at **\$560M as compared to \$2,316M in 2020**.

c) Employment

The rate of employment for both **male and female** has increased to **over 82%** since the establishment of SEZ.

4.6 SEZ Impact Assessment in Uganda

a) Trade

Trade: Export earnings from Free Zones also grew by **141%** from **US\$ 64 million** in

FY 18/19 to US \$ 154 million. The growth is said to have been driven by increased demand for processed agricultural and mineral products (semi-processed gold accounted for larger percentage).

b) Investment

Free Zones investment in Uganda stood at US\$154,172,592 during the FY2019/20, an increase by 143% from US\$63,836,296 registered in FY2018/19.

FDI and DDI: According to the secondary data FDI and DDI have increased in Uganda as a result of the free zone. **In the F/Y 2020/2019 FDI was estimated at \$35,100,011. DDI stood at \$36,184,762.**

c) Employment

Employment from the free zone has been high even though it declined in 2020, this could be attributed to the Covid-19 pandemic. Salary expenditure on locals in the financial year **2020/2019 was estimated at \$9,149,213.**

d) Others

Knowledge and Technological Transfer: During the FY2019/20, 65 per cent of the Free Zones indicated that they had introduced new technology to boost productivity and efficiency while 35 per cent had not introduced any new technology. Some of the technology introduced included use of ultra-filtration systems, irrigation systems, water treatment.

Table 4-1 Summary of Impact of SEZ in the EAC

COUNTRY/ ASPECT	BURUNDI	KENYA	RWANDA	SOUTH SUDAN	TANZANIA	UGANDA
Trade	None	Exports in 2020, were estimated at \$696million compared to 2017 where exports were estimated at 587.3millions total exports of goods	Kigali Special Economic Zone (KSEZ) has made up between 4.5-10% of all national exports in 2019 export revenues was US\$ 349.2 million.	None	In 2020 Export was \$2,286M	Export earnings from Free Zones also grew by 141% from US\$ 64 million in FY 18/19 to US \$ 154 million.
Investment	None	In FDI 2020 stood at \$453.9M DDI in 2020 it was \$1.7M, compared to 2019 it was \$3.1M	In 2021 FDI and DDI was approximately \$3 billion with KSEZ attracting US\$ 665.8 million in investments 2015-2019	None	FDI in 2020 was \$2,316M.	FDI and DDI increased in Uganda as a result of the free zone. In the F/Y 2020/2019 FDI was estimated at \$35,100,011. DDI stood at \$36,184,762.
Employment	None	Significant growth in 2019 with the number of persons employed at EPZ stood at 60,390	Employment at SEZ for just 2 firms in 2021 was 13,394 persons.	None	The rate of employment for both male and female grew by over 82%	Free Zone has been a big employer with salary expenditure for locals estimated at \$9,149,213 in FY 2020/2019.

Source: JICA Study Team

Chapter 5: Identified Backward and Forward Linkages

5.1 Backward and forward Linkages

The Study notes that since preferential trade zones are in formative stages in Burundi and South Sudan and therefore there are no backward and forward linkages but since there are plans to set up preferential trade zones in these two member states it is therefore prudent that the lesson learnt from the other member states be extracted and used to ensure that strong backward and forward linkages are developed at the onset.

Nevertheless, the following backward and forward linkages were identified in the following member states:

1) Kenya

This Study notes that there was improved backward linkages for SEZ compared to EPZ: In the cases of SEZ most raw materials are sourced locally; Labour is sourced locally; the local firms provide logistical support and that there are established links with SMEs.

This Study further notes that even though there was improved forward linkages and mainly on cutting edge marketing the other linkages are still geared toward exporting the products with local firms mainly involved in transporting the goods to the ports.

Notably the value addition to products has been a boon in enhancing backward and forward linkages for example GoK has placed incentives like local raw materials are both duty and tax free. Payment of duty and taxes on goods offloaded from SEZs into the domestic market is the protective barrier in place for domestic industries. Also, the government through '**Buy Kenya Build Kenya**' policy has seen through locals benefiting from EPZ firms where they acquire raw materials from the local markets.

There are regulations/procedures geared towards facilitating domestic firms to export goods into SEZs. A respondent from EPZ stated that there were some raw materials, consumables and services that were sourced locally which included; Agro-products i.e., macadamia, avocado, cashewnuts, fabrics, detergents and refined sugars. Also transport services were provided.

Another respondent from SEZ indicated that they used packaging items like bottles, labels, cartons from locals, and used raw material of mango juice from the locality. Again, the firm sourced services locally which included logistical services, cleaning, building and construction, internet, and security services.

The raw material sourced locally amounted to **\$67.7 Million in 2020** as per the information from a key respondent from EPZA responding to questionnaire for the Study.

2) Rwanda

This Study notes that there has been improved backward linkages which has led to major raw materials to be sourced from within. The Study also noted that high transportation due to poor roads, limited air connection and lack of rail infrastructure hampered the backward linkages.

This Study further notes that there was improved forward linkages through services

provided by local firms which includes logistical services, printing services, Logistical Services Printing Transport Cleaning Building and constructions Services.

This Study further noted that the firms in the SEZ source several raw materials and also services locally which in turn improves the local economies where the firms are located with the local farmers being major beneficiaries. The major raw materials that are sourced locally include: agro-processing (coffee, milk, tea, cereals timber, minerals). While the forward linkages are also available through services provided by local firms which includes logistical services, printing services, Logistical Services Printing Transport Cleaning Building and constructions Services.

The main SEZ sectors and products in Rwanda are as per the table below:

Table 5-1 Sectors and Products in SEZ in Rwanda

Sectors	Products
i. Construction	H2O Tankers, Water pipes, Iron sheets
ii. Textile	Clothes, Shoes
iii. Services	Financial services, Electricity & water
iv. Pharmaceuticals	Animal and Human drugs
v. Agro-processing	Milk Powder,
vi. Sanitary Products	Sanitary pads, toilet papers, baby wipes, Sanitizers, Soaps
vii. Packaging Products	Envelopes
viii. Safety Products	Boots, Safety Shoes,
ix. Mining	Refined minerals
x. Electrical and electronics	Electric cables, Mobile Telephones, Assembled cars,

Source: JICA Study Team

The major raw materials that are sourced from the local markets include: vegetables, coffee. The findings of this Study shows that sectors that firms operating in the two preferential zones compete with non-preferential zones domestic firms included, textile, mining, mineral processing, agro-processing, machinery and equipment, construction, manufacturing, electrical and electronics, pharmaceuticals, food beverage and tobacco. The Study also revealed that the competition between firms in preferential zones and those in non-preferential zones was healthy and of the mutual benefit. The symbiotic relationship between SEZ and non-SEZ firms was of mutually benefit since backward linkages allowed both firms to source for raw materials locally, wherein local firms sell to SEZ firms the raw materials.

The major raw materials that are sourced within include: agro-processing (coffee, milk, tea, cereals timber, minerals) Also the forward linkages are available through services provided by local firms which includes logistical services, printing services, Logistical Services Printing Transport Cleaning Building and constructions Services.

3) Tanzania

This Study notes that there are weak forward and backward linkages and the EPZ and SEZ have very little input sources from local market and the products produced are also mainly for export.

4) Uganda

The Study notes that there has been improved backward and forward linkages. The backward linkages have improved greatly noted with increase in the amount of raw

materials sourced locally. The raw material sourced locally include, cereals, cotton, timber, minerals, avocado, coffee, macadamia nuts and vanilla. Also, forward linkages have improved, and this Study noted that there was increase in the services that are provided by local firms. The service provided by local firms includes logistical services, printing services, building and construction, cleaning services.

Nevertheless, this Study noted that the local purchasing **fell to US\$6.7 million in FY2019/20 from US\$15.1 million in FY 2017/18** as per the response received from the key respondent from Uganda Free Zone Authority (UFZA). This is fact by no means indicates decline in backward and forward linkages, but it can be linked to calamitous events of 2020 which included COVID 19 challenges leading to lockdowns and curfews that curtailed the movement of people and goods.

Chapter 6: Gap Analysis for SEZ in the EAC

6.1 Gap Analysis by Sectors

The gap analysis of the SEZ in the Partner States is based on the literature review and analysis of the collected secondary and primary data. Literatures pointed out that SEZ in the EAC guiding concept is a proclivity towards shielding the zones from restrictive and stringent regulations in the host country and this notably has led to increased trade and exports for SEZ in the EAC at the expense of the local economy due to weak forward and backward linkages that stifles domestic economy, human resources development as a result of the SEZ is still weak and knowledge and technology transfer is at the very minimal and this hinders the perceived policy purpose of economic growth and industrialization.

Also, this Study notes that there is overzealous emphasis on fiscal incentives to enhance export and attract FDI in the SEZ in the EAC by the Partner States rather than utilize the competitive edge of the region. These fiscal incentives scheme in most cases is counterproductive with investors who are ready to invest but also ready to withdraw when the fiscal incentives timeframe lapses. Literatures point out that the foreign investors are willing to on their bargaining power, since establishing linkages with domestic economy weakens their negotiation leverage and ultimately since the backward and forward linkages are weak and human resources development is not enhanced, coupled with limited technological transfer to local firms and lack of domestic firms having competitive leverage and foreign investors withdrawal from SEZ only leaves behind shells and this frustrates the principle of SEZ as a policy tool for development and industrial growth.

It is also noted that there are limited feasibility studies that are undertaken before designing SEZ and this is a major gap for SEZ in the Partner States. Noteworthy most Partner States have adopted legal and institutional frameworks that has established authorities that are tasked with overseeing SEZ activities in their respective countries and among some of their key tasks is to undertake feasibility studies.

It is salient to note that the SEZ authorities in respective Partner States have played critical role of improvement of administrative procedures like one-stop service centre for the respective Partner States but there is a gap in enforcement that aims at achieving the objectives of SEZ rather than just creating non-sustainable employment opportunities and improving on export. The Uganda Auditor General sums it all:

UIA procured land for the seven (7) industrial and business parks in the years from 2008 to 2012 at a total cost of UGX 16.6bn. However, development in these parks has been minimal despite the substantial investment by government. Out of the 343 investors allocated land in the different industrial parks only 45 investors, representing 13%, are in operation. In addition, out of the anticipated 57,452 jobs that would have resulted if the land so far allocated had been developed and fully utilised, only 1,345 jobs had been created which, represents a performance level of 2%. Further, out of the anticipated investment of USD 2.04

billion expected to be injected in by investors, only USD 169.6 million had been invested, which translates into a performance level of 8%.⁹

Notably the preferential zones have led to the following benefits in the EAC Partner States:

- Development of Industry and non- agricultural sectors
- Increased foreign and domestic private sector investment.
- Job creation and Income Generation - both direct (within the zone) and indirect through backwards and forwards linkages with businesses outside the zone.
- Export growth and diversification and increase in foreign exchange –EPZs account for a significant share (between 35 and 50%) of manufactured exports in most regions.
- Development of industry and other sectors requiring serviced, specialised infrastructure.
- Skills upgrade and technological transfer
- SEZs can be a particular cost-effective tool due to agglomeration benefits of concentrating businesses in one geographical area for example in provision of public infrastructure and government services as the case of Tatu City in Kenya and KSEZ in Rwanda.

SEZs have shown considerable potential in East African States, and while many challenges lay ahead, these zones can play a tremendous role in the development of East Africa and Africa at large. Countries in East Africa need to overcome many hurdles for their SEZ development and need strong and long-term strategies to unlock the potential of SEZs in their respective economies.

Notably the limited feasibility studies in some of the Partner States has led to planning and implementation of SEZ in frontiers that remain underdeveloped or underutilized for example in South Sudan and Burundi where the SEZ zone have been demarcated but remain undeveloped.

There is still much focus on labour intensive and export-oriented approach rather than utilization of the comparative advantage of available local resource and markets in setting up SEZ/EPZ. This is an identified gap, even though Kenya has made a leap towards manufacturing, Agri-processing, logistical support etc approach in setting up SEZ and thus leveraging on her comparative advantage but it would be much laudable if such scheme could capitalize on the vast EAC market rather than target export.

Literatures point out that there is a poor linkages of SEZ development plan with other national or regional development plans leading to limited development of the onsite and offsite infrastructural development as an investment geared towards improving

⁹ Auditor General Report: Management of Investment Land in Industrial Parks by Uganda Investment Authority

investment climate. The Study noted that the transport linkages are still poor in some cases, coupled with fluctuating power, intermittent supply of water and underdeveloped ICT infrastructure and this hinder the Partner States from maximizing the SEZ benefits.

6.2 Gap Analysis by EAC Partner States

6.2.1 Gaps identified in Burundi

The gaps identified for Burundi were as follows:

- a) The institutional and legal framework is lacking;
- b) There is lack of a leading agency for SEZ;
- c) The SEZ is located in a flood hazard zone that makes it investment unfriendly.

6.2.2 Gaps identified in Kenya

The gaps identified for Kenya were as follows:

- a) There are two agency one that deals with EPZ and the other with SEZ;
- b) The fiscal incentives attract FDI but in general they make EPZ/SEZ to be short-term oriented for example, when SEZ firm are awarded the Corporate Tax reduction to 10% for only 10years and after the tax grace elapses then SEZ does not have any tax incentive to continue operations and thus not sustainable;
- c) EPZ structure has weak backward and forward linkages
- d) EPZ structure of 20% sales thresholds is restrictive and reduces the benefits of EPZ to the domestic market.

6.2.3 Gaps identified in Rwanda

The gaps identified for Rwanda were as follows:

- a) The fiscal incentives attract FDI but in general they make SEZ to be short-term oriented and thus not sustainable;
- b) Limited SEZ off-site infrastructural development;
- c) Weak backward and forward linkages

6.2.4 Gaps identified in South Sudan

The gaps identified for South Sudan were as follows:

- a) The institutional and legal framework is lacking;
- b) There is lack of a leading agency for SEZ;
- c) The political instability is not conducive for investment.

6.2.5 Gaps identified in Tanzania

The gaps identified for Tanzania were as follows:

- a) The fiscal incentives attract FDI but in general they make EPZ/SEZ to be short-

- term oriented and thus not sustainable;
- b) SEZ/EPZ structure has weak backward and forward linkages
- c) The regulation on qualification of domestic firms into SEZ is restrictive.

6.2.6 Gaps identified in Uganda

The gaps identified for Uganda were as follows:

- a) The fiscal incentives attract FDI but in general they make Free Zones/Industrial Parks to be short-term oriented and thus not sustainable;
- b) Weak backward and forward linkages
- c) 20% sales thresholds is restrictive and reduces the benefits of SEZ to the domestic market.

Counter measure matrix on gaps analysis for EAC member countries is shown in the table below:

Table 6-1EAC SEZ Gap and Countermeasures

Country	Gaps	Countermeasures	Implementation Period	Responsible Entities
Burundi	a) The institutional and legal framework is lacking;	Initiate and have in place institutional and legal framework for SEZs	Short-term	<ul style="list-style-type: none"> • Ministry of Trade • Ministry of Finance • Burundi Chamber of Commerce and Industry • Burundi Investment Development Authority
	b) There is lack of a leading agency for SEZ;	Initiate and have a mandated leading agency for SEZ	Short-term	<ul style="list-style-type: none"> • Ministry of Trade • Ministry of Finance • Burundi Chamber of Commerce and Industry • Burundi Investment Development Authority
	c) The SEZ is in a flood hazard zone that makes it investment unfriendly.	Relocation of SEZ allocated land from the flooding one, to a more friendly to investment site	Short-term	<ul style="list-style-type: none"> • Ministry of Trade, Ministry of Finance, Ministry of Lands, Burundi Chamber of Commerce and Industry, and Burundi Investment Development Authority
Kenya	a) There are two agency one that deals with EPZ and the other with SEZ;	Harmonization of agency mandates to avoid duplication of roles	Short-term	<ul style="list-style-type: none"> • Ministry of Industrialization, Trade and Enterprise Development
	b) The fiscal incentives are timebound and after the expiry of time the investors tend to relocate;	Revise policy framework on SEZ/EPZ to be more focused on long term investments	Short-term	<ul style="list-style-type: none"> • Ministry of Industrialization, Trade and Enterprise Development • The National Treasury – State Department for Planning

Country	Gaps	Countermeasures	Implementation Period	Responsible Entities
				<ul style="list-style-type: none"> • Special Economic Zones Authority (SEZA) • Export Processing Zones Authority
	c) EPZ structure has weak backward and forward linkages	Revise policy framework to link EPZ with the local economy.	Long - Term	<ul style="list-style-type: none"> • Ministry of Industrialization, Trade and Enterprise Development • Special Economic Zones Authority (SEZA) • Export Processing Zones Authority
	d) EPZ structure of 20% sales thresholds is restrictive and reduces the benefits of EPZ to the domestic market	Revise policy framework on the 20% sales thresholds by improving tax regimes for the local markets	Short-term	<ul style="list-style-type: none"> • The National Treasury – State Department for Planning • Special Economic Zones Authority (SEZA) • Export Processing Zones Authority
Rwanda	a) The fiscal incentives are timebound and after the expiry of time the investors tend to relocate;	Revise policy framework on SEZ/EPZ to be more focused on long term investments	Short-term	<ul style="list-style-type: none"> • Rwanda Development Authority • Special Economic Zones Authority of Rwanda (SEZAR)
	b) Limited SEZ off-site infrastructural development;	Developmental policy that will enhance infrastructural development including transport links to the SEZ.	Long - Term	<ul style="list-style-type: none"> • Rwanda Development Authority. • Special Economic Zones Authority of Rwanda (SEZAR)

Country	Gaps	Countermeasures	Implementation Period	Responsible Entities
	c) Weak backward and forward linkages	Developmental policy that will enhance infrastructural development including transport links to the SEZ.	Long -Term	<ul style="list-style-type: none"> • Ministry of Trade and industrialization, • Ministry of Finance, Planning and Investment.
South Sudan	a) The institutional and legal framework is lacking;	Initiate and have in place institutional and legal framework for SEZs	Short -term	<ul style="list-style-type: none"> • Government of South Sudan, • The Ministry of Trade, Industry and East Africa Community Affairs, • South Sudan Investment Authority
	b) There is lack of a leading agency for SEZ;	Initiate and have in place institutional and legal framework for SEZs	Short -term	<ul style="list-style-type: none"> • Government of South Sudan, • The Ministry of Trade, Industry and East Africa Community Affairs, • South Sudan Investment Authority
	c) The political instability is not conducive for investment.	Enhance an all-inclusive governance structure	Long - Term	<ul style="list-style-type: none"> • Government of South Sudan
Tanzania	a) The fiscal incentives are timebound and after the expiry of time the investors tend to relocate;	Revise policy framework on SEZ/EPZ to be more focused on long term investments	Short –Term	<ul style="list-style-type: none"> • Ministry of Trade and Industrialization, • Ministry of Finance and Planning.

Country	Gaps	Countermeasures	Implementation Period	Responsible Entities
	b) SEZ/EPZ structure has weak backward and forward linkages	Developmental policy that will enhance infrastructural development including transport links to the SEZ.	Long - Term	<ul style="list-style-type: none"> • Ministry of Trade and Industrialization • Ministry of Finance and Planning.
	c) The regulation on qualification of domestic firms into SEZ is restrictive.	Revise policy framework to ease entry of domestic firms to operate in the preferential zones	Short - Term	<ul style="list-style-type: none"> • Ministry of Trade and Industrialization
Uganda	a) The fiscal incentives are timebound and after the expiry of time the investors tend to relocate;	Revise policy framework on SEZ/EPZ to be more focused on long term investments	Short - Term	<ul style="list-style-type: none"> • Ministry of Finance, Planning and Economic Development, • Uganda Investment Authority, • Uganda Free Zone Authority
	b) SEZ/EPZ structure has weak backward and forward linkages	Developmental policy that will enhance infrastructural development including transport links to the SEZ.	Short - Term	<ul style="list-style-type: none"> • Uganda Investment Authority, • Uganda Free Zone Authority
	c) The Free Zone and Industrial parks structure of 20% sales thresholds is restrictive and reduces the benefits of EPZ to the domestic market	Revise policy framework on the 20% sales thresholds by improving tax regimes for the local markets	Short - Term	<ul style="list-style-type: none"> • Ministry of Finance, Planning and Economic Development, • Uganda Investment Authority, • Uganda Free Zone Authority

Source: JICA Study Team

Chapter 7: Conclusion and Recommendation

7.1 Conclusion

The EAC have a Protocol establishing the East African Community Customs Union contains provisions on Export Promotion Schemes and Special Economic Zones. In Article 25 of the Protocol, “the Partner States agree to support export promotion schemes in the Community for the purposes of accelerating development, promoting and facilitating export-oriented investments, producing export competitive goods, developing an enabling environment for export promotion schemes and attracting foreign direct investment”. Such schemes are specific to exports, and, in the event that such goods are sold in the customs territory, they attract full duties, levies and other charges provided in the Common External Tariff (CET). The article also makes provision for all goods being sold in the customs territory to be subject to authorization by a competent authority and to be limited to 20% of the annual production of a company. This Protocol is import substitution approach which is the current trend for the Partner State and a shift towards competitiveness and industrialization in institutionalizing SEZ is required.

Most of the respondents were keen on SEZs and were aware of the institutional and legal frameworks for the SEZ in their respective Partner States and their awareness largely was based on what their respective organization was involved in and beyond that they did not respond to the questionnaire. Their awareness was also largely on the export-oriented nature of SEZ and fiscal incentives and administrative procedures. The major missing link was on how SEZ links with the domestic economy apart from providing employment to the locals. This brings to fore the lacklustre approach of the SEZ in the region in enhancing forward and backward linkages even though Kenya, Rwanda and Tanzania showed some links but apparently these linkages are not viewed as the driving force for economic growth and industrialization especially as pertaining to EPZs. The respondents also acknowledge the importance of investment promotion agencies (authorities) and pointed out that private SEZ were not being maximized because they lacked SEZ private sector investment promotion agency and this points to the fact that there is no major drive toward objective-based SEZ but rather populating SEZ to achieve policy direction, but nevertheless the SEZ in the region are redefining themselves with manufacturing, Agri-based production, tourism among others. The SEZ data that could be used to establish trends and impacts were not received from the respondents but generally there are literature that shows SEZ data on FDI, employment, sectors, clusters and SMEs but maybe for one or two countries in the EAC which would not be quite reflective of the region as a whole.

In addition, even though the questionnaire was distributed by 25th May 2021 and by 25th July 2021 half of the targeted respondents had not completed and send back the questionnaire. This is quite understandable due to COVID 19 infections in the third-wave that led to total lockdowns and increased restrictions in some Partner States. This low return rate of questionnaire ultimately impacted the negatively the data processing.

7.2 Recommendations

It is noted that SEZs can present investors with a more attractive investment offer including improved security, support for local financial intermediation, improved access to serviced land and/or buildings and protection of land rights, catalysing the rebuilding of the business environment, linkages to local economies, and reliable electrical and water supply.

Notably the SEZs have the potential to support local SMEs by either encouraging them to enter the zone directly by lowering entry costs or facilitating these local companies to become suppliers to firms in the zone by making procurement processes easier and more competitive. Hereby, SMEs can become catalysts for a broader entrepreneurial culture. The SEZ authority in Kenya for example, established an incubator programme to help SMEs establish direct exporting and subcontracting linkages with firms in the zone.

SEZ does not only focus on developing in one area for purposes of exports but SEZ can be a tool for development by investing in other area that we also lead to improvement of infrastructure for ease of accessibility and thus can be an agent for regional development. SEZ is characterized with developing world class infrastructure that offers combined benefit of business/technology/ industrial/commercial park(s) and transport nodes.

Thus, this Study recommends to the Partner States as follows:

(i) Lead Agency:

All the Partner States through legal framework should establish an SEZ lead agency that is tasked with overseeing the SEZ development and operation in the respective Partner States. The task of the lead agency should also include undertaking SEZ feasibility studies and championing for verifiable objective oriented SEZ and also assisting SEZ to come up with their own vision and mission statements that will enhance their peculiarity without ambiguity.

(ii) Robust Investment Climate:

The SEZ will thrive in an environment that is dictated by conducive business environment. The one-stop service centre that is already adopted by some of the Partner States to ease the administrative procedure should be adopted by all Partner States.

In addition, stable political environment is vital for robust business environment and therefore structural changes that allow for peaceful political power transition, fairness in distribution of resources should be supported in the region. Moreover, infrastructure investment and creation of 'integrated clusters' will play a key role in ensuring connectivity and coordination between different zones and boost performances at zone and country level.

(i) Political Goodwill for SEZ:

The SEZ thrive in an environment where political goodwill for SEZ. It is imperative therefore that political champions for SEZ be identified and engaged in enhancing of SEZ is a policy instrument for development.

(ii) Leveraging on comparative advantage rather than fiscal incentives:

Literature on SEZ reveals that fiscal incentives are but a short-term measure that cannot make SEZ sustainable. Therefore, fiscal incentives play important role in the formative stages of the SEZ but should not be emphasized but rather the comparative advantages that the respective Partner States and the EAC (current population is approximately 177 million people) offer and thus competitiveness and large market respectively should be the driving force.

(iii) Linking of the SEZ to the domestic market (including raw material suppliers):

SEZ operate in a privileged environment due to the preferential treatment the firms within SEZ receive and this privileged position should not be the reason of suffocating the local industries but rather it should be complementary leading to local economy growth. The robust backward linkages that allow the inputs to the SEZ to be local (domestic raw material) should be enhanced with the same privileges that are enjoyed in SEZ zones and thus enhancing local entrepreneurship. In addition, the small and medium enterprises that are involved in production of similar products should be linked with SEZ through global value chain that SEZ firms attracts thus enlarging the forward linkages in the SEZ and at the same time enhancing SMEs through the capital and financial markets.

(iv) Enhancing Technical and Knowledge Transfer:

The SEZ zones attracts globally competitive firms to invest for example the KSEZ in Rwanda which has globally competitive firms operating and at the same time the RDB has invested in the KSEZ (ICT Park and Technical Universities) and this can be symbiotic and very beneficial to the domestic economy. The EAC Partner States should seek to improve the quality of the labour force and invest in skills development which represents a key success factor in zones including training centres and training programmes tailored to the needs of relevant sectors in the zones. The current SEZ paradigm shows that the best practise for successful SEZs are predicated on adopting parallel economic programming (feasibility studies, market analysis, demand forecast, business case) and physical programming (site assessment, infrastructure review) supported by a strong organisational framework (SEZ regime, incentives and developer model).

(v) Competitive Sales Thresholds:

The current system of EPZ of sales thresholds of 20% is restrictive and aims at import substitution rather than economic growth and industrialization. Literature reveals that countries that chose import substitution approach rather than export oriented and industrialization lagged in development while those that chose the latter like South Korea and Taiwan experienced economic growth and industrialization. It is imperative therefore that the Partner States embrace SEZ that links the local industries with global value chains, enhance technical knowledge transfer and bolster service industries rather than have quota-based sales thresholds that will eventually lead to bootlegging of products rather enhance industrialization.

(vi) Long term vision and institutional support

Strong long-term vision and institutional support are essential for zones success and

development. Effective cooperation between different levels of government agencies and private sector is one of the key elements to attract significant investments. There should be a clear vision from the inception of an SEZ programme on which economic impacts are being targeted and the extent of these impacts. Key economic performance indicators should be monitored on a regular basis to ensure that targets are being met.

(vii) Business models

Literature shows that public operated SEZs model are the most common model across Africa, accounting for about 42% of the total SEZs followed by Public-Private-Partnerships (30%). The Partnership between Public and Private in SEZ development as the case example of Rwanda model where the Private Sector (Investors) and Public sector (RDB) also invests in the SEZ still proves to be a good model to emulate.

(viii) Stakeholders

SEZ regime requires a strong orchestrated team of public and private stakeholders in the design, set-up and operational stages, including Government, SEZ Authority, Zone developer, Zone operator, Zone regulator, Tax and customs authorities and Investment promotion agencies..

(ix) Alignment to national vision

Implementation of SEZs programmes are recommended to be in harmony with the respective Partner States National Vision and Economic Strategy which will clearly identify the linkages to certain parts of the economy that is required in order to have successful SEZ programmes.

(x) Feasibility Studies

It is recommended that feasibility studies that evaluates the viability of preferential trade area SEZ. It is therefore recommended that an analysis of country's performance through a Strength Weakness Opportunity and Threats (SWOT) analysis being undertaken, which clearly outlines the opportunities available and notable constraints to growth are identified and analysed, Also, investment climate analysis should be undertaken as part of the feasibility study that determines the suitability of the SEZ programme as an effective development policy tool.

(xi) Selection of SEZ model

It is imperative that the type of SEZs development model (e.g. EPZ, FTZ, Freeports) should be identified and thereafter aligned to the requisite policy objectives. It is therefore recommended that a scientific modelling that shows attractive value proposition to the market be done and the most beneficial to the local economy and investors model be selected.

(xii) Consideration of investor requirements

In order to maximize the benefits of the SEZ there is a need for stakeholders' engagement wherein the investors mindset and opinion are captured and an outline of their basic requirements documented. This should be sector specific that is idiosyncratically focused on the legal, incentives and regulatory framework of such sectors.

Thus, this Study further recommends to the EAC as follows:

Creating Synergies for Trade and Investment: EAC as a Regional Organization has made great stride towards common market and therefore there is need for a platform that creates synergy with SEZ policy frameworks for the Partner States. This may include lowering barriers to regional trade and facilitating the potential for realizing scale economies in regional production, and creation of opportunities for specialized zones, like logistics or cross-border trade. Consequently, EAC member states need to take a collaborative approach to harmonize their SEZ programs.

Revise the Manual for EAC Rule of Origin: It is recommended that the manual for EAC RoO be revised to include a special rule on the products originating from SEZs of EAC member states.

Harmonization of SEZ regulations in the region: The regulations of fiscal and non-fiscal incentives for SEZ for EAC member states and this can be achieved through establishing strategic frameworks in the region for example joint marketing of region as investment destination.

Creation of industrial linkages among SEZs in EAC region: It is recommended that the backward and forward linkages that strengthens the regional economy be enhanced that will enable industrial growth in the region.

Leverage on the comparative advantage of the region: EAC region as a whole is a huge market with estimated population of 177 million people and endowed with natural resources and therefore EAC should develop SEZ frameworks that capitalizes and leverages the comparative advantage of the region.

Harmonization of export processing zones programs in EAC: It is recommended that the already established common regulatory framework on EPZ in the member countries be improved in view of the SEZ principles and goals.

7.3 Way-forward for the Draft SEZ EAC Policy

It is imperative therefore to amend the current legal frameworks that the draft SEZ policy aims to be anchored upon. The table elaborates on the legal frameworks and the recommended action:

Table 7-1 Current legal framework and the recommended action

Existing Legal Framework	Relevant Sections	Summary of the Section	Recommended Action
The Protocol on the Establishment of the EAC Custom Union	<ul style="list-style-type: none"> • Article 25(3) on principles of Export Promotion Schemes • Article 29 on Export Processing Zones • Article 31 on Freeport • Article 32 on other arrangements Annexes to the Protocol on the Establishment of the EAC Customs Union Annex VII to the EAC Protocols on the EAC Customs Union (EPZ) Regulations	Limit of sale from EPZ into customs territory of 20% annual production of a company. Partner States may provide the establishment of export processing zone freeports and other special economic arrangements	Should amended to accommodate the provisions provided by the draft policy

Existing Legal Framework	Relevant Sections	Summary of the Section	Recommended Action
	Annex VIII to the EAC Protocol the EAC Customs Union Freeports operations regulations		
The EAC Customs management Act 2004	Part XIV, Section 167-170 on EPZ and Freeports The Customs Management Regulations, 2006 Part XIV section 169-178 on EPZ Part XV Section 179-184 on Freeports	Customs treatment of goods within EPZ and Freeports including exemption of duty in accordance to the Protocol Explains the control of goods within EPZ. Explains permitted activities in Freeports and removal of good in a Freeport.	Should be amended based on the harmonized SEZ legal frameworks adapted by the Partner States

Source: Draft SEZ EAC Policy and revised by JICA Study Team

The Draft SEZ EAC policy in its current construct needs to be reviewed to capture the current SEZ realities that enhances synergy with EAC Protocols and SEZ in the region. The steps of review are as follows:

Step 1: Undertake a Study that captures data and current SEZ realities in a need assessment analysis (as this Study);

Step 2: Cognizant that EAC has made great stride towards harmonizing the legal frameworks and that there is not much example to benchmark this harmonization of SEZ institutional and legal frameworks across the Partner States to be in tandem with EAC Protocols;

Step 3: Based on the findings and recommendations as outlined in this Study the Draft SEZ EAC policy will be revised;

Step 4: Key stakeholders' engagement by allowing the stakeholders to critique the draft and based on their feedback finalize the revision;

Step 5: Stakeholder validation of the revised Draft SEZ EAC policy;

Step 6: EAC Secretariat should confirm the amendments of the Draft SEZ EAC policy and clearly outline if it is a minor or major change;

Step 7: EAC Secretariat to engage with key policy making organs within the EAC in pursuit of institutionalizing the Draft SEZ EAC policy.

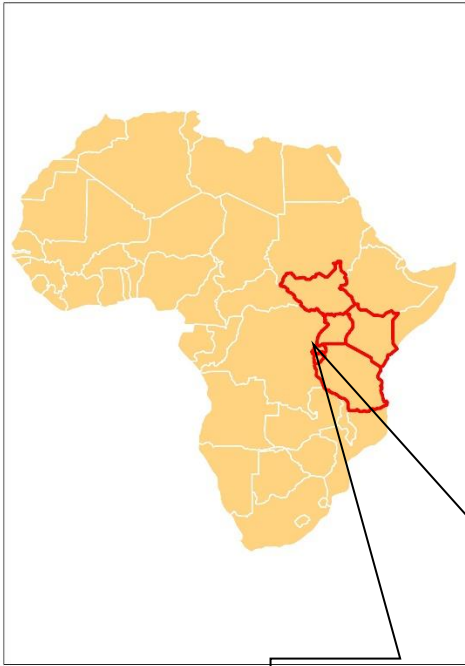
**CONSULTANCY SERVICES FOR
ASSESSMENT OF EAC PARTNER STATES' SEZ POLICY
FRAMEWORKS**

**Comparative analysis and Impact
Assessment of SEZ in EAC Report**

KOEI AFRICA

**Volume 2
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Location Map



Africa



Source: JICA Study Team

EAST AFRICA COMMUNITY (EAC)

Assessment of EAC Partner States' SEZ Policy Frameworks
Annex to Comparative Analysis and Impact Assessment of SEZ in EAC Report

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Annex 1 Literature review

SEZs in Africa

SEZs were adopted relatively late in Africa and most African countries did not operationalize their programmes until the 1990s or 2000s. Only several African countries, including Liberia, Mauritius, and Senegal, launched SEZ programmes in the early 1970s. As of 2014, the majority of countries in Sub Saharan Africa have active SEZ programmes, most of these being traditional Export Processing Zones and industrial parks. As of 2019, there are an estimated 189 operating SEZs in Africa. SEZs are well developed across the continent and are present in 47 of the 54 countries. Eastern Africa accounts for the largest share of the total SEZs in the continent (29% of the total), followed by Northern Africa (28%) and Western Africa (19%). Southern Africa and Central Africa have a smaller number of SEZs, accounting for 15% and 8% of the total respectively. There are 57 ongoing SEZs projects across the continent. About 50% of the SEZ projects are being undertaken in the Eastern Africa region, showing a strong commitment from those governments in pursuing economic development through SEZs strategy. Morocco, Egypt, Nigeria and South Africa developed strong SEZs programmes. In Morocco, Tanger Med Zones has been crowned Africa's winner. Strategically located on the Strait of Gibraltar and at the conjunction of major maritime routes, the zone offers access to target markets in both Europe and Africa. It is home to more than 900 companies in various sectors such as automotive, aeronautics, logistics and textiles. Tanger Med Zones attracted several new investments from companies including Valeo, Magneti Marelli and Varroc. Investors continue to settle in the zone due to its 'plug and play' policy, highly skilled and multilingual talent pool and attractive tax regime. SEZs are increasingly playing a key role in Africa's industrial transformation and economic growth. Countries like Morocco, Egypt, South Africa and Ethiopia have set up world class zones, attracting major companies and global investors. For policy makers, institutional investors and international financing institutions it is crucial that zones performance data is clear, more readily available and comparable. The impact of Economic Zones on trade, jobs creation and FDI is significant. SEZs play a pivotal role in Ethiopia's industrial development strategy and its Climate-Resilient Green Economy strategy, which entails the mitigation of both excessive emissions and unsustainable use of natural resources. The country has announced plans to build 30 industrial parks by 2025 to boost manufacturing output from 5 to 20 per cent of GDP. Five public industrial parks are already in operation, and six more are under construction. Government outlays so far amount to approximately \$1.3 billion. Private investors are also being encouraged to develop parks, either independently or through PPPs. Currently, three private parks are operational, benefiting from similar incentives as the publicly owned sites.

(AFRICA ECONOMIC ZONES OUTLOOK).

Ghana has one of the more successful SEZ programmes in Africa today. Only four EPZs generated approximately \$1.25 billion of exports in 2018, of the country's estimated total of \$14 billion. The biggest and most successful SEZ is the flagship Tema free zone. Yet the programme, which was initiated in 1995, did not always perform well. In 2005, only \$105 million worth of exports could be attributed to the country's free zones, against imports of \$46 million (Angko, 2004). The Tema zone in particular was performing well below expectations, owing to problems with the developer, high vacancy rates and inactive tenants. The Ghana Free Zones Board, aided by external experts, launched a three-pronged restructuring of the Tema zone. First of all, firms were clustered on the basis of industry to promote agglomeration

economies. This entailed physically collocating firms in the same industry along with suppliers and providing a minimal level of services tailored to specific industry needs. For example, a technology incubator and a garment village were designated within the zone. Second, a renewed effort was undertaken to provide hard and soft infrastructure geared towards exports, including offices for customs, immigration, the environment and the Export Promotion Council. Finally, a multi-purpose industrial park was established within the zone, allowing local firms in but not offering them the incentives extended to export-oriented foreign affiliates. This promoted forward and backward linkages between local and foreign firms, improving both zone performance and spillover benefits to the local economy. Within a few years, the performance of the Tema zone improved significantly. World Bank assessments revealed that from June 2008 to June 2009, companies in the free zone generated \$281 million in exports and 2,085 jobs (Farole, 2010). Since then, the performance of the zone has steadily kept improving, and it is now considered a key component of the country's economic strategy and one of the few examples of SEZs done right in Africa. (Source: UNCTAD, based on information from Ghana Free Zones Board and the OECD).

Kenya actively pursues a strategy based on the African Growth and Opportunity Act (AGOA), which provides duty-free market access to the United States for qualifying Sub-Saharan African countries. Since the AGOA was enacted in 2000, Kenya has increased the value of its exports to the United States from \$110 million to \$550 million in 2016. Kenya was one of the first countries on the continent to establish SEZs. By the time the AGOA came into force, zones already had a well functioning manufacturing ecosystem, including adequate infrastructure. EPZs were given a pivotal role in the AGOA-based strategy by targeting foreign investors in the apparel industry seeking to export to the United States. Kenya currently has 71 EPZs (including 10 single-firm zones); they account for 55,000 jobs and an annual sales turnover of about \$650 million, more than 90 per cent through exports (compared with national exports of approximately \$6 billion). In 2017, EPZs accounted for 94 per cent of the \$340 million in apparel exports from Kenya to the United States. EPZs have made Kenya the biggest exporter of apparel and textiles to the United States from Sub-Saharan Africa, with an estimated \$4.3 billion worth of garments exported to the United States duty-free since 2000. Most of the apparel firms in EPZs are foreign owned; foreign companies invested an estimated \$460 million in 2017. The deliberate targeting of FDI in the apparel industry has not only generated large-scale employment, but also integration in manufacturing GVCs and utilization of local textiles and raw material. Moreover, using the industrial capacities developed, apparel firms in Kenya's EPZs have now started to diversify their markets and are increasing exports to other developed economies, such as the EU and Canada. In recent years, as part of broader economic planning, Kenya has issued a five-year National AGOA Strategy and Action Plans which prominently feature the role of SEZs. It also announced the intention to increase the value of total exports and of SEZ exports in non-apparel industries to the United States. The targeted products include processed food, coffee, tea, fresh fruit and cut flowers. (Source: UNCTAD, based on information from the Office of the United States Trade Representative, International Trade Administration (United States Department of Commerce) (2019); African Growth and Opportunity Act; Kenya's National AGOA Strategy and Action Plan 2018–2023; and the Kenyan EPZ Authority)

SEZs In China

Chinese Special Economic Zones (SEZs) vary in scope and function. Some are designated geographical spaces where special policies and measures support specific economic

functions. Others include free-trade areas, industry parks, technical innovation parks and bonded zones that facilitate experimentation and innovation over a wide range of industries. In China the first four special economic zones were created in 1980 in southeastern coastal China and consisted of what were then the small cities of Shenzhen, Zhuhai, and Shantou in Guangdong province and Xiamen (Amoy) in Fujian province. In these areas, local governments have been allowed to offer tax incentives to foreign investors and to develop their own infrastructure without the approval of the central government. Business enterprises have made most of their own investment, production, and marketing decisions, and foreign ownership of such ventures has been legalized. Though some of them began as little more than small towns, the new SEZs soon attracted foreign investment and became boomtowns, with rapidly expanding light and consumer-goods industries and growing populations—notably, Shenzhen’s population grew from some 30,000 in 1979 to more than 1,000,000 by the beginning of the 21st century. SEZs have contributed significantly to China’s development. They have permitted experimentation with market-oriented reforms, and acted as a catalyst for efficient allocation of domestic and international resources. They have also deepened economic opening by attracting international capital, technology, and technical and managerial expertise that stimulated industrial development and China’s greater integration into the global economy. SEZs have contributed 22% of China’s GDP, 45% of total national foreign direct investment, and 60% of exports. SEZs are estimated to have created over 30 million jobs, increased the income of participating farmers by 30%, and accelerated industrialization, agricultural modernization, and urbanization. SEZs need to adapt to changing conditions and continue to spur innovation. They face a number of challenges, which requires that they take a long-term perspective, attract and develop new industries, reduce duplication, deepen reforms and encourage local entrepreneurship. Chinese experience with SEZs has indicated a number of factors that contribute to their success and effective operation. (i) SEZs need to be linked to economic opening and capitalize on innovation. (ii) A bottom-up, problem solving approach has to be combined with top-down governmental support. (iii) SEZs can promote industrial expansion by cultivating market leaders, supporting research and development, and building brands. (iv) They can incubate local ideas by integrating learning, innovation and production. (v) They can bring together resources and expertise from government, industry, and research institutions to move into more advanced value chains. Africa can benefit from China’s experience and adapt to local circumstances. Key lessons are that (i) good infrastructure is essential, and (ii) effective organization and management should focus on security, policy support, investment promotion, environmental governance, service oriented management, and introduction of talent. China’s experience indicates that geography, resources, market, human resources and capital are all necessary for successful SEZs. This suggests that SEZs in African countries should be located in areas with good transport, logistics and access to resources. Additional factors for success include a developed market economy and local industry, a high concentration of talent, innovative human resource policies, and access to quality financial markets and investment facilities. (WORLD BANK, SPECIAL ECONOMIC ZONES IN CHINA REPORT 2019).

Overview of SEZs Worldwide

According to the WORLD INVESTMENT REPORT 2019 on Special Economic Zones, the economic significance and policy objective of SEZs differ substantially among economies at different levels of development. In developed economies, most SEZs are customs-free zones. Their role is to provide relief from tariffs and, more importantly, from the administrative burden of customs procedures, in order to support complex cross-border supply chains. In developing

economies, in contrast, the primary aim of SEZs is generally to build, diversify and upgrade industries by attracting FDI. Although SEZs are widely used, a handful of economies account for the majority of them. China alone hosts over half of all SEZs in the world. Other countries with high numbers of SEZs include India, the United States and the Philippines. Zone concentration is observed at the regional level, too. Economic activity among SEZs is also relatively concentrated, with a few large zones attracting significant amounts of investment and generating a large share of exports while many others, often smaller zones, remain relatively inactive (FIAS, 2008). Nevertheless, even one or two zones can significantly affect a country's FDI and export performance.

In East and South-East Asia, economies that pursued successful export-oriented development strategies were early adopters of SEZ programmes in the 1960s. In recent decades, the more advanced economies in the region have transformed their SEZs and launched new types of zones, such as high-tech zones and integrated wide-area zones, which include residential areas and amenities. Less developed economies in the region are now rapidly building and expanding SEZ programmes to attract some of the labour-intensive manufacturing activities that more advanced neighbouring economies used to host. In the Russian Federation, the Government monitors and evaluates SEZs of several kinds: industrial production, technology innovative, tourism and recreational, as well as ports. The law establishes six indicators of SEZ efficiency: investment attractiveness, business environment, infrastructure provision, availability of land resources, SEZ residents' investment activity and information transparency of the SEZ website. The evaluation is carried out annually and produces zone rankings along the criteria. The process has served mostly to create peer pressure on underperforming zones and the regional authorities of the area in which they are operating. Consistent underperformers have been removed from the list of SEZs and have been shut down. Using this mechanism, 11 zones were closed between 2010 and 2017 (Kuznetsov and Kuznetsova, 2019).

SEZs in Poland were initially established for a period of 20 years. Subsequently, in 2008 and again in 2013, their lifetime was extended to the end of 2026. In 2018, however, Poland adopted a new law to create the "Poland Investment Zone". This new regime enables investors to benefit from the preferential conditions associated with SEZs in the entire territory of Poland, provided that they meet certain criteria. Poland's zones were generally considered a success. The main benefits offered to investors were exemptions from corporate income tax. To qualify, investors needed to obtain an SEZ permit, which was granted on the basis of capital expenditures and newly created jobs. (Since the accession to the EU, preferential conditions offered to investors in SEZs have had to conform to the EU's General Block Exemption Regulation, which stipulates exemptions to the state aid rules.) SEZs in Poland have succeeded in attracting investment and generating employment. By June 2018, the cumulative number of jobs created in the 14 zones had reached 448,000 while the cumulative investment had reached \$35 billion. Despite the success of the zones, their disadvantages also became apparent. By their nature, SEZs discriminated against firms based outside the zones. Since the criteria for obtaining an SEZ included the size of investment, most investment projects by domestic SMEs did not qualify for tax exemption. In addition, neighbouring countries, such as Czechia, Hungary and Slovakia, offered income tax exemptions to investors regardless of their location. The system of zones therefore risked putting Poland at a disadvantage both as a destination for FDI and as a location for domestic SME investment. The New Investment Support Act lowered the criteria for obtaining public support so that more SMEs can qualify for it. Moreover, the system is designed so that investors in less developed regions are able to

obtain more generous public support. Whereas the previous system granted SEZ permits only to newly installed businesses, the new regime also provides support to expanded projects. The new criteria are not just based on quantitative measures, but also take into account the sustainability and innovative aspects of projects. Thus, the Act removed or loosened discriminatory elements of the older SEZ legislation in terms of geography and investment size, while placing more emphasis on externalities, including knowledge and skill generation as well as social and environmental impacts. (Source: UNCTAD.)

The SEZs in the United States, known as foreign-trade zones, are customs-free zones. The objective of these zones is to encourage firms to undertake distribution or manufacturing operations at United States facilities, rather than elsewhere. Foreign-trade zones provide relief from tariffs and customs administrative burdens that put United States locations at a disadvantage in relation to competing locations abroad. Their benefits are extended to local firms without the need for those firms to relocate or establish a presence in the zones: foreign-trade zones can establish subzones for use by individual companies in the area, similar to free points. There are over 500 approved subzones that may undertake manufacturing activities. The largest industries currently using these zone procedures include oil refining, automotive, electronics, pharmaceutical, and machinery and equipment, (Source: World Investment Report 2019)

Table 0-1 Summary of Literature Reviewed

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
1. African-Economic-Zones-Outlook	<p>This report gives an overview of Special Economic Zones (SEZs) in Africa. It defines SEZ as “geographically delimited areas within which governments facilitate industrial activities through fiscal and regulatory incentives and infrastructure support. They are generally established with a few specific, but by no means exclusive, policy goals, with export promotion, import substitution, job creation and foreign direct investment (FDI) attraction central to almost all zones. SEZs also unlock agglomeration economies and create clusters by concentrating economic infrastructure and public goods in one geo- graphic area, allowing industries to overcome minimum size thresholds and begin to leverage scale economies.”¹</p> <p>It further elaborates that SEZs were operationalize in the 1990s or 2000s and that as at 2019, there were about 189 operating SEZs in Africa and in total only 57 SEZs projects had been completed and that SEZ were already operational in 47 Africa countries.</p> <p>It relates FDI to SEZ and states that Eastern Africa received \$9 Billion in 2018 and that FDI flow to Kenya increased by 27% to \$1.6 Billion, due to improved private enterprise climate and FDI facilitation. Key sectors that FDI targeted were manufacturing, chemicals, hospitality and oil and gas. The report further states that diversification in investment is critical in FDI, “A more diversified and increasing industrial base leads to a greater interaction between SEZ-based and</p>	<p>The definition is consistent with the definition of SEZ in the EAC.</p> <p>This report is critical in pointing out that the SEZ is not a panacea to all challenges for industrialization.</p> <p>The report also reveals that SEZ are policy tool that are being used by policy makers to spur economic growth</p> <p>Despite the success of SEZ it is paramount to note that its impacts are short-term based with little impact in the long-term</p>

¹ Africa Free Zone Organization, 2020, African Economic Zones Outlook

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p>non-SEZ based firms and subsequently increasing the clustering and spill-over effect of SEZs.”</p> <p>The report clarifies SEZ vis-à-vis trade as follows:</p> <ul style="list-style-type: none"> • African economies with the highest ratio of inward FDI stock to GDP all have SEZ programmes. • The SEZ impact on trade is stronger in the short-term and relatively weaker in the long-term. • SEZs have a greater positive impact on exports when SEZ outward-looking and export-oriented policies are in place • Sectors located in SEZs can be linked with high economic performance for example in Kenya average CAGR for 11 companies located in SEZs for coffee, tea, maté and spices in Kenya was 6.6% between 2001 and 2018 and grew by 26.7% in 2018. The Kenyan top 5 sectors with the highest growth rate in 2018, all have at least 2 companies operating in an SEZ. • SEZs can enhance export diversification and promote linkages in the economy by attracting a range of sectors and by stimulating technology spillover effects and clustering <p>On SEZ job creation in Africa the report states that: <i>in the last 5 years 41 million jobs have been created in the agricultural sector, particularly in agro-processing while Industrial sector job creation increased with more than 14 million new jobs, namely in construction, manufacturing, mining and utilities. While telecommunications and digital products and services created more than 2 million new jobs.</i></p> <p>The report further states that the success of SEZ is basically pegged on adopting:</p> <p>A parallel economic structure that takes into consideration feasibility studies, market analysis, demand forecast, business case and physical programming that entails site assessment and infrastructure review which is properly outlined and has the support and backing of a strong organisational framework that clearly elaborates on SEZ regime, incentives and developer model. It lists the following as key factors for consideration for SEZ organizational setup.</p> <ul style="list-style-type: none"> • Alignment to national vision • Robust economic rationale • Selection of SEZ model that is aligned to policy objectives • Formulation of SEZs working groups • Consideration of investor requirements (sector selection) • Provision of investment promotion agencies or ‘one-stop-shops’ • Targeted incentive frameworks 	

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p>The report further explains the SEZ business model and highlights them as follows:</p> <p>“Public model: The project ownership is under public governance and the participation from private actors is limited to - utility restructuring, corporatisation and decentralisation; and civil works and service contracts. Accounts for 42% SEZ in Africa</p> <p>Private model: The private sector is responsible for the design, construction and operation of the infrastructure facility. Accounts for 28% SEZ in Africa</p> <p>PPP model: The terms of a PPP are typically set out in a contract or agreement that outlines responsibilities of the stakeholders, allocate risk and assign tasks. PPPs take a wide range of forms depending on the extent of involvement and risk taken by the private partner. Accounts for 30% SEZ in Africa “²</p> <p>On key stakeholders and their roles, the report states:</p> <p>The government which sets the overall economic development goals, adopts underlying industrial policies and implements including establishment of SEZs.</p> <p>SEZ Authority is responsible for conducting strategic planning and initial SEZ feasibility studies assessment. It is also tasked with registration and licencing of SEZ development/operator.</p> <p>Zone developer is responsible for the creation of the final land use master plan. A zone developer could be governmental, private or a combination of both.</p> <p>Zone manager/Operator is responsible for the on-going operations of the site. Tenants pay a service charge to operator, which is also responsible for marketing new opportunities for the zone.</p> <p>Zone Regulator is responsible for facilitating government services and for monitoring compliance. The regulator acts as a body of oversight and aims to avoid conflicts of interest between the stakeholders mentioned above.</p> <p>Tax and customs authorities administer special fiscal regimes applicable in zones and undertake on-site inspections in relation to goods entering and leaving the zones.</p> <p>Investment promotion agencies may assist in attracting new investors to the zones, preparing ready-made investment packages, sharing information on new developments in SEZ policies and building an investor-friendly image of the country abroad.</p>	
2.Special Economic	This is a World Bank report and of key interest are two chapters Chapter six by Naoko Koyama	This report gives an outline of RTA and

² Africa Free Zone Organization, 2020, African Economic Zones Outlook

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
<p>Zones Progress Emerging Challenges and Future Directions in Development</p>	<p>Chapter 6 addresses: SEZs in the Context of Regional Integration: Creating Synergies for Trade and Investment. The author states that when SEZ and Regional Trade Agreements (RTA) initiatives exist simultaneously, they have the potential to generate significant synergies. This includes lowering barriers to regional trade and facilitating the potential for realizing scale economies in regional production, RTAs stimulate investment by both domestic and foreign firms while SEZs lower the cost and risk to firms in undertaking such investments. The author further clarifies that intraregional trade growth catalyzes creation of opportunities for specialized zones, like logistics or cross-border trade. The author identifies a major challenge for the synergy of RTA and SEZ and states:</p> <p>That the RTA face the challenge of incorporating SEZs into their regulatory frameworks because RTAs represent bilateral or multilateral instruments, while SEZs are, in most cases are policy instruments for an individual country which has the potentially of being in competition with the RTA's partners states and might create the challenge of tariff-jumping. The author states that to avoid leakages that can be catastrophic to RTA it is necessary for the RTA to harmonize their SEZ programmes.</p> <p>“The issues arising from the coexistence of RTAs and SEZs relate to trade triangulation, competitiveness of local producers, promotion of regional economic integration, and competitive positioning.... Consequently, this may necessitate a reform of SEZ programs member countries to prevent a large loss of investment. Furthermore, excluding SEZ investors from taking advantage of the RTA prevents member countries from realizing the full potential of these two trade and investment- generating instruments and achieving effective regional integration. To leverage fully both of these policy tools, RTA member countries need to take a collaborative approach to harmonize their SEZ programs.”³</p> <p>In order to solve this challenge of coexistence of RTA and SEZ, most RTA develop measures that are restrictive to the products manufactured in SEZ by either establishing a special rule on the products originating from SEZs of RTA member countries or by applying rule of origin that basically is restrictive based on the fact that most of SEZ-manufactured products often have a high import ratio and thus fail in meeting the rules-of-origin requirement.</p> <p>The report further states that “In practice, few RTAs have made efforts toward harmonization of SEZ programs among mem- ber countries, although some discussions and</p>	<p>SEZ and how they complement and also compete against each other.</p> <p>The major challenges that SEZ faces in RTA and how these challenges can be faced.</p> <p>The report further proposes harmonization of SEZ approach and RTA frameworks.</p> <p>The report further singles out EAC as an RTA that has made significant steps towards harmonizing the frameworks for mutual co-existence of SEZ and RTA.</p>

³ Farole, T., & Akinci, G. (2011). In Special economic zones: progress, emerging challenges, and future directions (pp. 127–155). essay, World Bank.

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p>initiatives have been launched, for example, by EAC and COMESA.”</p> <p>The report further recommends that there is need for harmonizing regulations; taking collective action to lower or remove financial incentives (e.g. general investment incentives); establishing strategic frameworks as a region, such as the following:</p> <ul style="list-style-type: none"> • Joint marketing of region as investment destination • Creation of industrial linkages among SEZs in RTA; and • Specialization of SEZs based on comparative advantage relative to other members in RTA <p>The report gives example of EAC as an RTA that has made efforts towards harmonization of the regulatory frameworks and states:</p> <p>“Harmonization of export processing zones programs in EAC. As a rare example, the EAC customs union formed an extensive annex to establish a common regulatory framework on EPZ in the member countries. As Article 2 of the regulations state, they were created to ensure that the process regarding EPZ is “transparent, accountable, fair and predictable.” They first define the terminologies related to EPZs, including “EPZ” itself, “export,” and “duties and taxes,” so that these words are used consistently by all member countries. They also set out permitted activities in EPZs, define the establishment and function of competent authorities, stipulate how EPZ-processed goods are treated when entering into the territory, and identify how complaints are to be resolved.</p> <p>The Investment Climate Advisory Services (CIC) of the World Bank Group is engaged by a multi-donor facility to work with EAC to promote its regional trade in the region, and part of its work covers the advisory for SEZ programs. As of April 2009, CIC’s global SEZ team assessed the current SEZ programs in the region and made preliminary recommendations on harmonization to the EAC and host governments. In terms of spatial mapping, most of the region’s zones are located close to the major transport corridors. Given the considerable upgrading of these infrastructure networks that facilitates smooth and cost-effective transport among SEZs, the CIC team suggested that the EAC countries consider developing regional linkages, because current manufacturers in SEZs have limited transactions among them and their capacity for specialization is limited. Other recommendations include jointly marketing SEZs or priority sectors such as ICT considering the importance of sectors for all member countries as well as the small size and resources of each country. These are preliminary recommendations, and EAC member countries have not yet taken any significant steps to implement them. Yet, these countries have made first steps to unify the regulatory frame- work and establish</p>	

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC										
	<p>competent authorities that will have similar powers across member countries. How effectively the EAC member states build on this common ground and integrate their SEZ program is likely to play an important role in their ability to take full advantage of the customs union and transport facilities to achieve greater regional integration, more effective trade and investment, and, ultimately, more rapid and sustainable growth.”⁴</p>											
<p>3. World Investment Report 2019: Special Economic Zones</p>	<p>This report defines Special economic zones (SEZs) as geographically delimited areas within which governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support. The report further points out that the performance of many zones are below the expectations, since many fail to attract significant investment or they do not generate economic impact beyond the zones, yet new zones continue to be developed. The report gives a figure of status of SEZ</p> <div data-bbox="438 891 1125 1232" data-label="Figure"> <p>Figure IV.2. Level of utilization of SEZs according to national investment promotion agencies (Percentage of survey respondents)</p> <table border="1"> <thead> <tr> <th>Level of Utilization</th> <th>Percentage of Survey Respondents</th> </tr> </thead> <tbody> <tr> <td>SEZs are fully utilized/occupied and there is room for expansion/new SEZs</td> <td>13</td> </tr> <tr> <td>SEZs are sufficiently utilized/occupied</td> <td>22</td> </tr> <tr> <td>SEZs are somewhat underutilized/vacant</td> <td>22</td> </tr> <tr> <td>SEZs are heavily underutilized/largely vacant</td> <td>22</td> </tr> </tbody> </table> <p>Source: UNCTAD Investment Promotion Agencies Survey. Note: The survey was conducted from February to April 2019. Results are based on information from 114 respondents.</p> </div> <p>The report gives the following policy advice as key dimensions for the success of SEZ:</p> <p>Strategic focus. SEZs are not only an investment promotion tool, but first and foremost an industrial policy tool. There is need to cluster by sectors rather than employing multi-activity approach with no active efforts to promote specialization or clustering.</p> <p>Regulatory framework and governance. SEZs, structuring should be a public initiative through the legal frameworks while the development, ownership and management of individual zones can be modeled as public, private or a public-private partnership (PPP).</p> <p>Value proposition. SEZ legal frameworks must clearly define the package of benefits for investors in zones, both fiscal and non-fiscal incentives</p>	Level of Utilization	Percentage of Survey Respondents	SEZs are fully utilized/occupied and there is room for expansion/new SEZs	13	SEZs are sufficiently utilized/occupied	22	SEZs are somewhat underutilized/vacant	22	SEZs are heavily underutilized/largely vacant	22	<p>The definition is consistent with the definition of SEZ in the EAC.</p> <p>It actual reveals that even though there are efforts in the right direction but still there hasn't been much progress in institutionalization of SEZ with 47 SEZ being vacant or not being fully occupied</p> <p>It gives solid policy advice on strategic focus; regulatory framework and governance and value proposition.</p>
Level of Utilization	Percentage of Survey Respondents											
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<p>4. Special Economic Zones in Africa:</p>	<p>This report defines SEZ as spatially delimited areas within an economy that function with administrative, regulatory,</p>	<p>The definition is consistent with the</p>										

⁴ Farole, T., & Akinci, G. (2011). In Special economic zones: progress, emerging challenges, and future directions (pp. 127–155). essay, World Bank.

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<p>Comparing Performance and Learning from Global Experience</p>	<p>and often fiscal regimes that are different (typically more liberal) than those of the domestic economy.</p> <p>The report further clarifies that SEZ operates in a variety of different forms: export processing zones, economic processing zones, free zones, and foreign trade zones. It postulates that SEZs purpose is to overcome barriers that hinder investment in the wider economy, which includes:</p> <ul style="list-style-type: none"> • Restrictive policies, • Poor governance, • Inadequate infrastructure; and • Problematic access to land. <p>It further points out that SEZ is policy instrument that the government uses to spur economic growth by attracting foreign investment, promote export-oriented growth, and generate employment.</p> <p>The report further assess how SEZs are facilitating spillovers of knowledge and technology to the local economy and points out that product market links between SEZ firms and firms in the domestic economy as critical variable. The report points out that those links can either be forward or backward. It extrapolates that forward linkages are often limited by zone regulations. The report gives example of Kenya and points out that Kenya SEZ sources its input largely from local domestic market.</p> <p>Table 3.7 Share of Materials Inputs in Each Sector Sourced from the Domestic Market</p> <table border="1" data-bbox="427 1249 1129 1568"> <thead> <tr> <th></th> <th>Garments</th> <th>Food/ agriprocessing</th> <th>Other manufacturing</th> <th>Services</th> <th>TOTAL (mean)</th> </tr> </thead> <tbody> <tr> <td>Bangladesh</td> <td>17%</td> <td>—</td> <td>17%</td> <td>30%</td> <td>18%</td> </tr> <tr> <td>Dominican Republic</td> <td>16%</td> <td>—</td> <td>17%</td> <td>19%</td> <td>17%</td> </tr> <tr> <td>Honduras</td> <td>44%</td> <td>—</td> <td>9%</td> <td>43%</td> <td>37%</td> </tr> <tr> <td>Vietnam</td> <td>16%</td> <td>58%</td> <td>24%</td> <td>—</td> <td>23%</td> </tr> <tr> <td>Ghana</td> <td>5%</td> <td>60%</td> <td>15%</td> <td>—</td> <td>40%</td> </tr> <tr> <td>Kenya</td> <td>17%</td> <td>84%</td> <td>34%</td> <td>41%</td> <td>34%</td> </tr> <tr> <td>Lesotho</td> <td>9%</td> <td>35%</td> <td>25%</td> <td>18%</td> <td>14%</td> </tr> <tr> <td>Nigeria</td> <td>—</td> <td>—</td> <td>29%</td> <td>—</td> <td>29%</td> </tr> <tr> <td>Senegal</td> <td>20%</td> <td>27%</td> <td>43%</td> <td>—</td> <td>41%</td> </tr> <tr> <td>Tanzania</td> <td>—</td> <td>55%</td> <td>26%</td> <td>—</td> <td>33%</td> </tr> </tbody> </table> <p>Source: SEZ investor surveys.</p> <p>The report further assesses the labour equation at the SEZ and reports:</p> <p>“In general, the African zones appear to rely somewhat more heavily on foreign management than the non-African zones—one-third of managers in the surveyed firms in Kenya were foreign, as were one-quarter in Lesotho.”⁵</p> <p>The report further explains how investment climate is critical to SEZ and points out that SEZs are designed to overcome</p>		Garments	Food/ agriprocessing	Other manufacturing	Services	TOTAL (mean)	Bangladesh	17%	—	17%	30%	18%	Dominican Republic	16%	—	17%	19%	17%	Honduras	44%	—	9%	43%	37%	Vietnam	16%	58%	24%	—	23%	Ghana	5%	60%	15%	—	40%	Kenya	17%	84%	34%	41%	34%	Lesotho	9%	35%	25%	18%	14%	Nigeria	—	—	29%	—	29%	Senegal	20%	27%	43%	—	41%	Tanzania	—	55%	26%	—	33%	<p>definition of SEZ in the EAC.</p> <p>The report has many cases example that EAC can draw learning experiences.</p> <p>The report also extrapolates the salience role of RTA in addressing some of the challenges of SEZ.</p>
	Garments	Food/ agriprocessing	Other manufacturing	Services	TOTAL (mean)																																																															
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⁵ Farole, T. (2011). *Special economic zones in Africa: comparing performance and learning from global experiences*. World Bank.

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p>serviced land and infrastructure constraints and provides investors with access to long-term leases, prebuilt factory shells, and reliable utilities (electricity, water, and telecommunications). The report further points out that SEZs requires an improved administrative environment, that ease registration and licencing of business, obtaining of visas and work permits, and access key services, such as utilities and construction and thus the importance of having a “one-stop” services, under the SEZ authority. The report also points out that the fiscal incentives as critical to SEZ development and highlights the following variables as critical for consideration for SEZ investment</p> <ul style="list-style-type: none"> • Cost and quality of utilities • Access to transport infrastructure • Business regulatory environment • Tariffs, duties, and rules of origin • Level of corporate taxes • Access to highly skilled labour • Access to suppliers • Access to low-cost labour • Availability/cost of land and buildings • Access to local and regional markets • Access to technology <p>The report further explains the salience role of national policy and sums up as follows:</p> <ul style="list-style-type: none"> • Consistent political leadership at the highest levels is critical to the success of SEZ programs: Example of East Asia wherein political leadership was critical in SEZ development • Institutionally and strategically, successful zone programs have been an integrated component of a long-term national growth (trade and Industry) policy framework. Thus, the policy instruments must be flexible enough to adjust to the evolving needs of the country. • Predictability and transparency in the government’s support for the SEZ program, in the strategic intent for zones, and in the broad approach to the program are critical to attracting high-quality long-term investors. But within the broadly predictable policy environment, successful zone pro- grams ensure some flexibility and seek to experiment with alternative policies. Pragmatism and flexibility are the most commonly cited features in countries where zone programs have been successful. • A critical foundation for SEZ programs is thorough strategic planning based on a rigorous assessment of demand. Development of an individual zone should be guided by the market demand study for location, investment phasing, and marketing and promotion. • Successful zone programs focus on activities that align well with their comparative advantage and develop clear sources of competitive differentiation. • Targeted zone strategies are most effective; this requires some sector and market focus, as well as a limit on the 	

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p>number of objectives a program seeks to achieve.</p> <ul style="list-style-type: none"> • Despite the need for focus, zone programs that become overly reliant on a single product or market are vulnerable to changing global economic circumstances and evolving competitiveness. • The SEZ law and accompanying regulations are the critical foundation for any zone program. They must be comprehensive and transparent, with unambiguous ground rules established for all actors. While this may not be sufficient to guarantee success, the absence of good laws and regulations almost inevitably leads to failure. • While SEZ law and regulations should provide a clear and detailed framework, it must be flexible enough to meet local requirements and to evolve to meet changing policy needs. • The legal framework should avoid creating institutional conflict through overlapping regimes, responsibilities, and accountabilities. • Fiscal incentives may play a role in attracting investment in the short term, particularly in new zone programs, but they do not have a positive effect on the long-term success of zones. • Successful zone programs are moving increasingly toward removing fiscal incentives and toward integration of zone tax regimes with those of the national economy. They are implementing alternatives to fiscal incentives, such as (1) a greater focus on service delivery in the zones; (2) the development of nonfiscal incentives; and (3) shifting the scope and targeting of fiscal incentives. • Getting rid of fiscal incentives presents a problem of collective action; institutions of regional integration may offer an effective avenue through which to address this problem. <p><i>The lack of collective action is apparent in practice. Tanzania is unlikely to launch a zone program with no tax holidays when all its neighbours are offering them. And unless a country is forced by WTO or has been successful enough in its development (e.g., China and Vietnam), it is unlikely to make a unilateral decision to abandon fiscal incentives. The regional agenda offers a potential venue to address this collective action problem. First, it is at the intraregional (and, in cases of large federal states like Brazil, Nigeria, and the United States, the intranational) level that the most wasteful incentive-based bidding wars for investors tend to take place. But these investors generally look to incentives only after they have decided what region to invest in, so the regional level may be the most efficient point at which to control incentive-based spending. Second, the harmonization of regional trade and investment conditions offers the opportunity to establish a common framework for the provision of fiscal incentives. For example, in the case of NAFTA, Mexico was obliged to shift incentives in its maquiladora program away from those linked directly to exports to those based on other</i></p>	

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<p><i>types of performance, such as investment level or employment generation. The European Union's trade and investment framework has strict rules for the use of fiscal incentives to attract investment, particularly when the funding for subsidies derives from EU sources, such as Cohesion Funds.</i>⁶</p> <ul style="list-style-type: none"> • SEZ models have a significant advantage over traditional EPZ models in facilitating improved links. The report points out that traditional zone programs like EPZ were structured around labour-intensive assembly designed to exploit trade preferences but failed in achieving integration between the zones and the domestic economy which actually disincentive purchasing input locally. The report further states that EPZ model was biased against participation of local firms due to tight restrictions on sales to the local market, thus export-oriented. In some cases, like Tanzania and Senegal a quota of investment of at least US\$100,000 to qualify as EPZ making it difficult for local firms. The spillovers from EPZ not easy to achieve due to the tight restrictions. It further points out that the SEZ regimes that do not place any restrictions on local ownership or require export-orientation are amenable to integration of the zones. The report recommends that maximizing the spillovers from FDI is through forward and backward linkages and states that can be achieved by removal of policy and administrative barriers to local market integration. It further points out that the restriction on sales in the local market as a major constraint to forward and backward linkages. It also states that restrictive regional trade agreement diminishes forward linkages through regional markets and gives example of ECOWAS that excludes products produced in free zones from the free trade arrangements. The report further states that the backward linkages that are critical in the growth of local economy by leveraging on FDI are also constraint by restrictive policies that denies local firms from benefiting from transfer of knowledge; leveraging on FDI to address the financing constraints faced by local small medium enterprises (SMEs). The report further gives example of Ghana and how it has made efforts on salvaging the forward and backward linkages through: <ul style="list-style-type: none"> • <i>Sales of goods and services by a domestic enterprise from the national customs territory to enterprises in a free zone or single factory zone are considered exports, which gives local suppliers benefits as indirect exporters.</i> • <i>A domestic enterprise is eligible to benefit from the export incentives available to a national exporter and does not require an export license for the sale of any goods and services to enterprises in a free zone or single factory zone.</i> • <i>An enterprise in a free zone or single factory</i> 	

⁶ Farole, T. (2011). *Special economic zones in Africa: comparing performance and learning from global experiences*. World Bank.

Report	Summary of the Literature Review	Remarks vis-à-vis SEZ in the EAC
	<i>zone may purchase goods and services sold by a domestic enterprise with local currency obtained through conversion of foreign currency through a bank or a licensed foreign exchange bureau.</i> ⁷	

Source: JICA Study Team

⁷ Farole, T. (2011). *Special economic zones in Africa: comparing performance and learning from global experiences*. World Bank.

Annex 2 Legal Framework

1. Kenya

(i) SPECIAL ECONOMIC ZONES ACT IN KENYA

This Act outlines the main functions of SEZA which are to:

- Make recommendations to the Cabinet Secretary on all aspects of designation, approval, establishment, operation and regulation of special economic zones;
- Implement the policies and programmes of the Government.
- Identify, map and, where necessary, procure or avail to developers and operators the areas of land to be, or which have been, designated as special economic zones.
- Determine investment criteria including investment threshold.

The Cabinet Secretary in consultation with the Authority is responsible for declaring any area as a Special Economic Zone. For a company to be allowed to operate in an SEZ; it has to be incorporated in Kenya, have the financial capacity, technical and managerial expertise, and associated track record of relevant development or operational projects, own or lease land or premises within the special economic zone.

The procedure to obtain Licence involves;

- Filling a prescribed form to the Authority for an appropriate licence or for a renewal of the licence.
- On receiving an application for licence, the Authority, may issue the license after payment of the prescribed fee and recommendation of the Commissioner of Customs.
- Evaluation of the applicant's specific engineering and financial plans, financial viability, and environmental and social impact towards the SEZ is done by the authority.
- The Authority within one month shall document its decision on whether to issue the operational license or not.

Under this Act, an SEZ operator enjoys the following exemptions on investment incentives:

- Stamp duty on the execution of any instrument relating to the business activities of special economic zone.
- The provisions of the Foreign Investments and Protection Act relating to certificate for approved enterprise.
- The payment of advertisement fees and business service permit fees.
- General liquor licence and hotel liquor licence.
- Manufacturing licence.
- Licence to trade in unwrought precious metals.
- Filming licence.
- Rent or tenancy controls.

(ii) SPECIAL ECONOMIC ZONES REGULATIONS 2016 IN KENYA

Under these regulations, the following key points were elaborated:

- Administration of Special Economic Zones (SEZ) and institution

The authority allows any form of investment within SEZ provided that it does not infringe any public interest. Monitoring and evaluation of any business activity is done by the authority to ensure compliance with the Act and regulations.

The authority delegates some of the responsibility for the provision of non-regulatory functions to the SEZ developer, operator and private sectors.

- Designation and gazetting of special economic zones

The cabinet secretary has the mandate to review the proposal and the recommendation made by the authority to designate an area and he/she determines the type of zones whether it is public or private.

Notably, the cabinet secretary can revoke designation of an SEZ when the authority presents the evidence.

- Licensing of Special Economic Zone

For the development of special economic zones, the authority selects and concludes an agreement with SEZ developer to operate in special economic zone.

After review of the license application, the authority issues a licence to developers and operators to conduct business activities as per the agreement.

- Licensing of Special Economic Zone enterprises

The authority has an electronic system used for registration process. Later it evaluates the application for SEZ licence by ensuring all the technical requirements, policy requirements and environmental protection requirements are met.

- One-stop shop.

To facilitate performance of all the functions, powers and responsibilities assigned to the authority, a one stop shop is located in every SEZ and reports to the headquarters.

- Investment Rules

The Authority and all government entities offer equal treatment to both foreign nationals and local nationals with respect to all business activities.

One of the obligations accorded to an SEZ developer is that they can lease or sell land within the SEZ only after consultation with the authority. For implementation of the regulations, a service level agreement is used which involves cooperation agreements between authority and all government entities.

2. Rwanda

(i) Special Economic Zones of Rwanda Law (2011)

This law elaborates on how to regulate the establishment, development, operation and maintenance of special economic zones in Rwanda.

Establishment of a Zone: An SEZ zone should be within the master plan as well as in a land dedicated for development activities and within an environment for the promotion of all types of economic development.

Management of a Zone: The zones are managed and regulated by Special Economic Zone Authority of Rwanda (SEZAR) which is responsible for coordinating activities, designing and supervision of a zone.

Licensing: SEZAR has the authority to be addressed to or grant an application for a license to develop and operate a zone. The licence indicates the type of project and the period of implementation.

For a developer license, one has to provide information such as business registration certificate, all land lease documents, a feasibility study and business and financial plan covering the development of the proposed Zone, detailed description of the applicant's activities within or outside Rwanda, detailed description of the infrastructure to be developed in the site, and payment of a non-refundable application fee.

For an operator license, one must provide same information as for developer license with an addition with a copy of the agreement entered with a zone developer.

For a zone user license, one must be an individual or legal entity with business registration certificate issued in Rwanda.

The zone developer, operator and user have a responsibility to comply with the modalities for protection, conservation and promotion of environment. SEZAR has the power to sanction any developer or operator of a zone who violates regulations governing the zone and the agreement signed.

(ii) Revised SEZ Policy by Ministry of Trade and Industry in Rwanda

The Rwandan SEZ policy which was adopted in 2010 needed certain changes and clarifications in 2013 as a result of need for expansion of the existing SEZ territory. Some of the changes were under the following categories:

Scope of zones and eligibility criteria: Under this revised policy all zones were to receive equal measure of incentives regardless of their location. Noteworthy is that performance incentives were introduced for zone operators to maximise economic value of Zones.

Zone Authority: The zones managing authority, SEZAR, was to remain as a unit in RDB unlike in the 2010 policy which was a unit in MINICOM but with same adequate administrative powers, funding and staffing.

In order to reduce the processes that SEZ users undergo to obtain licences and incentives, SEZAR was to set out Memorandum of Understanding (MOUs) with all relevant Government of Rwanda stakeholders. It is also the responsibility of SEZAR, MINICOM, and RDB to collaborate and ensure that the new locations are identified and the cities are set up for other SEZ zones.

(iii) New Investment Law (Law no. 006/2021)

This Law was crafted as a means to promote and facilitate investments in Rwanda by allowing private investment regardless of the origin but with priority to economic sectors such as export, manufacturing, energy, transport sector. The focus is on strategic investment projects which are of national importance by having strategic impact on the development of the country. A foreign investor is also allowed to invest and purchase shares in an investment entity in Rwanda and is given equal treatment with Rwandan investors with regard to investment incentives and investment facilitation.

The investor is also offered protection on; Investment, interest in or right over investment properties and cannot be seized or confiscated, except where there is a breach of law.

This law further outlines that upon completion of the application for registration, the board registers investment and issues an investment certificate to the registered investor within 2 days from the date of receipt of the application. The certificate is valid for a period of 5 years and thereafter it can be renewed by sending a renewal application to the Board then later the board communicates its acceptance or rejection within two days. A certificate can be cancelled under the following conditions; if it was issued on the basis of false or fraudulent declarations of the holder, if there occur material changes detrimental to investment occurred in investment operations, if the registered investor fails to fulfil his or her obligations provided for by this Law. An investor can appeal against cancellation of the certificate to the Head of Board within 10 days after the notification and the head decides on the appeal within 10 working days.

An investor has various obligations such as; to implement his or her proposal in accordance with the business plan submitted in the application file for registration of investment, to keep financial and accounting records of the investment enterprise and submit a copy of a financial report to the board, to keep data relating to operations of the investment entity, facilitate employees of the Board in the performance of their monitoring duties, respond in a period prescribed by written notice to query from the Board in connection with operations of the investment entity and lastly, to register with the Tax Administration and file tax returns even in case of entitlement to tax exemptions.

Under this new investment law investor incentives were as follows:

- Incentive relief from preferential withholding tax, corporate income tax, corporate income tax holiday of up to 5 years.
- Preferential tax incentives for a philanthropic investor.
- Incentives for specialized innovation park developers and specialized industrial park developers such as exemption from property tax and payment of land transfer fees.
- Value added tax refund.
- Talent attraction incentives. Foreigners start up and innovative entrepreneurs are eligible for a 2-year entrepreneurship visa.
- Accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets.
- Exemption from customs taxes and duties for products used in export processing zones
- Incentives for internationalization such as overseas marketing and public relation activities, participant in overseas fair-trading, and overseas business development cost.
- Incentives for the mining sector where they are entitled to carry forward losses for 10 years from first year of making losses.

Immigration incentives of recruiting 3 foreign employees without demonstrating their skills are lacking or insufficient on the labour market in Rwanda.

3 South Sudan

(i) Diagnostic Trade Integration Study (DTIS) In South Sudan

This report was prepared by the Government of the Republic of South Sudan (GRSS) with the support of the United Nations Development Programme (UNDP) with the help of the Enhanced

Integrated Framework (EIF) for Trade-related Technical Assistance for Least Developed Countries (LDCs) in the month of September 2013 involving majorly the analytical work. On the spotlight is that the government had faced challenges of; asserting its authority over rebel areas and restarting normal activities with the need to demonstrate to both local and foreign investors that the country again is a safe place to do the business.

War changed many activities like the analysis and position of the current outlook on oil production and status of wells, external indebtedness, sectoral allocations and credit rating of the country. Therefore, the traditional objective of the DTIS was to focus on integration of trade into development policies by using various strategies such as identifying sustainable sources of income for large groups of population lacking adequate skills, re-launching agricultural value chain, using trade policy as a tool of unification, and improving linkages and upgrading infrastructure and connectivity between states. Further aspects of trade within South Sudan were elaborated under the following disciplines:

- Trade policy

The structure and value of trade in South Sudan shows that; there is unavailability of accurate collection of trade data due to underdeveloped state of South Sudan's custom arrangements. Noteworthy, is that the extra-African sources of imports dominate (with china and USA taking almost 50% of total imports) and the informal trade is difficult to quantify.

However, major review of policies has been undertaken to ensure that they contribute to South Sudan's development activities. The major issue is addressing the existing distortions whereby the current tariff structure favours primary agricultural activities over manufacturing and activities with a higher degree of process. One way to address these issues is through participation in negotiates trade agreements and the other is to pursue trade liberalisation on a Most Favoured Nation (MFN) basis.

- Trade facilitation

When it comes to trade facilitation, the new Customs Act (2014) addresses the poor customs administration that hampers revenue collection and thus the expansion of the revenue base away from oil provides a set of binding obligations on customs operation. The Act provides, for instance, for the use of the Harmonised System without which the valuation of cargo and exemptions are subjective and discretionary.

On matters of infrastructure and linkages, most of the existing transportation networks along river Nile which supports job creation and revenue collection had been partially destroyed by the closing of the border and key river ports of Juba are in poor condition and need to be rehabilitated. As a result of this, the cost of ferrying cargo to South Sudan from Mombasa is so expensive since it has to pass through Kenya and Uganda.

- Institutional Capacity Development

One of the findings were that there was need to establishing a new statutory trade body or economic development board which would be used in implementing trade policy, linking trade and investment, incentivising skilled staff and enabling them to collaborate.

- Business environment and cross-cutting issues

The government plans to introduce Alternative dispute resolution (ADR) mechanism to address current deficiencies in the formal court which will allow commercial disputes to be resolved efficiently and quickly and also increase security and confidence of local and international firms.

Labour, Finance and credit, electricity and ICT are the major factors that are underdeveloped in South Sudan and thus there exists the need for improvement in these sectors in order to facilitate development growth.

In order to have a conducive business environment, the government should be tasked to clarify the roles of national, state, and local governments so as to address overlapping responsibilities and mandates with respect to taxation, land tenure, access to utility services and dispute settlement.

Special Economic Zones are currently under construction with the aim of attracting domestic and foreign investment to the state as well as public private partnerships.

- Sectoral studies

It comprises of four sectors; agriculture, mining, tourism and energy. DTIS has identified agricultural sector as the first priority that the government should focus on to invigorate agricultural capacity and rehabilitate all the active and passive actors along the identified value chains.

The current decline in energy sector can be changed by increasing the recovery from producing fields given average recovery rate of 22% which is far below international standards and to promote the development of unexplored basin.

For mining it is a favourable development due to high potential of finding new mines. Its regulations are being developed currently and the proposed rates for applying and holding ground for exploration is high compared to other countries.

The government's plan to establish a new parastatal agency for implementation of the policy guidelines provided by tourism policy draft of 2012 will be of great benefit to the country as it strengthens the linkages between national governments, states and community involvement.

- Poverty Reduction strategies

A poverty reduction strategy based on enterprise development and trade could have a considerable impact on poverty reduction. It should comprise three elements: developing cooperatives and producer associations, capacity building to support enterprise development and forging business linkages between SMEs and larger firms.

(ii) Strategic Policy Framework South Sudan 2012-2014

The ministry of commerce, industry and investment was developed with the purpose to; facilitate internal and external trade, Industrial development, maintaining standards, Private sector development, and Investment promotion.

This report shows the strategic plan of the Ministry of commerce, industry and investment of South Sudan. It shows its goals and objectives which helps to strengthen the ministry thus having a positive impact on all dimensions of the sectors in the economic pillar in the South Sudan Development Plan (SSDP).

The strategic plan involves various objectives;

-
- Development of institutional capacity for quality service delivery

The ministry would ensure delivery of quality service to its stakeholders by catalysing both commercial and industrial developments. It would also ensure development and growth of enterprises. This is through various strategies such as reviewing the ministry's organizational structure for better service, hiring a consultant to develop and implement human resources, good financial management, improving work environment, establishing a sound system for policy making.

- Enhance linkage and collaboration mechanism with stakeholders

The Ministry would ensure a good and wide connections with various stakeholders or enterprises in order to improve the economic status. This is through strategies such as creating effective coordination mechanism, establishing effective system with states, establishing effective communication with domestic and foreign trade, investment and promotion agencies, and to publicize the ministry's activities to widen ministries image.

- Create an enabling environment for businesses

The Ministry plans to create a conducive environment to the business people in order to enhance growth of businesses through identifying the gaps available in the business environment and provision of the inadequate resources for a conducive business environment such as good infrastructure, good governance and security and financial aid.

- Promote private sector development through MSMEs

Private sectors play a major role in enhancing the development of economy in a country. The ministry should focus on various strategies which promotes conducive environments for the private sectors to operate. This is by ensuring that constraints are identified and resolved, policies are put in place, provision of financial aids, revival of non-functioning factories and projects, increase of markets.

- Develop an export base and facilitate internal and external trade

In South Sudan the exportation is weak since the main export commodity is oil and thus the Ministry plans to broaden and deepen the export base, facilitate both internal and external trade, negotiation of the beneficial trade agreements, and enhancing export promotion of the country's goods and services.

4 Tanzania

5 Uganda

(i) Free Zones and Logistics Industry in Uganda

A physical set up of a free zone should have pre-built factory units, warehouses and storage facilities, office space, road and rail infrastructure, parking yard, administration block, police post area, perimeter wall or fence, commercial centre with social facilities and amenities.

The various logistics services in a Free Zone include;

- Freight Management such as Air / Sea Freight services from all destinations, Customs clearing Import, Inland transport to the Free Zone
- Dry and Cold Warehousing such as Online stock tracking of goods, Value Added

services, Inland transport towards customer

- Stock control
- Procurement

Rationale for Free Zones. Government have adopted Free Zones as a complementary economic development tool with static and dynamic benefits such as accelerate export-oriented manufacturing, boost investment, create employment, increase forex earnings, economic growth, enhance technology and skills transfer.

The benefits of free zones to the private sector;

- Fiscal and non-fiscal incentives
- Economies of scale resulting from a centralized business structure with access to many clients
- Cluster anchoring which ultimately reduces the cost of doing business
- Enhanced Technology Uptake and related efficiency gains
- Logistical flexibility- Goods may be transferred from the Port of entry directly to the Free Zone and Customs clearance done on site
- Business facilitation and dedicated aftercare services in the acquisition of secondary licences, permits and approvals from other Government Ministries, Departments & Agencies;
- Free Zones create the necessary traffic for Ports – Large volume of manufacturing activities that require logistics services; and Serviced physical infrastructure facilities within the Zones (Public Zones)

Procedure to set up a logistic company in a Free zone

- Register your company in accordance with the Free Zones Act
- Apply to UFZA by attaching the business plan
- Obtain the requisite License
- Commence operations within 12 months

(ii) National Investment Policy in Uganda

The government of Uganda plans to become an upper middle-income country by 2040 with a GDP per capita of USD 9,500. Vision 2040 building blocks consist of nine opportunities and 7 fundamentals that require a strategic public investment which will in turn attract private investment.

The government of Uganda has been pursuing the private sector-led economic development strategy for its socioeconomic transformation and it is anchored around four broad economic policies; economic liberalisation, economic diversification, economic industrialisation and economic integration.

The government previous efforts to address challenges in the investment sector lead to development of related policies, laws and institutional reforms that brought significant investment outcomes. The achievements brought a changed economic environment which gave rise to a reversal and sharp decline in the share of investment in the GDP.

The National Investment Policy (2018) 2018 was therefore developed as a direct and proactive response to this changed economic context and unfavourable trend of investment outcomes by speeding up investment growth and diversification for socioeconomic transformation marked by a steady increase in the share of investment in GDP from 23% in FY 2017 to 30% by 2030 and 40% by 2040 amongst other targets.

NIP 2018 objectives and strategies compose of a set of guiding principles namely, policy coherence and complementarity, return on investment, risk management, balanced rights and obligations, right to regulate: equity and fairness, and sustainable development. The primary reference frameworks to guide prioritization of sectors and industry value chains for investment will be Vision 2040, the National Industrial Development Policy 2018, the National Industrial Master Plan and the NDP revision cycles.

The NIP 2018 provides for the management of the investment function through a whole-of-government approach and its implementation is through a five-tier institutional arrangement; policy oversight by Cabinet, regulatory oversight and dispute resolution by Parliament, the Judiciary and regulatory authorities, policy implementation by Ministries, Departments and Agencies (MDAs) together with Local Governments (LGs), policy advocacy and research by relevant MDAs, academia, Developments Partners and Civil Society, and institutional capacity development by all stakeholders to provide for technical and financial support to MDAs and the private sector.

The performance of the NIP will be assessed at two levels; its development impact and its strategic achievements. At the level of development impact, three specific policy outcomes will be monitored: employment, export performance (growth and diversification), and structural transformation. At the level of strategic achievements, the seven policy strategies will each be monitored using specific Key Performance Indicators (KPIs) to assess the extent to which this policy's strategic objectives are being delivered.

(iii) Negotiating the Free Trade Zones in a Developing Economy: Policy Directions for Uganda.

Free Trade Zones (FTZ) in Uganda was established to boost export through encouraging productivity and value addition. The Uganda Free Zone act of 2014 was developed to provide guidance on the creation and management of Free Trade Zones, this led to institution of Uganda Free Zones Authority (UFZA) and Free Zones Regulations No.68 of 2016. UFZA was operational in September 2014 with the ability to sue and be sued in its own name under the supervision of the Ministry of Finance, Planning and Economic Development and also responsible for establishment, development, management, marketing, supervision and control of free zones and to provide for other related matters.

A free zone may be established by one or more domestic or foreign developers. A Free Zones Regulation No.68 of 2016 declaration of the FTZ involved two scenarios by;

- A land or building is declared by the Minister based on recommendation of the authority or by statutory instrument
- A person wishing to operate under FTZ may apply to the Minister to have a particular land or building as a Free zone.

UFZA issued there first licence in January 2017. There are three categories of licensing for the investors who wish to join the free zone;

- Developer license which is issued to business enterprises undertaking infrastructural development of free zone
- Operator license. This is divided into two, manager's license which is offered to business enterprises undertaking management of the zone and free zone operator license which is issued to business enterprise authorising it to carry out any service like manufacturing, processing or commercial activities.
- Free Zones Act and Regulation. This is a step-by-step procedure guide on how to

obtain the license. The procedure includes:

- I. The applicant must be a company incorporated within Uganda with the Uganda Registration
- II. Services Bureau.
- III. The company submits a duly filled application form with the relevant documents.
- IV. The evaluation committee scrutinises the application and prepares a detailed report within 3 months from receipt of application
- V. The Authority writes a recommendation letter to the Minister of Finance, Planning and Economic Development to issue a declaration instrument declaring the area a free zone.
- VI. The Authority notifies the applicant of the decision to grant the licence and the licensee is required to start operations within 12 months from the grant of the license.

The benefits that free zone developer, operator, or manager licenses include;

- Exemption of taxes and duties on all export processing, imported raw materials, and intermediate goods, machinery and equipment, spare parts, for exclusive use in the development and production of output for business enterprise,
- Acceleration of export-oriented manufacturing,
- Boosting Direct Domestic Investment (DDI) and attraction of Foreign Direct Investment (FDI), generation of employment opportunities and incomes for people,
- Boosting exports and increasing foreign exchange earnings.

The challenges faced by Free Trade Zone include;

- Lack of standards in products,
- supply chain constrains,
- lack of Market information,
- lack of export infrastructure and global competition
- Unaware of free zones by Ugandans

(iv) FREE ZONES ACT UGANDA

The declaration of an area or building as a free zone is declared by the minister on the recommendation of the authority, by statutory instrument stating the name and the boundary description of the free zone.

Various factors are considered in declaring a free zone;

- In case of production for export, the percentage of goods and services from the zone is not more than 20% of the total annual production of the business enterprise.
- Increase in employment from the performance of the activities in free zone
- The activities undertaken by the business enterprise do not endanger environment
- A Free Port Zone should be established at a lake, river port, airport, border point or a place with similar characteristics.
- The construction of any infrastructure and the performance of other activities in a free zone should abide by public interest.
- A free zone shall be established in an area determined by spatial or physical plans for a locality.

Establishment of a Free Zone: It can be established by one or more domestic or foreign developers where they sign an agreement for establishing the free zone, filed and be subject of approval to the authority. It has to be a company registered in Uganda demonstrating capacity and competence to develop and manage a free zone according to free zone regulations. Its sole purpose is to develop and operate a free zone. The developer

has to have a valid license to be able to operate under the free zone in which it is issued by the authority after satisfaction with the information contained in the application. A free zone activity commences within 12 months after obtaining the licence in which it would be invalid after the expiry of 12 months or the extension period.

A developer of a free zone has the duty of raising the start-up capital and any other facilities to be utilised in the development of the free zone. Also, they have a duty to provide adequate security to the free zone area. Any plans of improving the free zone is the responsibility of the developer upon approval by the authority.

An annual report is expected to be submitted to the authority by the developer with details on financial, quantitative and value volume of investments as well as external trade exchange performed by the developer.

The authority may withdraw approval given to the developer if; the free zone is declared bankrupt; the developer has provided inaccurate data and when the developer fails to submit the required annual report. Although the developer may appeal withdrawal decisions made by the authority.

Goods, Activities and equipment in an EPZ: Activities permitted by the act are; manufacturing, commercial and service activities. These activities must be based on new investments and modern technologies with the origin and quality of raw materials be ascertained and controlled. The operations within the EPZ shall not endanger public security and health and the operator should insure its employees as well as capital assets.

Activities which are NOT permitted in the EPZ are in examples of, related to trading in rotten or expired goods, unapproved radioactive materials, illegal drugs and chemicals, weapons, products from countries or companies under embargo and any other goods prohibited under the EAC Customs Management Act.

All goods and services which shall be exported from the EPZ shall be taken to have been exported from Uganda.

Exemptions on taxes and duties shall be granted to all EPZ's imported inputs for the exclusive use in development and production of outputs of operations within the EPZ.

Goods, Activities and equipment in a Free Port Zone: Activities allowed in the Free Port Zone are those that are required to preserve goods, or to improve their packaging, preparation for shipment without changing the character of the goods and shall exclude the manufacturing or processing of goods.

All goods brought to the Free Port Zone shall be free from import duties and taxes and not be subjected to usual customs control.

Illegal activities under the EAC Customs Management Act shall not be permitted in the Free Port Zone as well as retail trade unless permitted by the authority.

Customs Supervision and Control in Free Zones: All activities within the Free Zones shall be subject to supervision by the Commissioner General through appointment of an officer to inspect the buildings and premises within the Free Zone in the presence of the developer within 30 days of receipt of the developer's application. After the completion of the inspection report the Commissioner General shall issue a certificate for performing the customs supervision.

Goods brought to the Free Zone shall be inspected in regards to the goods checklist provide by the developer and shall be declared by the Commissioner General. Goods taken out of the Free Zone for home consumption shall be subjected to import duty and value added tax, as well as processed good within the Free Zone.

Despite being a Free Zone, it is subjected to the laws of Uganda unless stated otherwise within the Act. This means that any disputes that might arise within the Free zone shall be subjected under court jurisdictions within the country.

Within two months after the end of every fiscal year a report from the authority should be submitted to the Minister, indicating all the activities in the preceding year and any particular problems experienced within the year. The minister later shall present the report to the parliament in the presence of Attorney General.

Annex 3 Survey Findings

- **Burundi**

- a) **Government and SEZ authorities**

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-1 Findings of questionnaire survey for (Government and SEZ authorities) Burundi

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	Currently there exists a legal framework in regards to the regulations on SEZ. Which is still in its formulation stages.
B. Registration, taxation and Licensing of companies in special economic zones	The respondents pointed out that there were no regulations for SEZ that are operational since SEZ was not yet established.
C. Special Economic Zones Data	With no existing SEZ there was no available SEZ data.
D. Characteristics of Special Economic Zones	SEZ is in its infant stages as it is not established yet.
E. Investment Climate	The political environment is also stable with no disruptions in political power transition.
F. Identify Backward and Forward Linkages	The respondents did not identify backward or forward linkages in the SEZ partly SEZ are yet to be operationalize.
G. The Incentives offered at SEZ in EAC Member State	There are incentives for SEZ in place both fiscal and non-fiscal incentives according to the website on promotion of Burundi for investment but the stakeholders did not identify nor pinpoint the particular incentives for SEZ.
H. Intergovernmental Arrangements	The respondents pointed out that there were no existing solid intergovernmental arrangements on the way future of SEZ.

Source: JICA Study Team

- b) **SEZ developers and operators both public and private**

The following are the findings from the questionnaires issued to the SEZ developers and operators both public and private:

Table 0-2 Findings of questionnaire survey for (SEZ developers and operators both public and private) Burundi

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	An SEZ in the Mutimbuzi Commune near the border of Burundi and DRC is currently under construction and there exists a legal framework for the establishment of SEZ. A Freeport zone where all investors from all countries can do trade and offer services is currently in its final stages of establishment.
B. Registration, taxation and Licensing of companies in special economic zones	One respondent pointed out that it takes roughly one day for an SEZ firm to acquire a registration certificate and it is mandatory for firms to be licensed. Ministry of Trade, Ministry of Finance and Burundi Promotion Development is the licensing body within the country.
C. Special Economic Zones Data	Respondents pointed out there is no available data on the SEZ since it is currently under construction.
D. Characteristics of Special Economic Zones	One of the respondents highlighted that the Burundi Chamber of Commerce and Industry is the SEZ operator.

Subject Item	Findings
E. Investment Climate	SEZ is currently under construction.
F. Identify Backward and Forward Linkages	The respondents pointed out that Burundi Investment Development is the authority that promotes investment within the SEZ.
G. The Incentives offered at SEZ in EAC Member State	No incentives were outlined by the respondents since SEZ is currently under construction.

Source: JICA Study Team

- **Kenya**

a) Government and SEZ authorities

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-3 Findings of questionnaire survey for (Government and SEZ authorities) Kenya

Subject Item	Findings								
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	<p>There is a legal framework in place to establish SEZ under Special Economic Zones Act, 2015 and Regulations thereof. The Act provides for the establishment of SEZs, the promotion and facilitation of global and local investors, the development and management of enabling environment for such investments and for connected purposes.</p> <p>Both foreign and domestic firms are allowed to operate in the SEZ.</p> <p>SEZ is operational in form of Free Trade Zone, Export Processing Zones, Special Economic Zones, Industrial Parks and Economic and Technology Development Zone.</p> <p>Other agencies/ authorities involved with SEZs include:</p> <ul style="list-style-type: none"> • Special Economic Zones Authority - Establishment of SEZs, Implement policies and programs of the Government with regard to SEZs. Determine investment criteria including investment threshold, Review applications and grant licenses to SEZ developers, operators and enterprises. • National Treasury and Planning - Development of Policies • Immigration - Issue work permits for investors • Municipals/County Governments - Issuance of Business permits <p>One of the respondents from Kenya Revenue Authority mentioned the following roles in policy formulation and facilitation of SEZs and trade:</p> <ul style="list-style-type: none"> • Movement of goods in and out of the SEZs • Gazettement of SEZs as Customs Areas. • Issuance of Licensing as Customs Areas. • Taxation of goods emanating from SEZs. • Setting of minimum requirements for the Customs area and buildings 								
B. Registration, taxation and Licensing of companies in special economic zones	<p>The tax requirements and obligations for SEZ developers and operators was that they must have Tax PIN for payment of taxes for any goods that don't qualify to enjoy SEZ incentives.</p> <p>The tax requirements and obligations for a domestic company operating in the SEZ is they must have a tax PIN, Certificate of Incorporation and of payment of taxes for any goods that don't qualify to enjoy SEZ incentives.</p>								
C. Characteristics of Special Economic Zones	<p>When it comes to employment of skilled foreign workers, different SEZ/EPZ authorities have varying ratios where one has 20% of foreign workers and the other had 1.2% of foreign workers depending on the nature of operations.</p> <p>Trend of Foreign Direct investment, exports and employment based on gender in the EPZ is shown below by a table shared by the respondent.</p> <table border="1"> <thead> <tr> <th>YEAR</th> <th>FDI</th> <th>Exports</th> <th>Employment</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>	YEAR	FDI	Exports	Employment				
YEAR	FDI	Exports	Employment						

Subject Item	Findings				
		(in USD)	(in USD)	Male	Female
	2010	240.3m	366.1m	10,859	20,167
	2011	220.5m	439.4m	9,613	22,430
	2012	319.8m	472.9m	9,585	25,916
	2013	405.9m	516.0m	13,187	26,774
	2014	359.2m	584.5m	14,329	31,892
	2015	360.2m	620.6m	14,085	36,217
	2016	393.0m	632.0m	15,884	37,063
	2017	459.7m	587.3m	14,239	40,525
	2018	446.5m	715.3m	17,130	39,969
	2019	446.7m	672.3m	18,721	41,669
	2020	453.9m	696.0m	15,187	41,060
D. Investment Climate	The respondent pointed out that the government is responsible for infrastructure development onsite the SEZ.				
E. Identify Backward and Forward Linkages	<p>Incentives put in place is that for local raw materials are both duty and tax free.</p> <p>Payment of duty and taxes on goods offloaded from SEZs into the domestic market is the protective barrier in place for domestic industries. Also the government through 'Buy Kenya Build Kenya' policy has seen through locals benefiting from EPZ firms where they acquire raw materials from the local markets.</p> <p>There are regulations/procedures geared towards facilitating domestic firms to export goods into SEZs.</p> <p>A respondent from EPZ stated that there were some raw materials, consumables and services that were sourced locally which included; Agro-products i.e., macadamia, avocado, cashewnuts, fabrics, detergents and refined sugars. Also transport services were provided.</p>				
F. The Incentives offered at SEZ in EAC Member State	<p>The respondent stated that the fiscal incentives accorded to firms operating in SEZ are:</p> <ul style="list-style-type: none"> • 10years tax holiday. • Exemption from duty and VAT on raw materials. • 10years withholding tax holiday on resident remittances. • Stamp duty exemption. • Railway Development Levy and Import Declaration levy. <p>The non-fiscal incentives in place are; No requirement for Business permits, no limitation to access to local market subject to payment of duties.</p> <p>Land in the SEZ is partly owned by the government and private investors. Certificate of Origin (COO) is not applied to the goods produced in SEZ.</p>				
G. Intergovernmental Arrangements	<p>One respondent highlighted that there is a Protocol establishing the East Africa Customs Union.</p> <p>The main challenge of existing Regional Trade Agreements (RTAs) and EAC facilitation instruments is that there is no express mention/provisions on SEZs in the East African Community Customs Management Act, 2004. Challenges that faces EPZs firms are that they only allowed to sell 20% of the total production to the domestic market and surcharges are applied whether in presence of surge productions or not.</p>				

Source: JICA Study Team

b) SEZ developers and operators both public and private

The following are the findings from the questionnaires issued to the SEZ developers and operators both public and private:

Table 0-4 Findings of questionnaire survey for (SEZ developers and operators) Kenya

Subject Item	Findings
<p>A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State</p>	<p>There exist legal frameworks for establishment of SEZ within the country and as mentioned by the respondents the following are the laws in place:</p> <ul style="list-style-type: none"> • The Special Economic Zones Act, 2015; • The Physical and Land Use Planning, 2019; • Special Economic Zones Regulations, 2016; • Physical and Land Use Planning (Classification of Strategic and Inter-County Projects) Regulations, 2019 • Vision 2030 Economic Blue Print <p>Special Economic Zones Authority (SEZA) – Kenya is the agency that regulates SEZ within the country.</p> <p>There is no specific size requirement for the establishment of an SEZ.</p> <p>From the respondents, there are several operational SEZ which include:</p> <ul style="list-style-type: none"> • Free Trade Zones • Export Processing Zones • Special Economic Zones • Industrial Parks • Free Zones • Freeport Zones • Economic and Technology Development Zones • Science and Innovation Zones • ICT Parks <p>On infrastructure there are reliable tarmacked roads, sufficient power from the national grid, reliable internet and telecommunication service, more than enough piped water, sewerage connections and residential units as well as social amenities.</p>
<p>B. Registration, taxation and Licensing of companies in special economic zones</p>	<p>The conditions for registration of firms operating in the respondents' SEZ include:</p> <ul style="list-style-type: none"> • Physical presence at SEZ through land ownership or rented space. • Have a tax presence in Kenya and be tax compliant. • Not engaged in any activity on the negative list. • Financial capacity and technical expertise to carry out the SEZ operations. <p>Licenses required by both respondents are:</p> <ul style="list-style-type: none"> • Environmental License. • Trade License. • Export License. • Bureau of Standards permit. • PIN and Tax Compliance Certificate. <p>Both respondents pointed out there are tax obligations for both SEZ developer and operator.</p> <p>For EPZ developers, upon approval of the proposal submitted to Export Processing Zones Authority(EPZA), it takes up to 30 days for the license to be processed and handed over to the developers or operators.</p>
<p>C. Special Economic Zones Data</p>	<p>In one of the respondent's SEZ there are several operational SEZ firms under different sectors such as; Manufacturing, Logistics & Warehousing, Real Estate & Housing, Healthcare, Construction etc.</p> <p>In the Export Processing Zones, it was highlighted by the respondent there are 27 foreign firms and 29 domestic firms (21 being joint ventures of foreign and domestic firms). Also foreign employment accounts to 1%(208) and there 21,151 domestic workers within the EPZ.</p> <p>In the year 2020, the respondent's EPZ recorded 10.1 million USD of sales to regional(EAC) market and 8.9 million USD for foreign market.</p> <p>The EPZ operates under 13 different sectors such as agro processing,</p>

Subject Item	Findings
	garment, pharmaceutical, chemical, relief supplies etc. This translated to 67.7 million USD in the year 2020 used for raw material acquisition from local enterprises.
D. Characteristics of Special Economic Zones	One respondent's land is owned by the Government and the other is privately owned. The SEZs are operated by the respondents.
E. Investment Climate	There is good security for firms and employees at the SEZ. Roads, power, internet and water infrastructure are available onsite the respondents' SEZ but they lack ports, pipeline and gas. In one of the SEZs firms, there are green parks, educational facilities, Recreational facilities and residential units. In the respondent's EPZ there are roads, power, water, internet and railway infrastructure that were developed by the government. However, there are no social infrastructures such as hospitals, education centres, recreational sites and residential units.
F. Identify Backward and Forward Linkages	The Investment Promotion Authority/Agency for SEZ is the Kenya Investment Authority (KenInvest) as pointed out by all respondents. Export Processing Zones Authority is responsible for investment promotion in the EPZ. While the major goods and services provided to the EPZ firms are: supply of agro products raw materials, e.g. macadamia, avocado, cashew nuts, some fabric, thread, consumables, detergents, refined sugar, transportation, insurance etc.
G. The Incentives offered at SEZ in EAC Member State	The fiscal incentives in place are reduced corporate tax rate of 10% for first 10 years, 15% in the next 10 years, Withholding Tax Incentives, Stamp duty exemption. Thresholds subjected to EPZ firms are as follows: <ul style="list-style-type: none"> • 20% of annual production to domestic market. • 20% of production to regional market(EAC). Since the government through customs union has made EAC domestic. • At least 80% of annual production to foreign markets.

Source: JICA Study Team

c) SEZ enterprise or users

The following are the findings from the questionnaires issued to the SEZ enterprise or users:

Table 0-5 Findings of questionnaire survey for (SEZ enterprise or users) Kenya

Subject Item	Findings
A. Registration, taxation and Licensing of companies in special economic zones	The following documents are required for the registration of firm into an SEZ as pointed out by respondents. <ul style="list-style-type: none"> • Business plan entailing various items such as the market study, economic impact assessment and financial projections • KYC Docs such as audited financial statements of the promoter/applicant, certificate of incorporation, CR12, tax registration certificate and tax compliance certificate • Completed enterprise application form and the investment project proposal form Tax Compliance, Business Permit, Contractor Annual Practice // Certificate of Registration are the different licenses required to operate an SEZ firm. The firms are obliged to pay corporate tax - 10% for the first 10 years, 15% for the next 10 years with tax annual corporate filing due by 30 June of the subsequent financial year. Late filing and payment penalty is 5% of the amount due or 20,000, whichever is higher.
B. Firm's contact information	One firm operates under building and construction sector and the other is a service provider. The firms' primary market is both for local and foreign markets.

Subject Item	Findings
	One of the respondents' firm is owned by foreign investors.
C. Investment climate or business environment	There is a moderate ease of accessing finance for funding the firm's operations, where one sources its funding from private investors and the other from both private and public investors. The cost of labour is affair as pointed out by one of the respondents. Another respondent pointed out in 2021 alone their firm had spent \$432,844.037 in DDI, the firm had 100 local employees. The firm had spent \$20,000 in salaries. A different firm pointed out that in the same year, they had spent \$650,000 in DDI, this firm however had employed only 8 locals and so far spent only \$9000 in salaries. The firm also had 2expatriates whose salary amounted to \$10,000. The firm also implied that they had made a profit of 30% of their investment.
D. Infrastructure Assessment (Cost, Availability and Reliability).	From the respondents there is high reliability of water supply and telecommunication networks. From both firms there is public transport in form of public service vehicles and the infrastructure projects for accessing the SEZ are privately funded.
E. Backward and Forward linkages of SEZs in EAC partner states	One of the respondents has established a backward linkage with the domestic economy by having multiple suppliers and manufactures. It is also involved in the local SMEs by issuing labour contracts.
F. The incentives offered at special economic zones in EAC member countries	Reduced corporate taxes, supplies to an SEZ are zero rated, exemption from customs on importation into an SEZ, availability of one stop shop to facilitate consolidated service provision. Tax exemptions such as reduced corporate tax rate of 10% for the first 10 years, 15% for the next 10 years and additional exemptions such as supplies to an SEZ are zero rated, exemption from customs on importation into an SEZ, availability of one stop shop to facilitate consolidated service provision.

Source: JICA Study Team

In summary the data from individual SEZ firms in Kenya is as shown in the table below

Table 0-6 Summary of Findings for SEZ enterprise or users in Kenya

Type of Data	Firm	2021	2020	2019	2018	2017
a) DDI IN USD	1	1,200,000	1,700,000	3,100,000	1,400,000	
b) No of Expatriate employed	1	1	1	1	1	1
c) No of local employed	1	64	61	25	5	1
d) Salary Expenditure on expatriates	1	169,000	144,000	144,000	72,000	0
e) Salary Expenditure on locals	1	839,000	890,000	1,200,000	200,000	0
f) Profitability in %	1	-120%	-248%	-577%	-100%	-100%
g) Sales in Host country in USD	1	1,600,000	1,200,000	513,000	0	0
h) Inputs/Raw materials from host country (USD)		20,000	107,000	966,000	1,300,000	
i) Expenditure on services from host state (USD)		360,000	355,000	322,000	161,000	0
j) Backward		Packaging items – bottles, labels, cartons, closures etc Mango Juice				

Linkages		
k) Forward Linkages		Logistical Services Transport Cleaning Building and constructions Marketing agencies Internet, Electricity, Water, Equipment and vehicle service, insurance (medical and general), Security, Professional fees Logistics , transportation Building materials
l) Sectors competing with local firms		Textile, Agro-processing, Food Beverages and Tobacco

Source: JICA Study Team

In regard to EPZ firms one respondent pointed out that textile and garments were the major sector and named the Athiriver EPZ (that deals with sectors including Agro Processing, Business service permit, chemical, commercial & commercial craft, darts-board, food processing, garments/apparel, pharmaceuticals, plastics, relief supplies, service), Balaji EPZ (Garments/apparels, business service permit), Kingorani EPZ (agro-processing) and Sameer Industrial Park EPZ (Agro processing, business service permit, beverages, relief supplies, service).

The EPZ Programme Annual Performance Report 2019 points out that in the year 2019 there were 74 gazetted EPZs spread across the country with 69 being privately owned and 5 are public zones according to EPZA. Different EPZs operate under different sectors the garment sector is the dominant sector which contributes to over 80% of local employment and 68% of the total exports. The following most dominant sector is Agro-processing which constitutes 18% of the total exports.

In 2019, 37.2% of total EPZ enterprises were wholly owned by Kenyans, while joint ventures were 22.6% and 40.2% of the enterprises were foreign owned. In the same year cumulative private investment fund stood at over 760 million USD and an additional 300 million USD on infrastructure investment. Moreover, there was reduced value of enterprises' foreign investment of roughly 3 million USD from 458 million USD in 2018 to 455 million USD in 2019 while local investment constituted 41.4% of total enterprises' investment in 2019. The Table below is summary of FDI and DDI from 2015 to 2019.

Table 0-7 Value and Ratio of investments

Indicator	2015	2016	2017	2018	2019
Value of investment					
Value of Kenya/Local investments (million USD)	125	225	270	305	320
Value of Foreign investment (million USD)	350	480	475	458	455
Total Investment (million USD)	475	705	745	763	775
Ratio of value of investment					
Ratio of value of Kenya/Local investment to Total (%)	26.6	32.0	36.3	39.9	41.4
Ratio of value of Foreign investment to Total (%)	73.4	68.0	63.7	60.1	58.6

Source: JICA Study Team

Findings from literature shows that there are 61 EPZ operating in Kenya.

Special Economic Zones in Kenya include Free Trade Zones (FTZ), Industrial Parks, Free Ports, ICT Parks, Science and Technology Parks, Agricultural Zones, Tourist and Recreational Zones, Business Service Parks and Livestock Zones. SEZA as the managing authority grants licenses to operate in a Special Economic Zone either as a Special Economic Zones Developer, operator or enterprise.

Currently, Kenya has 10 Special Economic Zones that are either public or private

- ✓ Public SEZ: Dongo Kundu- in Mombasa County, Naivasha in Nakuru County and Konza Technopolis in Makueni County. The is a plan to add two more public SEZs: one in Miwani, Kisumu County and another in Miritini, Mombasa County

- ✓ Private SEZ: Tatu City - Kiambu; Africa Economic Zone - Uasin Gishu; Compact Free Trade Zone - Machakos; Northlands - Kiambu; SBM - Kwale; Lamu Resort City -Lamu.

It is noted that EPZ firms import their intermediate goods. They offer low wages and hazardous working conditions for employees. EPZ are characterized with poor transport and infrastructural facilities that hindered seamless connectivity for goods/services mobility. The World Bank Report 2011 by T. Farore, questions the rationality of tax holiday and deduce that in most cases it generates negative effects in Kenya though Tax holiday led to establishment of many EPZ firms but there was no evidence of any long-term benefits to the economy and the sustainability of these firms was questionable with over 60% of the firms leaving before the ten-year period elapsed.

Special Economic Zones in Kenya anchor on SEZA as a one stop agency for expedited administrative procedures. The SEZ in Kenya are characterized with infrastructural development, PPP, private sector involvement domestic investment and positive backward and forward linkages. The major challenges SEZ face are:

- ✓ Disruptions in global supply chains, particularly for raw materials sourcing affects SEZs;
- ✓ Expensive human resource cost for skilled expertise since the domestic market cannot provide high skilled labour the SEZ has to use expatriates whose cost are high;
- ✓ Private sector promoters of SEZs, lacks an umbrella organization or company that specifically promotes SEZs across the board.

Assessment of SEZ/EPZ in Kenya:

A) Trends 2010 to 2020

The trend for Export Processing Zone indicates that there has been increase in FDI and exports. The figure below shows the trends

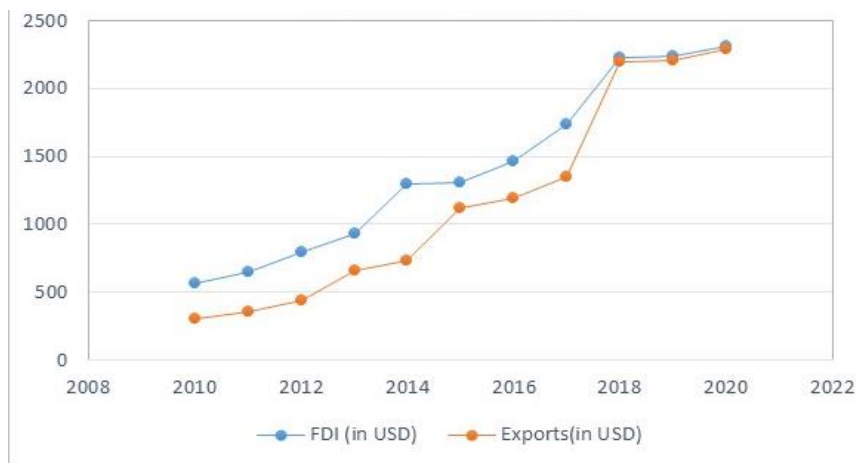


Figure 0-1: Comparative view of the trends for FDI and Exports 2010 to 2020

Currently there are 160 enterprises operating in the zones according to the EPZ Program Annual Report 2019. Noteworthy the major market was USA which accounted for 71.3% (KES. 48,903 million) and 94.2% (KES. 46,067 million) of these exports were garment products. While Europe was second with 8.7% (KES. 5,955 million), while Asia was third with 4.7% (KES. 3,198 million) worth of export, the East Africa Community (EAC) accounted for 4.5% (KES. 3,064 million) of the export, while COMESA accounted for

3.0% (KES. 2,065 million) export, other parts of Africa accounted for 3.8% (KES. 2,603 million).

The available secondary data also revealed improved investment by domestic investors in the EPZ grew from 2015 to 2019 as shown in the figure below:

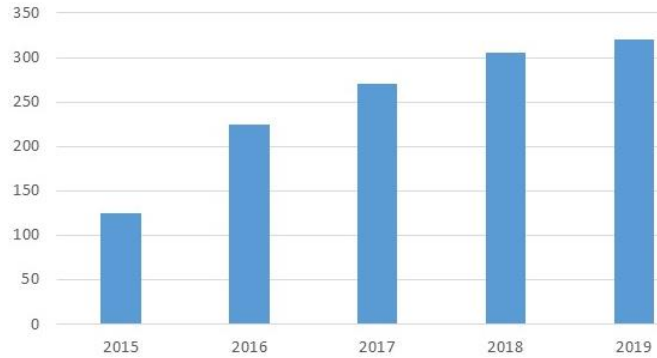


Figure 0-2: The trends of domestic investors in EPZ 2015 to 2019

While foreign investment also grew in 2016 to over USD 400 Million from USD 350 Million in 2015 and thereafter it has been constant from 2017 to 2019 as shown in the figure below:

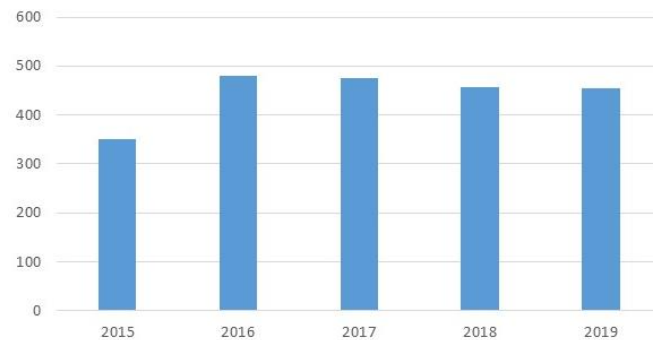


Figure 0-3: The trends of foreign investors in EPZ 2015 to 2019

The ratio between domestic investment and foreign investment since 2015 to 2019 is captured in the figure below:

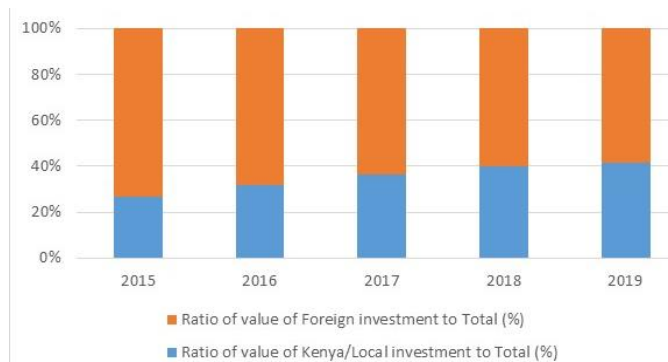


Figure 0-4: The trends of ratio of foreign/domestic investors in EPZ 2015 to 2019

B) Generating employment

The zones have been an avenue of job creation with new zones being gazetted and operationalize the number of people employed at the zones has been increasing. The figure below shows the trends of employment and wage growth since 2015 to 2019. The numbers of people employed by EPZ has been steadily increasing:

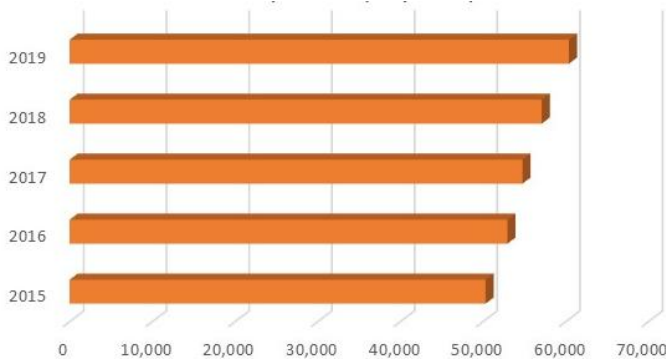


Figure 0-5: The trends of number of people employed by EPZ 2015 to 2019

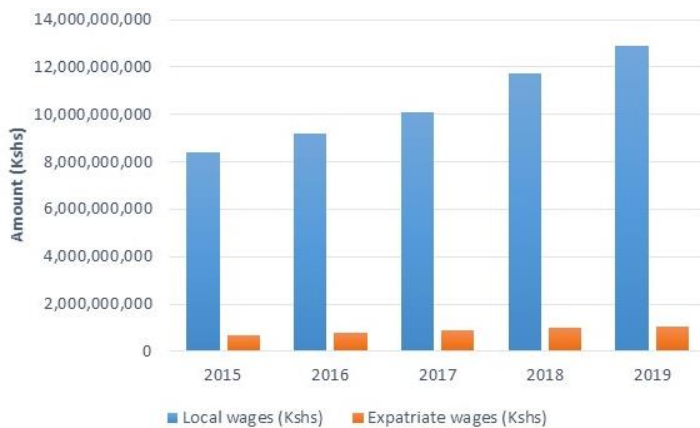


Figure 0-6: The trends of wage earned by employees of EPZ 2015 to 2019

EPZ was also critical in providing employment to the female gender as shown below:

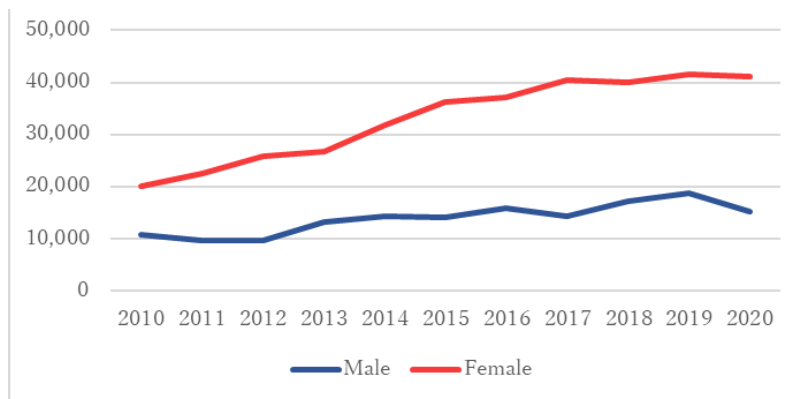


Figure 0-7: Trends showing gender dynamics employees of EPZ 2010 to 2020

C) Improved domestic sales

The zones also have shown improved domestic sales since 2015 to 2019 as shown in the figure below:

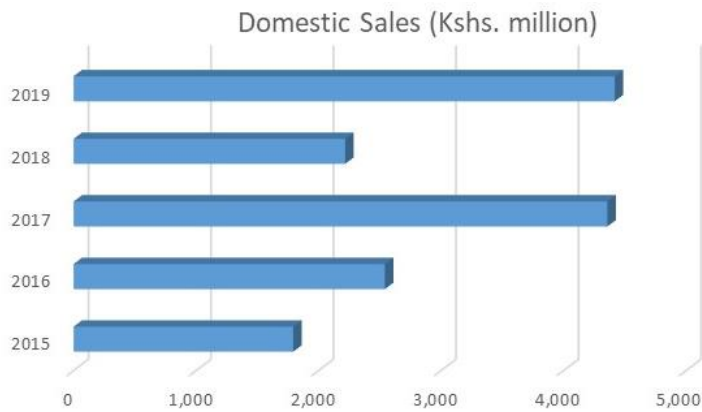


Figure 0-8: Trends showing improved domestic sales by EPZ firms 2015 to 2019

D) Improved use of local inputs but also increased imports

Even though the EPZ has improved in the use of local inputs which witnessed growth of the use of local resources over the five years (2015-2019) but still the imports sources as input also grew exponentially and this was attributed to climatic conditions that led to poor yield for agricultural-based raw materials.

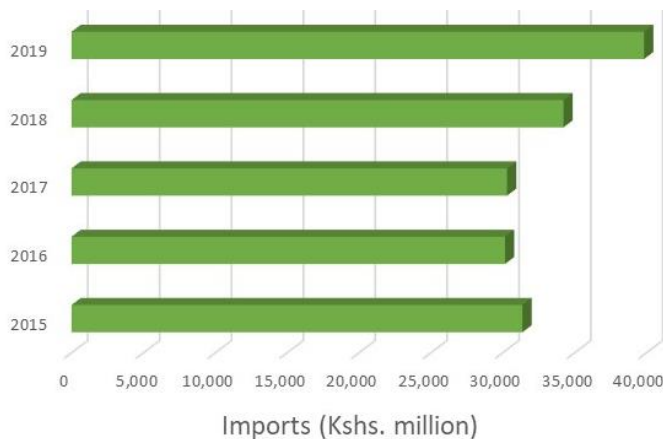


Figure 0-9: Trends showing improved sales of local raw materials 2015 to 2019

E) Distribution of goods sold

The graph below shows how the goods were sold in the domestic market, EAC regional market and non-EAC countries including raw materials procured from the domestic market.

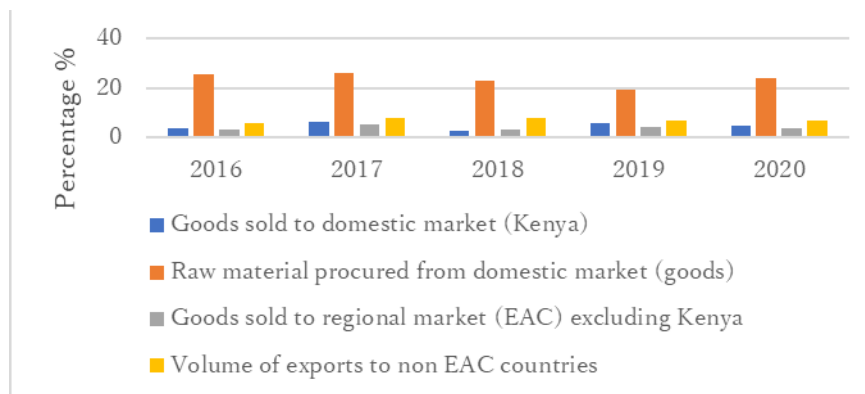


Figure 0-10: Distribution of goods sold in five years 2016 to 2020

F) Indirect impact of EPZ

Expenditure on local goods and services has been increasing i.e., local supply of inputs/consumables; electricity, telecommunication, water, rent and transportation among others, the figure below is graphic illustrations of such increase.



Figure 0-11: Indirect Impact of EPZ in Kenya 2015 to 2019

G) Technical Transfer and SMEs growth

In order to maximize technical transfer and growth of SMEs GoK through EPZA introduced Export Business Accelerator (EBA) which acts as incubator of technical growth for indigenous enterprises the Small Medium Enterprises (SMEs) to venture into the EPZ program. Imperatively the local owned firms operating in the EPZ has increased. The economic survey 2020 reveals

“During the year 2019, 37.2% of total EPZ enterprises were wholly Kenyan, Joint ventures were 22.6% while foreign investments constituted 40.2%. In 2018, 37.5% were wholly Kenyan owned, 23.5% were joint ventures and 39.0% were foreign owned.”⁸

The figure below shows the firms ownership:

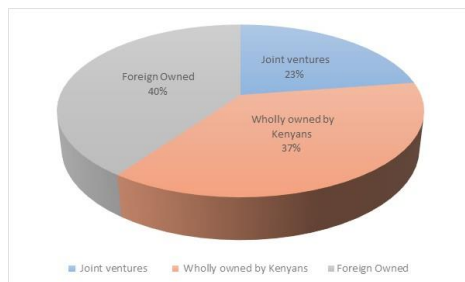


Figure 0-12: Distribution of ownership of firms in the EPZ as per 2019 statistics

H) Sector performance

The textile (garment and apparel) sector was the high performer followed by agri-processing. According to EPZ Program Annual Report, in 2019 the garment sector constituted a total of 17.52% of enterprises, 81.95% of total local jobs, 68.83% of exports, 63.16% of total sales, 46.64% of expenditure on local goods & services and 23.25% of private investment. The report compares the performances of the sector in 2018 and 2019 as per the figure below:

⁸ Export Processing Zones Program Annual Performance Report, 2019

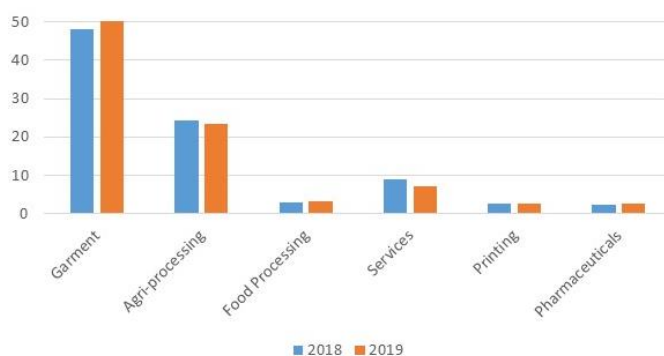


Figure 0-13: EPZ Sector Performance in 2018-2019 Financial Year

The summary of the sector is captured in the table below:

Table 0-8 Performance of Sectors in the EPZ in 2019

sector	no of firms	local jobs	exports	total sales	local resource	investment
Agro processing	47	6,923	12,945,199,875	13,101,402,469	11,337,877,347	17,851,380,580
BSP	6	363	0	0	204,282,826	16,253,867,893
chemicals	2	251	107,182,752	129,711,495	221,734,578	3,312,477,461
commercial & commercial	2	88	80,905,535	80,905,535	62,994,467	171,184,406
Dartboard	1	516	983,896,420	985,820,420	482,800,626	903,459,571
Electricals/electronics	2	3	0	0	4,599,340	50,200,000
Food processing	5	310	2,362,882,871	4,410,537,517	1,096,000,273	2,303,723,402
Garments	24	49,489	47,196,415,832	48,752,652,954	14,857,543,512	18,064,712,263
Garments support services	3	61	26,484,675	225,950,629	60,121,077	223,944,207
Pharmaceuticals & medical supplies	5	655	388,394,368	705,747,550	596,187,440	6,641,928,237
Plastics	3	121	116,691,217	116,691,217	153,394,016	628,000,000
printing	1	303	1,109,302,917	4,915,506,315	1,175,097,761	3,751,601,500
Relief supplies	2	62	882,851,594	1,086,241,082	399,314,214	88,908,300
services	29	1,167	2,351,089,632	2,657,470,095	1,173,525,911	7,052,056,994
other	5	78	20,869,198	20,869,198	32,766,913	394,128,442
Total	137	60,390	68,572,166,886	77,189,506,476	31,858,240,301	77,691,573,256

Source: EZP Programme Annual Report 2019

The summary of the impact of the zones to the national economy is captured in the table below:

Table 0-9 EPZ contribution to the national economy: 2015 – 2019

Indicator	Units	2015	2016	2017	2018	2019
Total Kenya Exports	KES Million	584,360	581,561	597,904	614,316	596,677
Manufacturing sector Value of Output	KES Million	1,977,169	2,131,907	2,255,687	2,409,981	2,568,758
GDP at market prices	KES Million	6,284,185	7,022,963	8,165,842	8,892,111	9,740,360

Indicator	Units	2015	2016	2017	2018	2019
Total national employment	number	14,758,500	15,565,600	16,471,400	17,295,800	18,142,700
Manufacturing sector employment	Number	295,500	300,900	303,000	347,900	353,300
Total output EPZ	KES Million	64,897	68,569	67,270	77,271	77,189
Exports EPZ	KES Million	60,879	64,151	60,729	72,390	68,572
Employment EPZ (local)	Number	50,302	52,947	54,764	57,099	60,390
EPZ contribution to total Kenya Exports	Percent	10.42	11.03	10.16	11.78	11.49
EPZ contribution to manufacturing sector value of output	Percent	3.28	3.22	2.98	3.21	3.00
EPZ contribution to total national employment	Percent	0.34	0.34	0.33	0.33	0.33
EPZ contribution to manufacturing sector employment	Percent	17.02	17.60	18.07	16.41	17.09
EPZ contribution to GDP market prices)	Percent	1.03	0.98	0.82	0.87	0.79

Source: Economic Survey 2020 and EPZA reports

This study, revealed that in Kenya the amount of FDI from EPZ has been on increase in the last five years with a sharp increase in 2017 (KES 459.7M) compared to 2015 (KES 360.2M) nevertheless since 2017 to 2020 the FDI has been basically constant with very little variations as shown in the Figure below.

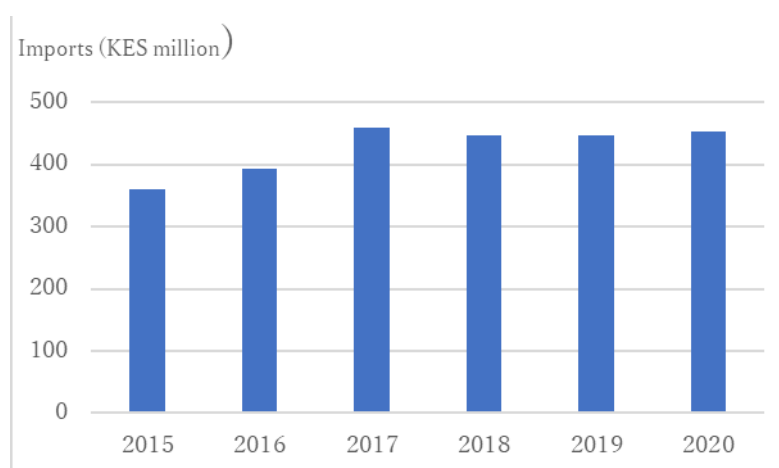


Figure 0-14: Trends of FDI Performance 2015-2020

The quantity of items exported also increased as shown in the figure below

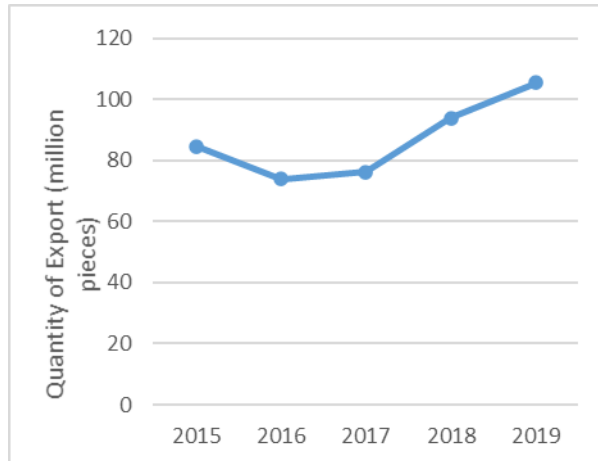


Figure 0-15: The quantity of items exported 2015-2019

The amount accrued from exports from SEZ also has been on increase as shown in the figure below

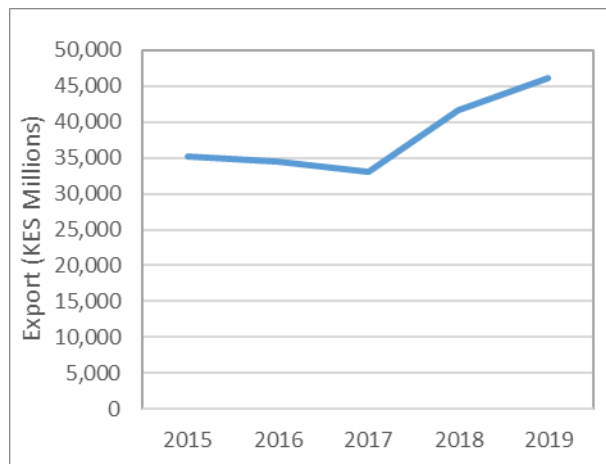


Figure 0-16: The trend of quantity of items exported by SEZ 2015-2019

Interestingly even though the use of local raw materials has been on increase but also the import of the raw material has been on increase as shown in the figure below.

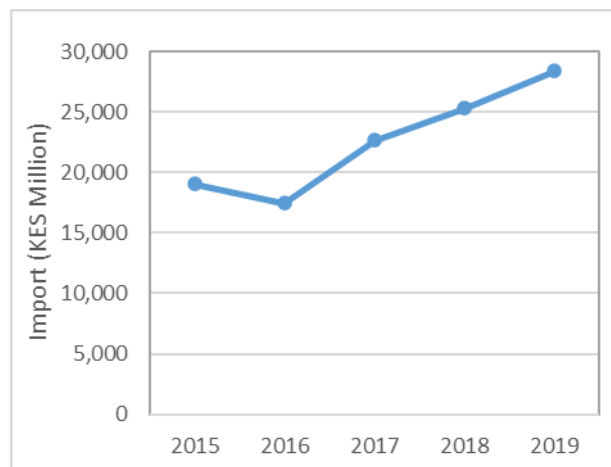


Figure 0-17: The trend of quantity of items imported by SEZ 2015-2019

The use of local raw material has been fluctuating with 26.4% in 2017 to 19.2% in 2019 and then increased to 24.3% in 2020. The figure below shows such fluctuations in the use of local raw materials. The backward linkages have also improved for example in 2020, the amount of raw materials procured from Kenya by EPZ was \$67.7 M.

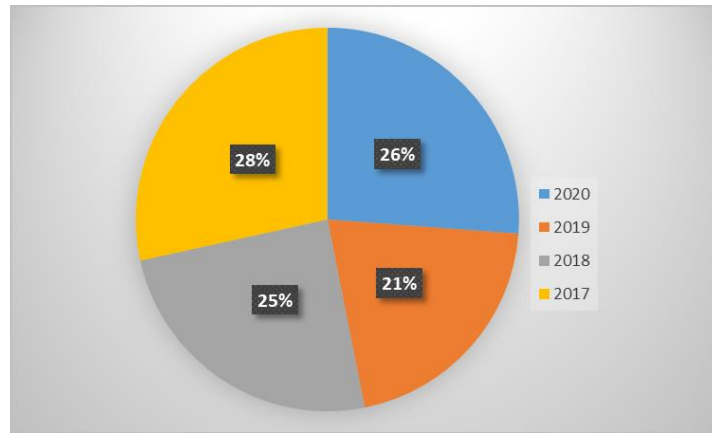


Figure 0-18: The trend of local material used as raw material in SEZ 2017-2020

In terms of employment there has been an increase in 2020 even though it had been fairly steady between 2016-19, as shown in the figure below

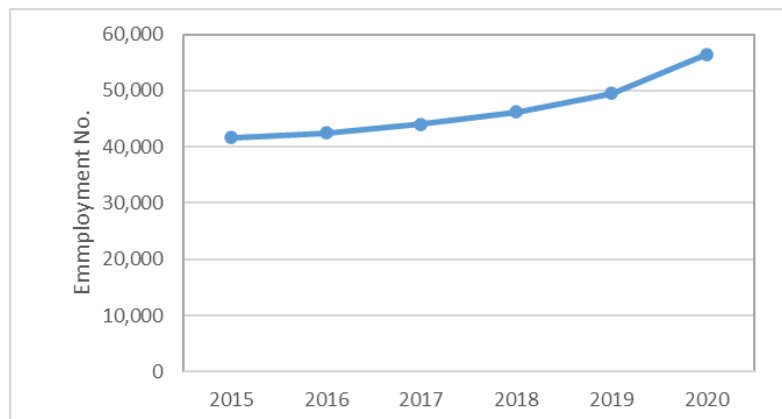


Figure 0-19: The trend of quantity of items exported by SEZ 2015-2019

The sales of the products from EPZ trends from 2015 to 2020 is captured below:

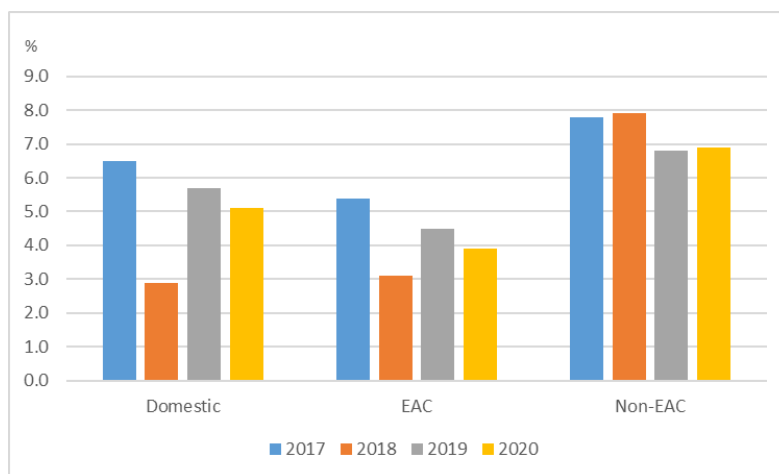


Figure 0-20: The trend of goods sold by EPZ firms 2017-2020

This is an indication that sales thresholds domestically are below 20% and it is the same case for the regional market of the EAC.

The sales of the EPZ firms for the year 2017 to 2020 are shown in the table below:

Table 0-10 Sales for EPZ Firms 2017 – 2020

Type of Data	2020	2019	2018	2017
a) Percentage of sales in Kenya	5.1%	5.7%	2.9%	6.5%
b) Sales in Host member state (Amount in USD)	3.25 M			
c) Percentage of sales in other EAC states as	3.9%	4.5%	3.1%	5.4%
d) Sales to other EAC Partner States (Amount in USD)	10.1 M			
e) Percentage of exports to non EAC countries	6.9%	6.8%	7.9%	7.8%
f) Exports to non EAC countries (Amount in USD) ⁹				
g) Percentage of raw materials procured from Kenya	24.3%	19.2%	22.9%	26.4%

Source: JICA Study Team

The Study findings also shows that the following sectors compete the firms in preferential zones compete with those that are in non-preferential zones: textile, agro processing, manufacturing, pharmaceuticals and food, beverage & tobacco.

- **Rwanda**

- a) **Government and SEZ authorities**

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-11 Findings of questionnaire survey for (Government and SEZ authorities) Rwanda

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	<p>All respondents were from Ministry of Trade and Industrialization and they highlighted the following:</p> <ul style="list-style-type: none"> • A legal framework to establish SEZ exists under the act of parliament. • The policy aims at promoting parks and industrial economic zones under Law no 05/2011 of 21/03/2011. • Special Economic Zones in Rwanda (SEZAR) is the lead agency regulating SEZ • Foreign and Domestic firms are allowed to operate in the SEZ. • There are Free Trade Zones, Export Processing Zones, Special Economic Zones and Industrial Parks. • Other agencies such as Rwanda Development Board(RDB), Rwanda Revenue Authority(RRA), Rwanda Standards Board(RSB) and Rwanda Food and Drugs Authority(RFDA) are also involved in the SEZ. • RRA grants exemption to EPZ's investors / Duty remission scheme on raw materials based on EAC Customs Management Act.

Subject Item	Findings
B. Registration, taxation and Licensing of companies in special economic zones	<p>From one of the respondents:</p> <ul style="list-style-type: none"> • EAC Customs Management Act provide requirement for EPZ not SEZ • Upon registration one must Have a tax registration number (TIN), Register on EBM, Pursuant to the Law no 006/2021 OF 05/02/2021 on investment promotion and facilitation, especially Article 26, since it is an obligation to the SEZ developer to register with Tax Administration while internal procedures on tax are applied. • For licensing requirements; one should have a business registration certificate, payment of a non-refundable application fee, land lease documents as specified the regulations, Feasibility study and business and financial plan covering the development of the proposed Zone, including financial resources.
C. Special Economic Zones Data	<p>From the respondents there are several SEZ/EPZs operating under different sectors within the country. The pointed EPZs include:</p> <ul style="list-style-type: none"> • Rwandair Catering under garment sector and food processing. • Kigali Special Economic Zone (KSEZ) under manufacturing sector. • Pink mongo in manufacturing • Bugesera Special Economic Zone (BSEZ) under manufacturing, warehouse and support activities.
D. Characteristics of Special Economic Zones	<p>There are no specific percentage of foreign works allowed to operate within the SEZ as pointed out by one of the respondents, also the Prime Economic Zone Ltd are the main operators of KSEZ and other upcoming SEZs. One SEZ has residential units and the other doesn't have one.</p>
E. Investment Climate	<p>It was clear from all respondents that having a stable and good political will has enabled the growth of SEZs within the country. One respondent highlighted that there exists an Industrial Policy, with its main aim is to have: "Competitive industrial and advanced services sectors producing over \$1.5 billion of exports by 2020, while increasing the number of off farm jobs.</p>
F. Identify Backward and Forward Linkages	<p>SEZAR is the lead authority that is responsible for SEZ development. The major incentives offered to SEZ firms are Tax incentives (tax holidays), Accelerated release for clearance of imported goods, Business regulation, Infrastructure/utilities provision: Access to reliable and cheap utilities such as water and electricity, land, ICT infrastructure, etc. Some of the protective barriers put in place to protect domestic industries include 15% tax exemptions for Made in Rwanda products and tax exemption on local raw materials.</p>
G. The Incentives offered at SEZ in EAC Member State	<p>One of the respondents clarified on fiscal incentives accorded to firms operating in SEZ as follows:</p> <ul style="list-style-type: none"> • Preferential tax rates for foreign companies: corporate income tax rate of 0% when investing at least 10 million USD in Rwanda, employ Rwandans conduct international transactions of at least 5 million USD through a commercial bank in Rwanda and spend 2 million USD in Rwanda per year. • Investors investing at least 50 million USD in Rwanda and contributing at least 30% of this investment in equity in specified industries, including manufacturing, are also eligible for a tax holiday of up to 7 years. • Incentives accorded 0% VAT rate on the goods and services procured locally and a preferential withholding tax rate of 0% on payments made for specialized services procured by the investor. • 15% preferential corporate income tax for strategic sectors i.e. energy, transport, affordable housing, ICT and financial services. • Exemption of customs tax for products used in export processing zones.

Subject Item	Findings
	<ul style="list-style-type: none"> • Exemption of capital gains tax, value added tax refund, flat accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets. • Duty remission scheme: Importing raw materials at 0% for import duties <p>On the other hand, non-fiscal incentives accorded to firms operating in SEZ include:</p> <ul style="list-style-type: none"> • Assistance to access utilities (water & electricity) • Assistance with obtaining visas and work permits. • Availability of a One stop center that provides notary services, residency permit, business license, permits for land administration and construction as well as completing the environmental impact assessment. • Fast release of all import and export clearance process <p>SEZ firms compete with non-SEZ domestic firms in the sectors of Manufacturing, Education, Warehouse and Financial institution. Domestic sectors in Construction of materials, Light manufacturing and Agro-processing are under threat from SEZ firms. The targeted sectors for SEZ development are:</p> <ul style="list-style-type: none"> • Manufacturing. • Textile and wholesale pharmacy. • Agri-processing and food processing. • Construction imports and distribution. <p>The country collected 0\$ as tax revenue from SEZ in 2020 and 2,144,093 \$ was the value of tax exempted in the same year. Certificate of Origin (COO) is applied to goods produced in SEZ as pointed out by both respondents.</p>
H. Intergovernmental Arrangements	The respondents stated that there were no challenges of Regional Trade Agreements and EAC Facilitation.

Source: JICA Study Team

b) SEZ developers and operators both public and private

The following are the findings from the questionnaires issued to the SEZ developers and operators both public and private:

Table 0-12 Findings of questionnaire survey for (SEZ developers and operators) Rwanda

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	<p>SEZ establishment legal framework exists as elaborated in the act of parliament, national policy and there are regulations in place for the SEZ. Rwanda Development Board in conjunction with other agencies like Rwanda Food Authority, Rwanda Environment management authority and Rwanda Bureau of Standards are the authorities involved in SEZ operations.</p> <p>Within the respondent's SEZ there are different infrastructures such as tarmacked roads, water, sewerage and internet connections which were all developed by Prime Economic Zone ltd.</p>
B. Registration, taxation and Licensing of companies in special economic zones	The respondents did not provide data on licensing requirements upon registration of an SEZ.
C. Special Economic Zones Data	<p>The available SEZ firms within the respondent's SEZ, have a share of 48% foreign companies and 52% are local firms.</p> <p>There are different varieties of goods produced within the respondent's</p>

Subject Item	Findings
	SEZ which includes; construction materials, Agri-processing, consumer goods, garments products.
D. Characteristics of Special Economic Zones	Prime Economic Zone Ltd.(PEZ) is the developer of SEZ and the land is privately owned. There are different firms that currently are operating within the SEZ noteworthy is the Mara Phone firm that produced the first African smartphone.
E. Investment Climate	One of the respondents pointed out the availability of different infrastructure within the SEZ mainly developed by PEZ.
F. Identify Backward and Forward Linkages	RDB is the investment promotion authority at the respondent's SEZ, also RDB is responsible for fast tracking economic development. Domestic firms play a vital role in providing goods and services in the sectors of; electricity appliances, agri-processing, banking services and mobile phone assembly.
G. The Incentives offered at SEZ in EAC Member State	Some of the non-fiscal incentives are tax subsidies during construction of state of art access road, electricity, water and after care services. The local community has benefited from the SEZ in such a way that the local youth have acquired skills in garment, machine running and operation.

Source: JICA Study Team

c) SEZ enterprise or users

The following are the findings from the questionnaires issued to the SEZ enterprise or users:

Table 0-13 Findings of questionnaire survey for (SEZ enterprise or users) Rwanda

Subject Item	Findings
A. Registration, taxation and Licensing of companies in special economic zones	To operate in the SEZ one must have an RDB Certificate, trading license and construction permit which are all issued by the RDB. As pointed out there exists an agency that assist in obtaining visa, work permit, registration, licensing, permits and advice on taxation (One-stop-shop). The tax rates are applicable to an SEZ user: <ul style="list-style-type: none"> • VAT 18% • CIT 30% • Social security 5% With the following tax filing periods: <ul style="list-style-type: none"> • CIT yearly. • VAT three months. • Penalty is 500 penalty units and 10% of penalty.
B. Firm's contact information	One of the respondents offer Warehouse rental services with their primary audience the local market. Also, they pointed out that they have a moderate monthly average wage for both permanent local and foreign employees. It is a limited company which is owned by foreign investors.
C. Investment climate or business environment	The respondent stated they source their funding from private investors and that the cost of labour is fair.
D. Infrastructure Assessment (Cost, Availability and Reliability).	The firm of the respondent is close to the national power grid and a main town. Power is currently reliable since on average less than 12 hours of power outages is experienced within a week. On the other hand, water supply is nit reliable and there exists no effluent treatment plan. There exists a public means of transport.
E. Backward and Forward linkages of SEZs in EAC partner	The respondents did not highlight the forward and backward linkages

Subject Item	Findings
states	
F. The incentives offered at special economic zones in EAC member countries	The respondent pointed out that they had not received any tax exemptions.

Source: JICA Study Team

South Sudan

a) Government and SEZ authorities

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-14 Findings of questionnaire survey for (Government and SEZ authorities) South Sudan

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	<p>The respondents stated that there exists a legal framework for the establishment of SEZ in South Sudan under the strategic plan of the country. It is elaborated in the Strategic Policy Framework 2012/2014 and National Trade & Industrial Policy that provide legal basis for establishment of SEZ.</p> <p>One respondent named the Ministry of Trade and Industry/RSS as the lead agency tasked with regulating SEZ.</p> <p>Both foreign and domestic firms are allowed to operate in the SEZ as clarified by two of the respondents.</p> <p>The respondents stated that there is no operational SEZ at the moment, since SEZ is currently not available in the country.</p> <p>Other agencies/ authorities involved in SEZ matters include:</p> <ul style="list-style-type: none"> • Ministry of Trade and Industry - Issues Operation License • Ministry of Investment - Drafting and Enacting policies • Ministry of Interior- Provide security • State Revenue Authority - Generate Revenue for the state • Ministry of Trade and Industry - policy formulation • Juba City Council - Provide cleaning services and utilities • State Insurance Regulatory Authority - Regulate and Enforced Insurance Policies • Ministry of Finance - policy formulation • Ministry of Land Housing and urban Development - Allocation of land • Ministry of Environment and Forestry –conducting Environment Impact Assessment <p>Majority of the respondents have no role in policy formulation and facilitation of SEZs and trade apart from the Ministry of Trade and Industrialization which Present bills to parliament for enactment and provides investment incentives.</p>
B. Registration, taxation and Licensing of companies in special economic zones	There exists no SEZ currently in the country thus no data on Registration, taxation and Licensing of companies was provided.

Subject Item	Findings
C. Special Economic Zones Data	There is only Juba SEZ which is yet to be operationalized.
D. Characteristics of Special Economic Zones	There are no peculiarities for SEZ in South Sudan since it is yet to be operationalized.
E. Investment Climate	The respondents stated that the Ministry of Road and Transport and Ministry of land, Housing and physical infrastructure is responsible for infrastructure development both onsite and offsite SEZ zones but though such development were planned but yet to be implemented. The respondents highlighted the following challenges that impacts investment climate: <ul style="list-style-type: none"> • Limited Resources. • Poor Infrastructure. • Insecurity. • Economic Crises
F. Identify Backward and Forward Linkages	There is no evidence of backward and forward linkages to SEZ since it is yet to be operationalized.
G. The Incentives offered at SEZ in EAC Member State	The respondents pointed out that the Juba SEZ land is owned by the Government and therefore non-fiscal incentives is in place.
H. Intergovernmental Arrangements	South Sudan is a signatory to EAC

Source: JICA Study Team

b) SEZ developers and operators both public and private

The following are the findings from the questionnaires issued to the SEZ developers and operators both public and private:

- **Tanzania**

a) Government and SEZ authorities

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-15 Findings of questionnaire survey for (Government and SEZ authorities) Tanzania

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	There is an existing legal framework for the establishment of an SEZ. There is allowance for both foreign and domestic firms to operate in the SEZ as pointed out by the respondents. Other government organization/ agency/authorities involved with SEZs include: <ul style="list-style-type: none"> • Ministry of Land, Housing and Human Settlements Developments. • Ministry of Water • Ministry of Finance and Planning. • President's Office Regional Administration and Local Government. • Tanzania Electric Supply Company (TANESCO) • Tanzania Investment Centre One of the respondents' role in policy formulation and facilitation in SEZ include: <ul style="list-style-type: none"> • Participate in Proposing the taxation and levies • Facilitate in formulation of the regulations and approval which contains the required incentives in the SEZ. Guide and facilitate development of the Regulations including approval process.

Subject Item	Findings																																																
B. Registration, taxation and Licensing of companies in special economic zones	<p>For registration one respondent stated that for an operator or developer in the SEZ, the firm should be a new investment, minimum capital of USD 100,000 for Local investor and USD 500,000 for Foreign Investor, Onetime fee payment of USD 5000, Project proposal submission and Application Form with non-refundable fee of USD 300.</p> <p>Also, for licensing requirements for a SEZ developer was Application and Project Proposal submission to EPZA, Certificate of incorporation, declared land for SEZ, EIA Certificate, Onetime fee payment of USD 500.</p> <p>While the licensing requirements for a SEZ operator was Land lease agreement, Certificate of incorporation, EIA Certificate, Application and Project Proposal submission to EPZA.</p> <p>Licensing requirements for domestic and foreign company operating in the SEZ were Application and Project Proposal submission to EPZA, Certificate of incorporation, declared land for SEZ, EIA Certificate, Onetime fee payment of USD 100,000.</p>																																																
C. Special Economic Zones Data	<p>No reliable data was available to the respondents on Foreign Direct Investment, Employment Record, Profitability, Percentage of goods sold in the domestic market, Exports to non EAC countries readily.</p> <p>There are existing SEZs/EPZs which are:</p> <ul style="list-style-type: none"> • Bagamoyo SEZ • Benjamin MKAPA • Kigoma SEZ 																																																
D. Characteristics of Special Economic Zones	<p>One respondent outlined the performance of SEZ over the past decade and it has been having an increasing total revenue accrued to the firm.</p> <p>Two respondents gave the performance of the SEZ in terms of Financial Direct Investments (FDI) and exports as depicted by the table below:</p> <table border="1" data-bbox="499 1095 1265 1480"> <thead> <tr> <th>YEAR</th> <th>FDI (in USD)</th> <th>Exports(in USD)</th> <th>Total(in USD)</th> </tr> </thead> <tbody> <tr><td>2010</td><td>560</td><td>300</td><td>10,000</td></tr> <tr><td>2011</td><td>650</td><td>357</td><td>13,500</td></tr> <tr><td>2012</td><td>792</td><td>440</td><td>16,105</td></tr> <tr><td>2013</td><td>927</td><td>657</td><td>21,493</td></tr> <tr><td>2014</td><td>1,292</td><td>734</td><td>31,923</td></tr> <tr><td>2015</td><td>1,306</td><td>1,124</td><td>36,227</td></tr> <tr><td>2016</td><td>1,469</td><td>1,195</td><td>37,730</td></tr> <tr><td>2017</td><td>1,733</td><td>1,350</td><td>52,395</td></tr> <tr><td>2018</td><td>2,227</td><td>2,194</td><td>57,667</td></tr> <tr><td>2019</td><td>2,240</td><td>2,211</td><td>58,287</td></tr> <tr><td>2020</td><td>2,316</td><td>2,286</td><td>58,702</td></tr> </tbody> </table>	YEAR	FDI (in USD)	Exports(in USD)	Total(in USD)	2010	560	300	10,000	2011	650	357	13,500	2012	792	440	16,105	2013	927	657	21,493	2014	1,292	734	31,923	2015	1,306	1,124	36,227	2016	1,469	1,195	37,730	2017	1,733	1,350	52,395	2018	2,227	2,194	57,667	2019	2,240	2,211	58,287	2020	2,316	2,286	58,702
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E. Investment Climate	<p>There is existence of political support and stability of the SEZ with institutions/Agencies mandated to operate SEZ having the responsibility of onsite infrastructure development and the government the responsible body for offsite infrastructure development.</p>																																																
F. Identify Backward and Forward Linkages	<p>Tanzania Investment Centre is the Investment Promotion Authority/Agency for SEZ and it is mandated to promote Investment for export as pointed out by one of the respondents.</p> <p>There are no regulations in place that facilitate domestic firms to participate in value addition and marketing of products produced by firms operating in SEZ.</p>																																																
G. The Incentives offered at SEZ in EAC Member State	<p>Depending on the SEZ the land could be owned by the investor. Government or it could be leased.</p> <p>Textile and garments, Agri-processing and manufacturing sector are the major sectors targeted by SEZ programme.</p>																																																
H. Intergovernmental Arrangements	<p>The major challenge by one of the respondents is that there is lack of harmonized rules and regulation within the EAC member states.</p>																																																

Source: JICA Study Team

b) SEZ enterprise or users

The following are the findings from the questionnaires issued to the SEZ enterprise or users:

Table 0-16 Findings of questionnaire survey for (SEZ enterprise or users) Tanzania

Subject Item	Findings
A. Registration, taxation and Licensing of companies in special economic zones	Before commencing operations in an SEZ one must have capital investment which is not less than 500,000Usd, a business plan for intended investment, article of association & memorandum of understanding as pointed out by one of the respondents. Also, for licenses one should acquire the EPZA - License, NEMC Certificate, WCF, NSSF, GCLA. Certificate of Incorporation, OSHA registration, Tax Identification Number (TIN), VAT, fire certificates in order for a premise to be authorised to work in an SEZ. There are no penalties accrued for delayed tax filing which is done by 30 th March of every year as stated by one of the respondents.
B. Firm's contact information	Textile industry is the specialization of the respondent's firm with the main market being foreign markets. The company has over 3,000 employees with 90% of the employees being from the local area. The main source of raw materials for garments and denim production is from overseas. Another sector that is involved by one of SEZ users is the food and beverage sector by producing avocado oil for both consumption and cosmetics production.
C. Investment climate or business environment	The cost and quality of labour is moderate with an estimate of 120 USD for locals with skilled labour and 50 USD for unskilled labour per month. For skilled foreign labourers the cost ranges from 800 USD to 1,200 USD. An SEZ user who is under fully funded loans points out the cost of labour is expensive.
D. Infrastructure Assessment (Cost, Availability and Reliability).	One of the SEZ users is located less than 30km from the main town and there is availability of basic amenities in the town. Water and power supply in the SEZ is moderately reliable with less than 24hours without power in a week. There is no public transport system within the SEZ. However, infrastructure projects are provided by the public through the government.
E. Backward and Forward linkages of SEZs in EAC partner states	Foreign countries such as China and Pakistan are the main source countries of the respondent's fabric raw materials at an estimated value of 19,700 USD in the respondent's firm. The main market is foreign countries in the examples of USA and Canada at an estimated value of 32,800USD. On the other hand, sourcing raw materials from the local manufacturers is fairly cheap and of moderate price. Other countries such as USA and European countries are the main source of raw materials for some of the respondent's firms at an estimated value of 675,000 USD.
F. The incentives offered at special economic zones in EAC member countries	A 10% cooperate tax exemption in the first 10 years is awarded to SEZ users as well as other incentives on import duty, domestic purchase and capital goods. One of the challenges one may experience while operating in the SEZ is the exemption processing procedures takes a long time to be obtained and granted.

Source: JICA Study Team

The secondary data revealed that the performance of EPZ and SEZ as follows:

By June 2013, 87 EPZ enterprises were already developed with **direct employment of 26,381, indirect employment of 200,000, capital investment of USD 1,150 million, and export of USD 545 million.** The sectors invested were **textile (13%), Engineering (37%), Mineral processing (18%) and Agro-processing (32%).**

The ten years trend of the performance of SEZ in Tanzania was extracted secondary data and it was as per the figure below:

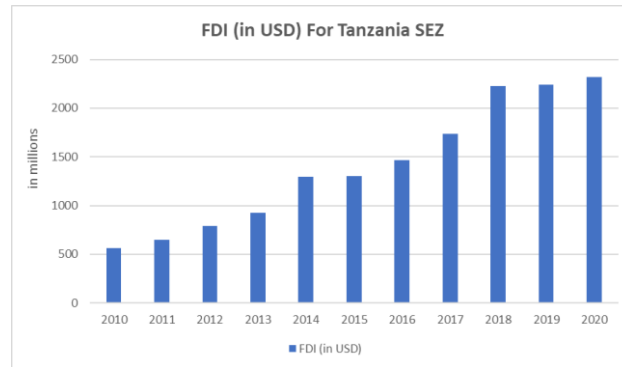


Figure 0-21: The trend of FDI by EPZ firms 2011-2020

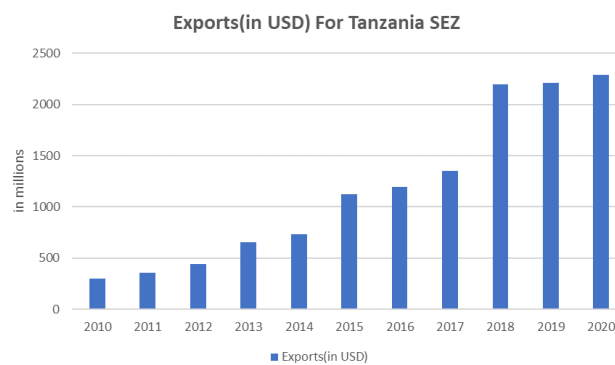


Figure 0-22: The trend of Exports by EPZ firms 2011-2020

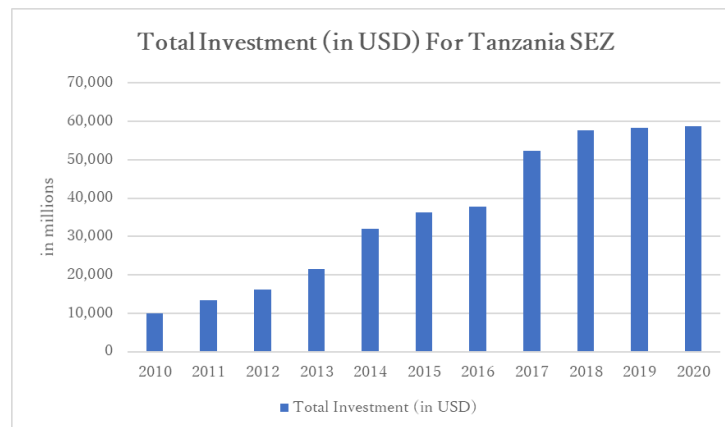


Figure 0-23: The trend of total investment in SEZ 2011-2020

(i) Secondary data: Experience Sharing- EPZA

Export Processing Zones Authority is a government agency under the Ministry of Industry and Trade which was developed in 2006 by law and became operational in 2008. The agency functions are to;

- Promote investments in EPZ and Special Economic Zones.
- Develop Infrastructure with Private or Public partners.
- Facilitate Investments (One stop service Centre).
- License EPZ/SEZ investments.

Zanzibar

Table 0-17 Findings of questionnaire survey for (Government and SEZ authorities) Zanzibar

Subject Item	Findings
A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State	<p>In Zanzibar, there exists a strategic plan for the establishment of an SEZ which is elaborated in the SEZ Development Strategy for Zanzibar of September, 2011 as highlighted by one of the respondents. Ministry of Trade and Industrial Development is the lead agency that regulates SEZ in the islands.</p> <p>Foreign and domestic firms are both allowed to operate in the SEZ as well as private public partnership for both foreigners and domestic investors are welcomed. SEZs and EPZs are the operational forms of SEZ within the area.</p> <p>Other authorities that are involved in SEZ include:</p> <ul style="list-style-type: none"> • Zanzibar Investment Promotion Authority (ZIPA) • Zanzibar Port Cooperation (ZPC) • Zanzibar Maritime Agency (ZMA) • Zanzibar Commission for Tourism (ZCT) • Ministry of Agriculture, Irrigation, Natural resources and Livestock (MAINL) <p>Challenges that are accrued from the policy are; lack of strong coordination on the implementing the SEZ Scheme, lack of financial capital on implementing the SEZ Project and low knowledge and skills.</p>
B. Registration, taxation and Licensing of companies in special economic zones	No data was provided by the respondents.
C. Special Economic Zones Data	Current situation of the SEZ was not provided by the respondents.
D. Characteristics of Special Economic Zones	The respondents did not give highlights of the Special Economic Zone.
E. Investment Climate	<p>Stable political environment as well as political support has played a big role in smooth establishment of SEZ in Zanzibar as stated by one of the respondents.</p> <p>Offsite infrastructure development that links to SEZ is a responsibility bestowed to the President Office, Finance and Planning committee. However, ICT is yet to be emphasized in aiding SEZ growth.</p>
F. Identify Backward and Forward Linkages	Zanzibar Investment Promotion Authority (ZIPA) is the promotion agency for SEZ.
G. The Incentives offered at SEZ in EAC Member State	Matters regarding incentives enjoyed by SEZ users was not shared by the respondents.
H. Intergovernmental Arrangements	No response was administered.

Source: JICA Study Team

• **Uganda**

a) Government and SEZ authorities

The following are the findings from the questionnaires issued to the government and SEZ authorities:

Table 0-18 Findings of questionnaire survey for (Government and SEZ authorities) Uganda

Subject Item	Findings
<p>A. Special Economic Zones Laws, Policies and Regulatory Framework in Partner State</p>	<p>There are several legal frameworks for the establishment of SEZ;</p> <ul style="list-style-type: none"> • Free Zones Act, 2014 as the act of parliament, • National policy frameworks on industrialisation, export development and national development plan • The Investment Code Act, 2019. <p>Uganda Investment Authority and Uganda Free Zones Authority is the lead agency tasked with regulating SEZ as pointed out by half of the respondents.</p> <p>Fully foreign owned firms are allowed in the country in the following sectors: Manufacturing, Commercial activities such as Retail, Office Rental, Service operations, Warehousing and storage, Labelling, Packaging and repackaging, Sorting, grading, cleaning and mixing, Breaking bulk, Simple assembly Grouping of packages, etc.</p> <p>Joint ventures and Public Private Partnership projects are allowed in the country in the following sectors: Manufacturing, Commercial activities such as Retail, Office Rental, Service operations, Warehousing and storage, Labelling, Packaging and repackaging, Sorting, grading, cleaning and mixing, breaking bulk, Simple assembly, Grouping of packages, etc.</p> <p>There other organizations that are involved in the SEZ;</p> <ul style="list-style-type: none"> • Ministry of Trade, Industry and cooperatives • Uganda Free Zones Authority (UFZA) • Uganda Revenue Authority (URA) • Ministry of Finance, Planning and Economic Development (MFPED) <p>UIA has signed Service Level Agreements with all the entities detailed in the Investment Code 2019 as entities supposed to be part of the One Stop Centre for Investors which detail each entity's client service charter.</p> <p>Government provides road, power and connectivity infrastructure up to the site and opens some critical roads within the park. Government is also supposed to provide water and sewerage facilities.</p>
<p>B. Lead Agency</p>	<p>Uganda Free Zones Authority and Uganda Investment Authority are the investment Promotion Authority/Agency for SEZ.</p>
<p>C. Registration, taxation and Licensing of companies in special economic zones</p>	<p>A developer's license is issued to investors which would invest in the development of infrastructure in a Free Zone for either their own use or to let out to other Operators or Business Enterprises.</p> <p>For a domestic company to be eligible for an investment license, it should: be able to demonstrate with a three-year business plan and proof of funding capability to invest a minimum of USD 50,000, It should be incorporated in Uganda.</p> <p>For foreign companies Certified copies of Memorandum of Articles of Association/charter from the country of origin, Registration forms of various information.</p> <p>On tax requirements; All investors, unless provided with a tax waiver or exemption are obligated to pay Value Added Tax 18%, Import taxes which vary, withholding tax of 6%, Pay as You Earn for employees, Tax on dividends 15%.</p>
<p>D. Special Economic Zones Data</p>	<p>There are different firms in place within the SEZ from different sectors; Timber processing, fish processing, mining and warehousing; Agro-processing and Agriculture; Gold Refinery; Textile, apparel, garments.</p>

Subject Item	Findings
E. Characteristics of Special Economic Zones	Goods that are legal in Uganda and goods meant for export are the priorities of SEZ outputs.
F. Investment Climate	All the respondents stated that having political support has played an important role in SEZ growth within the country. The government is responsible as per the new policy on the development of industrial parks.
G. Identify Backward and Forward Linkages	Dedicated Business facilitation and aftercare services, Economies of scale resulting from a centralized business structure with access to many clients, Centralized Customs inspection of buildings, premises, vehicles, vessels entering and leaving the Free Zone are the major services that are provided to SEZ. Nil Excise duty on construction materials for development of free zones by an Operator USD 10m (foreigners) and USD 1m (Ugandan), VAT Exemption on feasibility studies, design construction services, construction materials and earth moving equipment and machinery for entire duration of the development. The investment must be at least USD 50m. Firms in Value addition are allowed tax holidays, access to electricity at USD 5 cent, supported in skills development to facilitate domestic firms to participate in value addition and marketing of products produced by firms operating in SEZ.
H. The Incentives offered at SEZ in EAC Member State	Fiscal incentives in place as highlighted by one of the respondents are Income and VAT exemptions for up to 10 years, Duty free Imports to these zones, while non-fiscal incentives include; Free land, Cheap electricity, Labour skilling. Land is owned by the investors, government or it could be leased depending on the SEZ in place. Agri-processing, Mineral processing and Manufacturing sectors are the sectors that the SEZ firms compete with non-SEZ domestic firms. Certificate of Origin (COO) is applied to the goods produced in SEZ and it is done through an Application is submitted to the Uganda Revenue Authority. There are no residential units as pointed out by two of the respondents.
I. Intergovernmental Arrangements	The Inter-governmental agreements touching on SEZs and regional trade within EAC region are: <ul style="list-style-type: none"> • Bilateral Trade and Investment Agreements • EAC Customs Management Regulations, 2010 (Part xiv, xv) • EAC Customs Union (EPZ) Regulations The major challenges pointed out are; <ul style="list-style-type: none"> • Failure to honour commitments • The 20% threshold for selling in the EAC market impedes investment • Lack of harmonisation of laws and regulations across the EAC member states • Non-tariff barriers Protectionism among member states

Source: JICA Study Team

b) SEZ enterprise or users

The following are the findings from the questionnaires issued to the SEZ enterprise or users:

Table 0-19 Findings of questionnaire survey for (SEZ enterprise or users) Uganda

Subject Item	Findings
A. Registration, taxation and Licensing of companies in special economic zones	The licensing body is the Uganda Registration Services Bureau (URSB) for issuance of Certificate of incorporation. It was pointed out by the respondent that filing of taxes is done monthly

Subject Item	Findings
B. Firm's contact information	The respondent's firm operates under agriculture sector with the foreign market as the primary market of the firm. The firm is 100% foreign owned.
C. Investment climate or business environment	One respondent has a private source of funding, the cost of labour is fair and with quality of skilled labour as good. The firm's output products and sales is mainly for export markets.
D. Infrastructure Assessment (Cost, Availability and Reliability).	The respondent's firm is around 25km from a main town and 1171km from the airport and seaport.
E. Backward and Forward linkages of SEZs in EAC partner states	One respondents pointed out that there were no backward linkages with their firm sourcing input from Netherlands.
F. The incentives offered at special economic zones in EAC member countries	The respondent's firm does not receive any form of tax incentives.

Source: JICA Study Team

Secondary data revealed that in the financial year 19/20 there was an increase in the number of private Free Zones to 22 as compared to 16 in the previous financial year. According to UFZA Annual Report 2019, the total number of licensed Free Zone Operator and Developer now stands at 25.

In addition to that, export earnings from Free Zones also grew by 141% from US\$ 64 million in FY 18/19 to US \$ 154 million. The growth is said to have been driven by increased demand for processed agricultural and mineral products (semi-processed gold accounted for larger percentage).

The impact on employment in 2020 declined but in 2019 the number of employments was high as shown in the figure below:

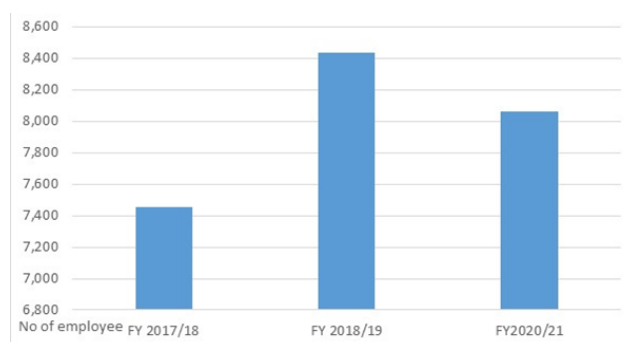


Figure 0-24: The trends of number of people employed by 2018/19 to 2020/21

Total exports grew but also imports grew as shown in the figure below:

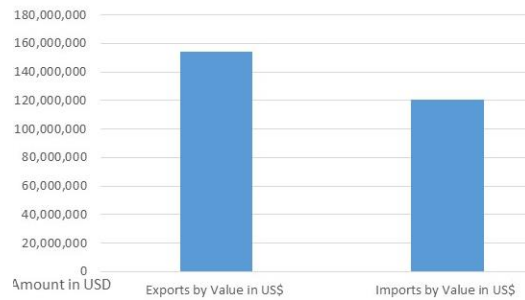


Figure 0-25: The exports vis-à-vis imports

This Study findings reveals that comparatively in the financial 2019-20 to 2017-18 there has been growth in the DDI while FDI. The surge of domestic direct investment in the same period, meaning more locals are taking advantage of the incentives and preferential treatment in the SEZ.

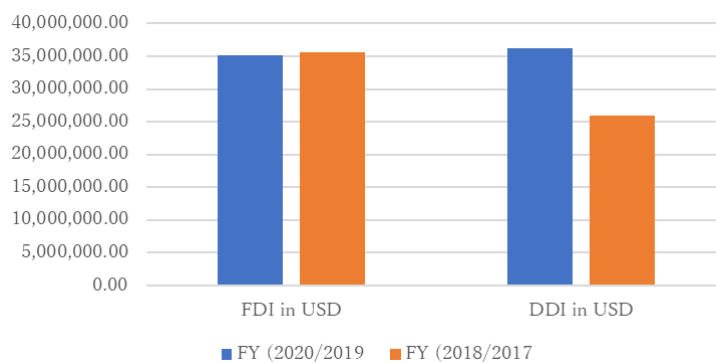


Figure 0-26: The DDI vis-à-vis FDI in 2017/18 and 2019/20 FY

This Study findings also revealed the rise of employment levels in the period between 2017-2020.

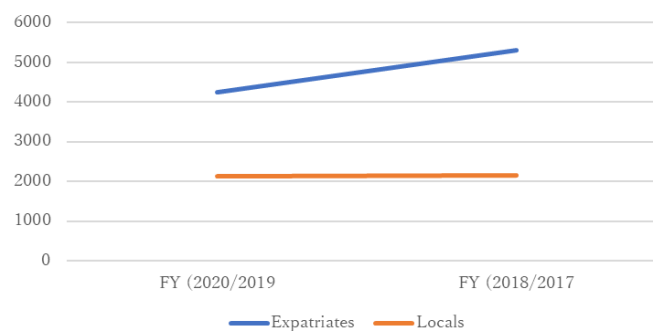


Figure 0-27: The employment trends in 2017/18 and 2019/20 FY

And even though there was a high rise of expatriate's employment, in term of numbers, the salary expenditure has been constant. However, there has been a substantial rise of salary expenditure on the local employees. This implies that, more purchasing power of locals and reduction of poverty levels among the locals.

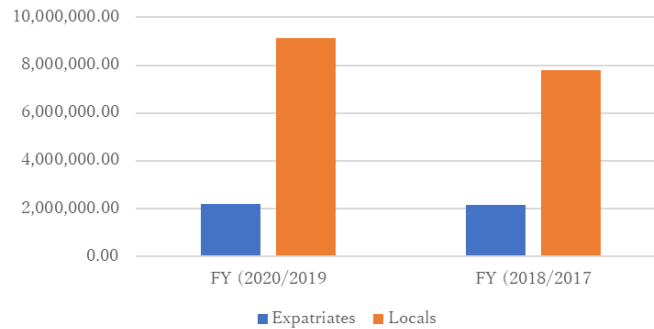


Figure 0-28: The salary expenditures in the zones in 2017/18 and 2019/20 FY

In regard to backwards and forward linkages, the firms in the preferential zone have been sourcing a percentage of their raw materials locally, however this amount has seen a significant decline in the period between 2017-2020. During the same period there has been a surge of imports of raw materials.

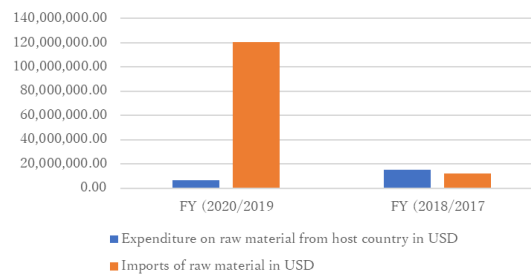


Figure 0-29: Trend of raw materials sourced locally and imported 2017/18 & 2019/20 FY

In summary the secondary data findings are as shown in the table below:

Table 0-20 Comparative view of performance of SEZ 2019/20 and 2017/2018

Type of Data		FY (2020/2019)	FY (2018/2017)
FDI in USD		35,100,011.00	35,570,738.00
DDI in USD		36,184,762.00	25,993,886.00
No of Employees	Expatriates	96	128
	Locals	6,286	8,310
Salary Expenditure in USD	Expatriates	2,178,549.00	2,153,600.00
	Locals	9,149,213.00	7,782,988.00
Exports to non EAC states in USD		154,172,592.00	57,392,015.00
Expenditure on raw material from host country in USD		6,727,400.00	15,097,662.00
Imports of raw material in USD		120,657,100	12,381,314
No. of enterprises in the preferential zones		27	17

Source: JICA Study Team

The findings of this Study noted **that there has been increase of domestic in the preferential zones**. Notably also the findings revealed that **salary expenditure for locals had increased marginally but interestingly there has been a substantial increment in expatriates' salaries**.

The Study findings **also shows increase in backward and forward linkages, with increase in the amount of raw materials sourced locally**. This include, cereals, cotton, timber, minerals, avocado, coffee, macadamia nuts and vanilla. While for forward linkages is noted with increase in the services that are provided by local firms. These **services include**,

logistical services, printing services, building and construction, cleaning services and transport.

This Study findings also reveals that comparatively in **the financial 2019-20 to 2017-18 the sectoral distribution of exports witnessed decline in flowers and tobacco while mineral mainly gold rose dramatically as shown in the table below:**

Table 0-21 Comparative view of Sectoral Distribution Exports 2019/20 and 2017/2018

S/N	Industry	FY2018/19	FY2019/20	% Change
1.	Flowers & Horticulture products	46,209,501	40,456,690	-12%
2.	Semi-manufactured gold	1,098,070	105,125,465	9,473%
3.	Tobacco partly/wholly stemmed	13,353,688	3,374,007	-75%
4.	Wheat Flour	3,079,437	4,916,880	60%
5.	Sandalwood chips & Oil	95,600	299,550	213%
	Total	63,836,296	154,172,592	141

Source: *Uganda Revenue Authority, 2020*

QUESTIONNAIRE

ASSESSMENT OF EAC PARTNER STATES' SEZ POLICY FRAMEWORKS

Context of the assignment

Japan International Cooperation Agency (JICA) has been supporting the EAC on development of regional infrastructure and technical cooperation projects for trade facilitation.

With the support of JICA, the EAC is undertaking a comprehensive assessment of the EAC Partner States SEZ policy frameworks with a view to developing recommendations that can contribute to revising and finalising the draft EPZ Policy and resolving the sales threshold issue in the EPZs.

To obtain the relevant information concerning the EAC Partner States SEZ policy frameworks, a questionnaire has been prepared and is presented below. It will be appreciated if you could facilitate the process by filling the questionnaire.

- ❖ **Date**.....
- ❖ **Location**.....
- ❖ **Name of officer (s) and designation**

- ❖ **Institution**
- ❖ **Contacts: email address and phone number**.....

Key definition of the SEZ for ease of comprehensibility:

Type of SEZ Scheme/ Preferential Zone	Key features
a. Special Economic Zone (SEZ):	The SEZ where various types of investment can be invited: such as, manufacturing, trade and distribution, tourism, entertainment, and finance. It is possible to divide it into sub-zones that have different functions and to establish development concept for each sub-zone in accordance with function.
b. Economic Zone (EZ):	A zone where policies on the economic growth and the promotion of urban development are applied; where start-up businesses and investors in the urban area are provided with tax exemption and deregulation in order to facilitate development.
c. Export Processing Zone (EPZ):	An Industrial Park where such incentives as tariff for the export of materials and corporation tax are exempted for a certain period on the condition that the tenant enterprises export all or over the fixed rate of their products.

d. Free Trade Zone (FTZ):	A small enclosed non-tariff/non-custom area, where warehouses and facilities for trade, transshipment, and re-export are installed. FTZs are set up at all customs in the world.
e. Freeport:	A “port” where the Custom Law of the country is not applied to entire or limited area inside and free trade of foreign freight is permitted, in order to promote transit trade and processing trade.
f. Free enterprises (FEs) or single factory/single unit free zones:	This is where individual enterprises are provided with FZ/EPZ status and allowed to locate anywhere on the national territory. FEs and FZs/EPZs are not mutually exclusive.
g. Industrial park	This is a zoned area for industrial use rather than residential or commercial needs that has fiscal and non-fiscal incentives like tax incentives for businesses to locate there.

Part A: Preferential Zones Data

1. Kindly share respective zone data on Foreign direct investment, Employment Record, Profitability, percentage of goods/products sold in domestic market, sold in the EAC and Exports to non EAC countries readily available.

Type of Data	2021	2020	2019	2018	2017
a) Amount of Foreign Direct Investment (In USD)					
b) Amount of Domestic Direct Investment (In USD)					
c) Number of people Employed by Zones	Expatriates				
	Locals				
d) Expenditure for Salaries (Amount in USD)	Expatriates				
	Locals				
e) Profitability (%)					
f) Repatriated Profits (Amount in USD)					
g) Sales in Host member state (Amount in USD)					
h) Sales to other EAC Partner States (Amount in USD)					
i) Exports to non EAC countries (Amount in USD)					
j) Expenditure for raw materials/inputs procured from Host member state (Amount in USD)					
k) Expenditure for raw materials procured from other EAC Partner States (Amount in USD)					
l) Expenditure for intermediate goods produced in Host member state(Amount in USD)					
m) Expenditure for intermediate goods produced in other EAC countries (Amount in USD)					
n) Expenditure for services/utilities procures from Host member state (Amount in USD)					

o) Expenditure for services/utilities procures from other EAC Partner States (Amount in USD)					
p) Ratio of Foreign Direct Investment against Gross Domestic Profit (FDI/GDP) %					
q) Import of raw material (Amount in \$USD)					
r) Number of Preferential Zones					
s) Number of enterprises in Preferential Zones					
t) Approximated No. of SMEs in Preferential Zone					

2. List the name of Preferential zone, their sector and products available in your country

Name of Zone e.g. SEZ,EPZ,FTZ etc	Sector e.g. Textile, Agro-processing etc	Products e.g. Shirts, Juice, Packed Tea etc.

Part C: Backward and Forward Linkages

3. What are the major raw material provided to the zones by local firms, (multiple answer is allowed) Mark appropriately (✓),

a) Vegetables <input type="checkbox"/> b) Fruits <input type="checkbox"/> c) Tea <input type="checkbox"/> d) Coffee e) Cereals <input type="checkbox"/> f) Cotton <input type="checkbox"/> g) Milk <input type="checkbox"/> h) Timber i) Minerals <input type="checkbox"/>	j) Others (Kindly list):
--	--

4. What are the major Services provided to the zones by local firms, (multiple answer is allowed) Mark appropriately (✓),

k) Logistical Services <input type="checkbox"/> l) Printing Services <input type="checkbox"/> m) Transport <input type="checkbox"/> n) Cleaning <input type="checkbox"/> o) Building and constructions <input type="checkbox"/>	p) Others (Kindly list):
---	--

5. What are the sectors that firms operating in preferential zones compete with non-preferential zones domestic Firms? (multiple answer is allowed) Mark appropriately (✓),

- | | |
|---|--|
| a) Textile <input type="checkbox"/> | b) Manufacturing <input type="checkbox"/> |
| c) Mining <input type="checkbox"/> | d) Electrical and Electronics <input type="checkbox"/> |
| e) Mineral processing <input type="checkbox"/> | f) Pharmaceuticals <input type="checkbox"/> |
| g) Agro-processing <input type="checkbox"/> | h) Food, beverages, Tobacco <input type="checkbox"/> |
| i) Machinery and Equipment <input type="checkbox"/> | j) Business Processing Outsourcing Services <input type="checkbox"/> |
| k) Construction <input type="checkbox"/> | l) Others _____ <input type="checkbox"/> |

6. Please describe any countermeasures taken to mitigate the competition between preferential zone firms and non-preferential zone firms, if there are competing sectors.

END

EAST AFRICAN COMMUNITY



DRAFT EAC SPECIAL ECONOMIC ZONES POLICY

November 2021

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Abbreviations

Term	Definition
EAC	East African Community
EPZ	Economic Processing Zone
ETDZs	Economic Technological Development Zones
EPZA	Export Processing Zones Authority
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
FZ	Free Zone
GDP	Gross Domestic Product
HIDZ	High tech Industrial Development Zones
IMF	International Monetary Fund
Industrial Parks	IP
JICA	Japan International Cooperation Agency
JST	JICA Study Team
KSEZ	Kigali Special Economic Zone
NDC	National Development Corporation
PPP	Public-Private Partnership
RDB	Rwanda Development Board
R&D	Research & Development
RFDA	Rwanda Food and Drugs Authority
RRA	Rwanda Revenue Authority
RSB	Rwanda Standards Board
SEZ	Special Economic Zone
SEZA	Special Economic Zone Authority
SEZAR	Special Economic Zones Authority of Rwanda
ToR	Terms of Reference
SEZ	Special Economic Zone
SME	Small or Medium Enterprise
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania
WTO	World Trade Organization

1.0 INTERPRETATIONS

For purposes of this policy:

Agricultural Zone means an SEZ area which may or may not be an SEZ Customs Controlled Area that is dedicated to agriculture.

Agriculture means farming and related activities including primary agriculture, aquaculture, pastoral and forestry activities; agri-business and agro-processing.

Authorized SEZ Activity means any economic or social activity authorized by the Competent Authority to be undertaken in the SEZs by way of a license or a permit including agriculture, commercial, service, manufacturing, processing, zone development, zone operation and non-core business activities. Such activity is undertaken by an SEZ Business Entity and should not:

- (a) contravene applicable public morality or public safety or security regulations or public hygiene or health norms;
- (b) endanger human or animal health or life;
- (c) violate any vested intellectual property rights;
- (d) be related to exploration and extraction of oil, gas and minerals; and
- (e) be on the SEZ Negative List of a Partner State.

Business Incubation Facility is a defined area within an SEZ designed to facilitate the growth, development and sustainability of entrepreneurial companies through business support resources, dedicated premises and services.

Commercial activity means trading in, breaking bulk, grading, repacking or relabeling of goods.

Competent Authority means an authority designated by a Partner State to oversee all matters related to Special Economic Zones within the Partner State including development, coordination, regulation and operation of SEZs.

Core business activity means an authorized SEZ activity undertaken by an SEZ developer, SEZ operator or SEZ enterprise.

Council means the East African Community Council of Ministers as provided for in Article 13 of the Treaty.

Customs and Excise Authority means a body or an institution designated as such by a Partner State to implement EAC Customs Laws.

Customs Law of the Community means the Customs Law of the Community as provided under Article 39 of the Customs Union Protocol **Customs territory**: means the geographical area of the United Republic of Tanzania, the Republic of Uganda, the Republic of Kenya, the Republic of Rwanda, the Republic of Burundi and any other country granted membership of the Community under Article 3 of the Treaty.

Designation means a process by which the size, location and type of a new SEZ area is declared as such within an EAC Partner State.

Educational Zone means an SEZ area established as a centre of excellence for advanced, world-class teaching and learning and which may or may not be Customs Controlled Area.

Export means to take or cause goods and services to be taken outside the customs territory or into an SEZ customs controlled area or to provide goods or services from one SEZ customs controlled Area to another.

Export Processing Zone means an SEZ Customs Controlled Area established predominantly for export oriented manufacturing, processing and related services.

Financial Services Zone means an SEZ area which may or may not be an SEZ Customs Controlled Area where financial services, including but not limited to commercial and investment banking, insurance, stock brokerage, financial consulting, are attracted and facilitated.

Foreign Country means a country other than a given Partner State.

Free Trade Zone means an SEZ Customs Controlled Area where goods are off-loaded for transshipment, storage and may include bulk breaking, repacking, sorting, mixing, trading or other forms of handling excluding manufacturing and processing.

Free Zone means an SEZ customs controlled area comprising of more than one SEZ scheme.

Freeport Zone means an SEZ Customs Controlled Area located in or adjacent to a port of entry (lake port, river port, seaport or airport) where goods may be unloaded for transshipment, storage, bulk breaking, repacking, sorting, mixing, trading or other forms of handling excluding manufacturing and processing.

Goods include all kinds of wares, articles, merchandise, livestock, matter, baggage, stores, materials, currency and include postal items.

Import duties means any customs duties and other charges of equivalent effect levied on imported goods.

Import means to bring or to cause goods or services to be brought into the customs territory from a foreign country or from an SEZ customs controlled Area.

Industrial Park means an SEZ area with integrated infrastructure specific to the needs of manufacturing and processing industries and may or may not be an SEZ Customs Controlled Area.

Information Communication Technology Park means an SEZ area which may or may not be an SEZ Customs Controlled Area where information and communication

technology related knowledge and service industries including software, film and media industries are attracted and facilitated.

Manufacturing means any activity involving making, producing, fabricating, or bringing into existence by manual, mechanical, chemical or biochemical methods a new product having a distinctive name, character or use.

Non-Core Business activity means supplementary business services, such as commercial banking, insurance, retail shop, restaurant and catering, or any other similar services that the Competent Authority may determine, that are rendered within an SEZ by an SEZ Business Entity that is not an SEZ developer, operator or enterprise.

Non-Core Business Provider means an entity engaged in a non-core business activity and holding an SEZ permit issued by the Competent Authority.

Partner State means any one of the following: Republic of Burundi, Republic of Kenya, Republic of Rwanda, Republic of Uganda, United Republic of Tanzania or any other country granted membership to the East African Community under Article 3 of the Treaty.

Processing means any activity involving a change in condition of merchandise at the first level. Processing may include value addition to minerals, and to agricultural, fishery and forestry produce wholly obtained in Partner States, or may include assembly.

Protocol means the Protocol on the Establishment of the East African Community Customs Union.

Regional Headquarter Zone means an SEZ area which may or may not be an SEZ Customs Controlled Area where enterprises are located for the purpose of directing, supervising and coordinating the commercial, marketing, financial, administrative, production and human resources policies and operations of their related companies, where such companies are located in one or more foreign countries.

Science and Technology Park means an SEZ area which may or may not be an SEZ Customs Controlled Area, devoted to scientific and technological research including educational and research institutions focusing on the development of innovation based industries.

Services means tradable services which are covered under the General Agreement on Trade in Services annexed as IB to the Agreement establishing the World Trade Organization concluded in Marrakesh on the 15th day of April, 1994 and may be prescribed in national legislation of Partner States.

SEZ Business Entity refers to any legal entity authorized under the law of an EAC Partner State to conduct authorized SEZ activities. Such an entity may include a Government department, local authority, State Corporation, Company, partnership, sole proprietorship or branch.

SEZ Customs Controlled Area, which in some Partner States is referred to as an SEZ duty free area means a geographically delimited, fenced-in, physically-secured, and restricted access area comprising SEZ land that is subject to the control and supervision of the Customs Authority under the Customs Laws, that is deemed to be outside the Customs Territory for purposes of exempting customs duties and other customs related charges.

SEZ Developer refers to an SEZ Business Entity issued with an SEZ Developer License by the Competent Authority, to develop an SEZ area, including provision of SEZ infrastructure.

SEZ Developer License refers to the administrative grant of authority issued by the Competent Authority to an SEZ Developer that provides the entity with entitled rights.

SEZ Enterprise which in some Partner States is referred to as User, means an SEZ Business Entity issued with an SEZ Enterprise License by the Competent Authority, to engage in one or more core business activities including manufacturing, processing, agriculture, commercial or service activities within an SEZ.

SEZ Enterprise License also referred to as **SEZ User license** refers to the administrative grant of authority issued by the Competent Authority that provides an SEZ Enterprise with entitled rights.

SEZ infrastructure means a physical structure, developed primarily to serve a SEZ area, and may include road, railway, airport, port, dam, telecommunication facility, electric power generation and reticulation plant, gas and steam distribution plant, sewerage treatment plant, water treatment and distribution plant, bridge or storm sewer; facilities including industrial buildings, office blocks, warehouses, fence, canteen, fire station, clinic, police station, customs inspection areas and parking.

SEZ Negative List means a list of activities not allowed to be undertaken within an SEZ area as determined by a Partner State.

SEZ Operator refers to the SEZ Business Entity issued with an SEZ Operator License by the Competent Authority to administer an SEZ area and to operate SEZ infrastructure.

SEZ Operator License refers to the administrative grant of authority issued by the Competent Authority that provides an SEZ Operator with entitled rights therein.

SEZ Permit refers to the administrative grant of authority issued by the Competent Authority to SEZ business entity that is engaged in non-core business activities in an SEZ.

Special Economic Zone (SEZ) means any designated part of a Partner State territory which may or may not be a Customs Controlled Area that has economic and other laws that are more free-market-oriented than a country's typical or national laws. The SEZs also have on-site administrative regulation, management and services, where the benefits to licensed firms apply; and wherein goods introduced into the SEZ Customs

Controlled Area are exempted from customs duties and taxes.

SEZs have highly developed infrastructure or have the potential for such infrastructure to be developed for conduct of various activities deemed to be of economic importance. SEZs may also provide for essential logistical transport infrastructure such as ports, highways, railways and airports as well as social services and residential areas.

SEZs may include one or more of the following: Township Zones, Freeport Zones, Export Processing Zones, Free Zone, Free Trade Zones, Science and Technology Parks, Industrial Parks, Tourist and Recreational Centres, Information Communication Technology Parks, Agricultural Zones, Regional Headquarter Zones, Educational Centres, Financial Service Zones and other schemes as may be approved by the Council.

Tourist and Recreational Centre means an SEZ area which may or may not be an SEZ Customs Controlled Area, with tourism and recreational related facilities including hotel accommodation, convention, meetings, exhibition, specialized medical care, recreational facilities and long term residences for retired persons.

Township SEZ means an integrated SEZ area that comprises separate subdivisions of SEZ Land that includes both Customs Controlled Areas and Non-Customs Controlled Areas, having a single administrative regulator, and on-site management, SEZ infrastructure, and related services; that is dedicated to authorized SEZ and social activities consistent with a township. Township SEZs may include one or more SEZ schemes such as Freeport Zones, Free Trade Zones, Industrial Parks, Regional Headquarter Zones, etc.

Treaty means the Treaty for the Establishment of the East African Community

1.1 Introduction

EAC Partner States' commitment to develop a Special Economic Zone (SEZ) Policy is envisaged under Article 75 & 76 of the Treaty. Currently the EAC Partner States are at different stages of developing and implementing various Special Economic Zone (SEZ) schemes including Export Processing Zones (EPZs), Free Trade Zones, Free Zones, Industrial Parks and Freeport Zones. While EPZs and Freeport Zones are stipulated in detail in the EAC Customs Laws, other Economic Zone schemes are merely mentioned in the Protocol.

To ensure that Partner States embrace the evolution of economic zones in a structured and harmonized manner, the EAC Council directed that an EAC SEZ Policy be formulated by Partner States. This policy will form the basis of establishment of SEZs program in the EAC.

Such a policy will enhance regional cooperation by encouraging synergies, expanding market access and establishing necessary linkages required for sustainable development. In this respect, the EAC SEZ Policy will play a critical role particularly in developing a diversified and sustainable regional economy through development of intra-regional trade and integration of regional value chains.

Furthermore, this Policy will help EAC raise investment levels in various economic zones schemes, build new backward and forward linkages across the region, upgrade technological capacity and promote a more competitive integration into the world economy that can ensure sustainable development.

Tanzania. Figure 1 below shows the member countries of the EAC.



Source: JICA Study Team

Figure 0-1: East Africa Community Map

1.2 Background

Special Economic Zones are increasingly being used as economic tools to promote private investment, industrialization, employment creation, diversification and export growth by offering quality infrastructure, streamlined business regulations and incentives to SEZs businesses. SEZs enable countries with limited experience in global trade to develop high technology manufacturing, grow new enterprises, commercialize innovations, and provide high-end services.

Countries that have implemented SEZs include Vietnam, Philippines, UAE, Mauritius, Turkey, Malaysia, China, India, Bangladesh, Jordan, Ireland, Costa Rica and Dominican Republic. Examples of economies that have registered remarkable economic growth through the SEZ scheme include China, India and Mauritius.

In China, SEZs and industrial clusters have made crucial contributions to its economic success over the last 30 years. SEZ have contributed significantly to national GDP, employment, exports, and attraction of foreign investment. These schemes have also played an important role in bringing new technologies to China and in adopting modern management practices. It is estimated that as of 2007, SEZs (including all types of industrial parks and zones) accounted for approximately 22% of national GDP, 46% of FDI, 60% of exports and generated in excess of 30 million jobs.

In 2007, 54 High tech Industrial Development Zones (HIDZs) hosted approximately half the national high-tech firms, and science and technology incubators. They registered 50,000 invention patents in total, more than 70 percent of which were registered by domestic firms and also hosted 1.2 million Research & Development (R&D) personnel (18.5 percent of HIDZ employees) and accounted for 33 percent of the national high-tech output. Within a 15 year period since their formation, HIDZs accounted for half of China's high-tech gross industrial output and one-third of China's high-tech exports. In addition, the Economic Technological Development Zones (ETDZs) were also responsible for another one-third of China's high-tech industrial output and exports.¹

In the case of India, between 2000-2001 and 2010-2011, India's economy saw a surge in the number of exporting units as well as fresh proposals for setting up of different types of SEZs. As a result in the year 2009-10, 130 SEZs together generated almost 26 per cent of country's total exports.

The World Bank Report on Special Economic Zones in Africa reports that has been a meteoric rise in economic zones (export processing zones (EPZs), free trade zones (FTZs), special economic zones (SEZs)). "There are nearly 5,400 zones across 147 economies today, up from about 4,000 five years ago, and more than 500 new SEZs are in the pipeline. The SEZ boom is part of a new wave of industrial policies and a response to increasing competition for internationally mobile investment."² This has resulted to growth in foreign direct investment (FDI), exports, and employment. In East Africa most Economic Zone programs were initiated in the 1990s.

¹ World Bank working paper, (Douglas Zhihua Zeng, April 2011)

² UNCTAD/WIR/2019 World Investment Report 2019: Special Economic Zones

Exports from SEZs can account for a significant share of national exports. Most African economies whose exports are growing the fastest, have a well-developed SEZ programme with one or more SEZs. SEZs have also led to export diversification. From raw agro-products to high value added agro-processing exports and from apparel and textile to electronic components. The SEZ impact on trade growth is stronger in the short-term and relatively weaker in the long-term. SEZs have a greater positive impact on exports when outward-looking and export-oriented policies are in place at the national level.

SEZs have given a significant boost to FDI flows to Africa which increased by 11% in 2018 to \$46 Billion. The prospects for 2021 are positive and FDI is expected to increase. SEZ can create attractive investment conditions and enhance foreign direct investment. In many African countries, SEZs account for significant share of country FDI, for example, it is 21% and 10% in South Africa and Kenya respectively. SEZs can influence the type of foreign investment especially in high-technology and professional sectors. Sectors located in SEZs can be linked with high economic growth rates and investment return.

SEZs though economic development have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 5 years, more than 60 million jobs have been created the majority in Agro-processing instead of traditional farming. Zones have created direct jobs and indirectly through supply chains in construction, manufacturing, mining and utilities and in highly skilled sectors such as telecommunications and digital products. The rate of job creation in SEZ programmes has significantly outpaced the total employment growth in the country. SEZs can be linked with increased labour productivity and skills improvement.

SEZs programmes are usually adopted to meet countries' quantitative growth goals (i.e. investment attraction, trade promotion, job creation and exports increase), dynamic (i.e. industrial upgrading, skills development, economic diversification and structural change, as well as integration into value chains) and socioeconomic (i.e. sustainable development, quality of employment and environmental protection) objectives. Although the objective of most SEZs in Africa, especially in Sub-Saharan Africa, is to enhance manufacturing and exports in low-skill, labour-intensive industries such as garments and textiles, some countries are targeting diverse sectors and higher value addition.

Some of the key principles learnt from the successful implementation of SEZ schemes in various countries, which should be applied, are the following:

- (a) gradualism with an experimental approach;
- (b) strong commitment by Government and Private Sector;
- (c) active, pragmatic facilitation by public institutions;
- (d) effective public-private partnerships;
- (e) clear preferential policies and broad institutional autonomy;
- (f) increase attraction of both foreign and domestic direct investment including the participation of Diaspora;

- (g) clear goals, vigorous benchmarking and monitoring;
- (h) fostered competition;
- (i) integrated business value chains and social networks;
- (j) continuous technology learning and upgrading.³

While SEZs have increasingly been used as tools of economic development in various parts of the world, the implementation of these programs have been affected by a number of challenges which include: poor governance, lack of institutional framework, lack of political commitment, weak implementation capacity, lack of proper monitoring and evaluation mechanism, absence of a clear legal framework which incorporates attractive incentives.

Therefore, the development and implementation of the EAC SEZ Policy should aim at exploiting the principles that have characterized the successes world over while mitigating the challenges that hindered the progress in some countries. The table summarizes on the types of SEZ that can be implemented in the region.

Table 0-1 Types of SEZ and their key features

Type of SEZ	Key features
a. Multipurpose SEZ:	The SEZ where various types of investment can be invited: such as, manufacturing, trade and distribution, tourism, entertainment, and finance. It is possible to divide it into sub-zones that have different functions and to establish development concept for each sub-zone in accordance with function.
b. Economic Zone (EZ):	A zone where policies on the economic growth and the promotion of urban development are applied; where start-up businesses and investors in the urban area are provided with tax exemption and deregulation in order to facilitate development.
c. Export Processing Zone (EPZ):	An Industrial Park where such incentives as tariff for the export of materials and corporation tax are exempted for a certain period on the condition that the tenant enterprises export all or over the fixed rate of their products.
d. Free Trade Zone (FTZ):	A small enclosed non-tariff/non-custom area, where warehouses and facilities for trade, transshipment, and re-export are installed. FTZs are set up at all customs in the world.
e. Freeport:	A “port” where the Custom Law of the country is not applied to entire or limited area inside and free trade of foreign freight is permitted, in order to promote transit trade and processing trade.
f. Free enterprises (FEs) or single factory/single unit free zones:	This is where individual enterprises are provided with FZ/EPZ status and allowed to locate anywhere on the national territory. FEs and FZs/EPZs are not mutually exclusive.
g. Industrial park	This is a zoned area for industrial use rather than residential or commercial needs that has fiscal and non-fiscal incentives like tax incentives for businesses to locate there.

Source: JICA Study Team

³ World Bank Working paper, (Douglas Zhihua Zeng No.5583, March 2011)

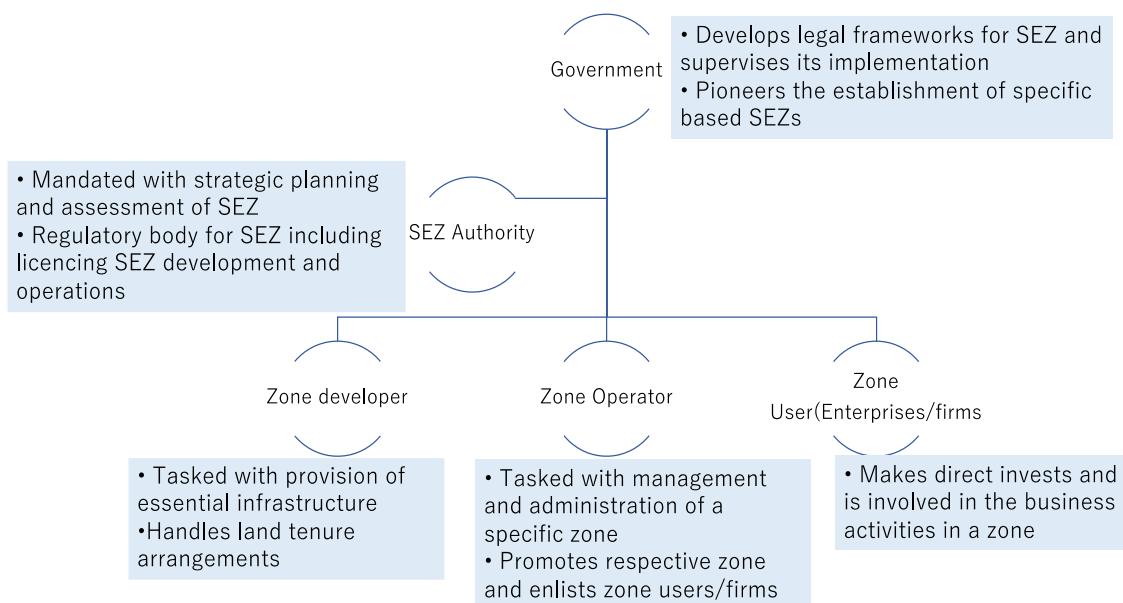
1.3 Salient features of SEZ

The literature further revealed the following as pertinent to SEZ among other key issues:

- ✓ Robust legal frameworks that clearly defines SEZ and special privileges
- ✓ Socio-economic-political environment that is stable
- ✓ Dynamic policy that provides for onsite and offsite infrastructural development that supports SEZ
- ✓ One-stop-shop that supports SEZ and reduces bureaucratic red tape for administrative procedures
- ✓ Accessibility to skilled and non-skilled labour without punitive restrictions
- ✓ Proactive political leadership that champions for SEZ

1.4 Key Stakeholders in an SEZ Regime

The key SEZ stakeholders are as per the figure below



Source: JICA Study Team

Figure 0-2: SEZ Stakeholders Framework

1.5 Implications of SEZ Programmes in EAC (lesson and challenges)

The SEZ can be an important policy tool that can spur development if properly harnessed and implemented. It is imperative that feasibility studies be undertaken before establishment of SEZ. The following challenges are noted for RTAs vis-à-vis SEZ.

Challenge 1: Traditional EPZs vis-à-vis RTA wherein the EPZ are country specific while RTA are bilateral or multilateral in nature and with the fiscal incentives that a specific country gives to EPZ makes it difficult for RTA to allow products from that EPZ to be freely traded in RTA region because of its fiscal advantage of the local firms in

the region.

Challenge 2: Tariff-jumping by EPZ firms by reason that most are foreign firm and thus jump over tariff wall to avoid trade costs of payment of requisite taxes by reason that the products of the EPZ are manufactured within a Partner State territory within an RTA

Challenge 3: Trade triangulation wherein products manufactured under SEZ scheme (financial incentives) to be sold in the RTA region and this may be catastrophic when other products use the same window through relabelling the country of origin at SEZ and enter into the region without originating from the RTA region

EAC region can extract lessons from South East Asia that focuses on industrial development and enhance linkages to local economy and technological transfer that builds local human resource quality. Moreover, the South East Asia also leverages on its large markets to attract investment rather than engaging in the unsustainable fiscal incentives.

2.0 SITUATIONAL ANALYSIS

Special economic zones (SEZs) are spatially delimited areas within a country where the rules of business are different from those that prevail in the rest of the national territory. The zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the rest of the national territory. These differential rules mainly deal with investment conditions, international trade and customs, taxation, and the regulatory environment.

Currently the SEZ in EAC have legal frameworks that has established the institutional frameworks that regulate SEZ. The Partner States that have implemented the SEZ schemes have put structures in place that have allowed SEZ firm to enjoy some benefits through the fiscal and non-fiscal incentives.

2.1 Economic Zones Initiatives in Partner States

1) Burundi

- **Legal Framework and SEZ Definitions**

Burundi legislated Free Zones in 1992 with the following legal framework : La Loi No. 1/015 du 31 juillet 2001 portant Révision du décret-Loi No. 1/3 du 31 aout 1992 portant création d'un régime de zone franche au Burundi.

- **SEZ Management Body and its Functions**

Burundi Special Economic Zones (BSEZ) together with its Managing Authority were established in Burundi by a Presidential Decree Law to promote exports, provide an enabling environment and attract local and foreigner direct investments.

- **SEZs in the Country**

The location of the SEZ is in the province Bujumbura, Mutimbuzi commune in the Gatumba zone, the Warubondo site which will host the Special Economic Zone covers an area of 5.43 km square on a territory of 536 ha. To the north and west, it is bounded by the Rukoko reserve.

- **Benefits and Incentives for SEZ**

The data further points out that Burundi Special Economic Zones (BSEZ) together with its Managing Authority were established in Burundi by a Presidential Decree Law to promote exports, provide an enabling environment and attract local and foreigner direct investments. The Burundi SEZ offers a number of attractive fiscal and non-fiscal incentives including reduction or temporary tax exemption.

The Burundi SEZ offers a number of attractive fiscal and non-fiscal incentives including reduction or temporary tax exemption.

- **Challenges for SEZ**

The challenges noted were as follows:

- ✓ Roads: the impassability of the road leads to Sororezo is not tarmacked and RN4 (Chanic-Gatumba), this road is impassable and this has hindered the development activities of the SEZ site; and
- ✓ The area or the land allocated to SEZs around L. Tanganyika in Bujumbura experiences flooding challenges. The Warubondo site is also swampy, and floods during the rainy season, it gets so flooded.

2) Kenya

- **Legal Framework and SEZ Definitions**

These two authorities are established under the following laws: Export Processing Zones Act 12 of 1990; Special Economic Zones Act, No. 16. SEZA as the managing authority grants licenses to operate in a Special Economic Zone either as a Special Economic Zones Developer, operator or enterprise. The SEZ in Kenya are premised upon these legislative Special Economic Zones Act and Special Economic Zones Regulations 2016 in Kenya:

While literatures also points out that Special Economic Zones in Kenya include Free Trade Zones (FTZ), Industrial Parks, Free Ports, ICT Parks, Science and Technology Parks, Agricultural Zones, Tourist and Recreational Zones, Business Service Parks and Livestock Zones.

- **SEZ Management Body and its Functions**

There are two major preferential trade zones in Kenya namely EPZ and SEZ. Export Processing Zones Authority is the managing Authority for EPZ while for SEZ, Special Economic Zones Authority is the managing authority.

SEZA as the managing authority grants licenses to operate in a Special Economic Zone either as a Special Economic Zones Developer, operator or enterprise.

Functions of SEZA under SPECIAL ECONOMIC ZONES REGULATIONS 2016 IN KENYA

- ✓ Licensing of Special Economic Zone

For the development of special economic zones, the authority selects and concludes an agreement with SEZ developer to operate in special economic zone.

After review of the license application, the authority issues a licence to developers and operators to conduct business activities as per the agreement.

- ✓ Licensing of Special Economic Zone enterprises

The authority has an electronic system used for registration process. Later it evaluates the application for SEZ licence by ensuring all the technical requirements, policy requirements and environmental protection requirements are met.

- ✓ One-stop shop.

To facilitate performance of all the functions, powers and responsibilities assigned to the authority, a one stop shop is located in every SEZ and reports

to the headquarters.

- ✓ Investment Rules

The Authority and all government entities offer equal treatment to both foreign nationals and local nationals with respect to all business activities.

One of the obligations accorded to an SEZ developer is that they can lease or sell land within the SEZ only after consultation with the authority. For implementation of the regulations, a service level agreement is used which involves cooperation agreements between authority and all government entities.

- **SEZs in the Country**

Export Processing Zones, aims at attracting and facilitating export-oriented investments. And literature shows that there are 61 EPZ operating in Kenya. Currently, Kenya has 10 Special Economic Zones that are either public or private

- ✓ Public SEZ: Dongo Kundu- in Mombasa County, Naivasha in Nakuru County and Konza Technopolis in Makueni County. There is a plan to add two more public SEZs: one in Miwani, Kisumu County and another in Miritini, Mombasa County
- ✓ Private SEZ: Tatu City - Kiambu; Africa Economic Zone - Uasin Gishu; Compact Free Trade Zone - Machakos; Northlands - Kiambu; SBM - Kwale; Lamu Resort City -Lamu.

- **Benefits and Incentives for SEZs**

Under this Act, Special Economic Zones Act in Kenya, SEZ developer, operator and enterprises enjoy the following exemptions on investment incentives:

- ✓ Stamp duty on the execution of any instrument relating to the business activities of special economic zone.
- ✓ The provisions of the Foreign Investments and Protection Act relating to certificate for approved enterprise.
- ✓ The payment of advertisement fees and business service permit fees.
- ✓ General liquor licence and hotel liquor licence.
- ✓ Manufacturing licence.
- ✓ Licence to trade in unwrought precious metals.
- ✓ Filming licence.
- ✓ Rent or tenancy controls.

Special Economic Zones in Kenya anchors on SEZA as a one stop agency for expedited administrative procedures. The SEZ in Kenya are characterized with infrastructural development, PPP, private sector involvement domestic investment and positive backward and forward linkages.

- **Economic Impacts of SEZ**

a) Trade

Export: Kenya in the last five years there has been a rapid growth of exports from SEZ for example in 2020, exports were estimated at \$696million compared to 2017 where exports were estimated at 587.3millions total exports of goods. The EPZ

has recorded increased and substantial exports since 2010 **where exports stood at \$ 366.1M compared to 2020 where sales were estimated at \$696M.**

b) Investment

FDI: The Foreign Direct Investment has also been increasing in the last 10years. Records from EPZ show that **in 2010 FDI was estimated at \$366.3M whereas in 2020 it stood at \$453.9M**

DDI: Domestic Direct Investment is also recorded to be improving though responses from this study show that it has been fluctuating. One of the respondents showed that in their enterprise DDI in **2021 was \$1.2M, in 2020 it was \$1.7M, in 2019 it was \$3.1M whereas in 2018 it stood at \$1.4M.**

c) Employment

Employment: The EPZ have continuously offered work to a very high number of people. **In 2010 an estimated 20,167 women were employed by EPZ, this number has significantly risen over the years, as of 2020 the number of women employed at EPZ stood at 41,060.**

- **Challenges for SEZ**

Extracting some of the characteristic of EPZ from the various literature and they note as follows:

- ✓ It is noted that EPZ firms import their intermediate goods.
- ✓ It is also noted that the EPZ offer low wages and hazardous working conditions for employees.
- ✓ It is noted that EPZ are characterized with poor transport and infrastructural facilities that hindered seamless connectivity for goods/services mobility.

The major challenges SEZ face are:

- ✓ Disruptions in global supply chains, particularly for raw materials sourcing affects SEZs;
- ✓ Expensive human resource cost for skilled expertise since the domestic market cannot provide high skilled labour the SEZ has to use expatriates whose cost are high;
- ✓ Private sector promoters of SEZs, lacks an umbrella organization or company that specifically promotes SEZs across the board.

3) Rwanda

- **Legal Framework and SEZ Definitions**

Rwanda legislated Special Economic Zones SEZ in 2011 with the following legal framework: Law Regulating Special Economic Zones in Rwanda, No.05/2011 of 21/03/2011.

- **SEZ Management Body and its Functions**

The management of Special Economic Zones in Rwanda is under the Rwanda

Special Economic Zones Authority (RSEZA) which licences the developer of SEZ and also issue licence to operator of the SEZ. While the user (firms) also must be licenced by RSEZA. RSEZA operates under Rwanda Development Board (RDA).

- **SEZs in the Country**

Currently, Rwanda has 2 Special Economic Zones with over 120 enterprises in them and 8 more SEZ are in the planned pipeline. The two are:

- ✓ Kigali SEZ : operated as a public-private partnership in cooperation with Prime Economic Zones (PEZ) a Rwandan firm is the operator.
- ✓ Bugesera Special Economic Zone: Still under construction but it has attracted attention of at least 20 investors.

- **Benefits and Incentives for SEZs**

(New Investment Law in Rwanda)

Under this new investment law investor incentives were as follows:

- ✓ Incentive relief from preferential withholding tax, corporate income tax, corporate income tax holiday of up to 5 years.
- ✓ Preferential tax incentives for a philanthropic investor.
- ✓ Incentives for specialized innovation park developers and specialized industrial park developers such as exemption from property tax and payment of land transfer fees.
- ✓ Value added tax refund.
- ✓ Talent attraction incentives. Foreigners start up and innovative entrepreneurs are eligible for a 2-year entrepreneurship visa.
- ✓ Accelerated depreciation rate of fifty per cent (50%) for the first year for new or used assets.
- ✓ Exemption from customs taxes and duties for products used in export processing zones
- ✓ Incentives for internationalization such as overseas marketing and public relation activities, participant in overseas fair trading, and overseas business development cost.
- ✓ Incentives for the mining sector where they are entitled to carry forward losses for 10 years from first year of making losses.
- ✓ Immigration incentives of recruiting 3 foreign employees without demonstrating their skills are lacking or insufficient on the labour market in Rwanda.

- **Economic Impact of SEZ in Rwanda**

a) Trade

Export: In Rwanda in the years between **2013 and 2016**, the Kigali Special Economic Zone (KSEZ) has made up between **4.5-10% of all national exports** and appears to have successfully catalysed Rwanda's export promotion. KSEZ is an important source of non-traditional export products and has expanded the scope of product types exported. It has also made a positive contribution to Rwanda's trade balance for almost all quarters that it has operated.

b) Investment

FDI and DDI: According to a respondent from SEZAR two SEZ in the 2021 were able to attract **FDI and DDI at approximately \$3 billion employed 13394 permanent employees.**

From **2015 to 2019, the KSEZ attracted US\$ 665.8 million in investments generating US\$ 349.2 million in export revenues.**

c) Employment

Employment: Employment at SEZ in Rwanda is also significant, a respondent pointed out that **2 firms in 2021 had employed 13,394 persons.** This is a big number for only two firms. Majority of this employees are women.

- **Challenges for SEZ**

The challenges SEZ face in Rwanda include:

- ✓ Poor public transport links between SEZ area and the other parts of the city.
- ✓ SEZ areas lack social infrastructure like restaurants.
- ✓ Grid power is not reliable leading to additional expense of private power supply to supplement national grid provided for power.⁸
- ✓ Intermittent supply of water.

4) South Sudan

- **Legal Framework and SEZ Definitions**

There exists a legal framework for the establishment of SEZ in South Sudan under the strategic plan of the country and Ministry of Trade and Industry is the lead agency that regulate SEZ. Both foreign and domestic firms are allowed to operate SEZ even though there is no operational SEZ in the country. Several ministries are involved in SEZ issues.

- **SEZ Management Body and its Functions**

South Sudan Investment Authority is responsible for the setting up of export processing zones and special economic zones

- **SEZs in the Country**

The process is still in its infancy, though the government of South Sudan in 2013 officially launched the establishment of the Juba Specialised Economic Zone (SEZ), which is an industrial area for business and investments activities it sits on a 625 square km land and is located about 30km from the South Sudan capital.

Juba SEZ is geographically designed to provide logistics for import and export of goods as well as providing socio-economic development in terms of employment and services and to enhance economic growth.

- **Benefits and Incentives for SEZs**

Currently the SEZ is yet to be operationalized in South Sudan and therefore it is not possible to identify benefits and incentives of SEZs in South Sudan.

- **Challenges for SEZ**

The challenges Juba SEZ faces include:

- ✓ Limited physical infrastructure (Roads, Railways) to facilitate movement of goods and services for production and productivity.
- ✓ Investment climate is currently characterized by insecurity as a result of political instability, leading to investors shying off.
- ✓ Limited source power, energy is fundamental perimeter for investment and currently the power supply is limited with frequent blackouts.
- ✓ Slow pace in legal framework for fiscal incentive and administrative procedures for SEZ.
- ✓ Limited skilled labour to work in the SEZs which will lead to high cost in hiring expatriates.

5) Tanzania

- **Legal Framework and SEZ Definitions**

Both EPZ (operational since 2002) and SEZ (operational since 2006) are operational in Tanzania, the legislation that the two are anchored in are: Export Processing Zones Act 2002 and Special Economic Zones Act, Chapter 420, Revised edition of 2012.

- **SEZ Management Body and its Functions**

The management of Export Processing Zones and Special Economic Zones is under the Export Processing Zone Authority (EPZA) which is responsible for steering and implementing government policy on promotion of Special Economic Zones (SEZ) in Tanzania. EPZA also take the lead in the development of EPZ and SEZ infrastructure, provision of business services to EPZ and SEZ investors, and issuing of EPZ and SEZ licenses.

There are two major types of preferential zones operational in Tanzania namely the Export Processing Zones and the Special Economic Zones:

Export Processing Zones: The EPZ is responsible for manufacturing products for export and it exports at least 80% of the products. It can be a standalone factory unit or Industrial parks. For an enterprise to be eligible in EPZ, it has to be a new investment, export at least 80% of goods produced and the annual exports should be USD 500,000 and above.

Special Economic Zones: The SEZ involves investments in all sectors for both export and local markets. The business must locate in the zone and it can be one or more areas of the following; industrial parks, EPZs, Free Trade Zones, Free Ports, Tourist Parks, Technological Parks or any other areas prescribed by Authority. For an enterprise to be eligible in SEZ, it has to be new investment and a minimum capital of USD 500,000. There are three operational SEZ

projects in Tanzania;

The agency functions are to:

- ✓ Promote investments in EPZ and Special Economic Zones.
- ✓ Develop Infrastructure with Private or Public partners.
- ✓ Facilitate Investments (One stop service Centre).
- ✓ License EPZ/SEZ investments.

Zanzibar Investment Promotion Authority (ZIPA) is tasked with investment promotion, facilitation, Free Economic Zones and Free Ports in Zanzibar.

• **SEZs in the Country**

Tanzania has both public and private SEZ:

- ✓ Public SEZ: Benjamin William Mkapa (BWM) SEZ established in 2006 and thereafter MITI established Tungi SEZ. The others areas that are planned: Coast, Morogoro, Iringa, Njombe, Mbeya and Songwe Regions, Bagamoyo, Mtwara, Kigoma, Tanga, Ruvuma, Dodoma and Manyoni, and the Kurasini Logistic Centre.
- ✓ Private SEZ: Star City SEZ located in Morogoro region which is a JV between Dominion Plantation Ltd from Tanzania and Hyflux Limited from Singapore; Vigor SEZ Project in Kisarawe Coast region being developed by Turkey Group of Companies; and Bagamoyo SEZ which is being developed by JV of China Merchants Ports Holding Company of China and the State General Reserve Fund (SGRF) of Oman.

Currently, Zanzibar has five Free Economic Zones (FEZs),

• **Benefits and Incentives for SEZs**

The investment incentives include:

- ✓ Corporate Income Tax Holiday for 10 years
- ✓ Exemption on Import Duty & VAT on Capital goods, Raw materials, Construction materials
- ✓ VAT on utilities
- ✓ Withholding Tax on rent, dividends and interests
- ✓ Privileged procedures on Visas, Work Permits, transfer of Profits, Dividends and Royalties, Best and fast facilitation services through a One Stop Centre.

• **Economic Impact of SEZ in Tanzania**

a) **Trade**

Export: According to this Study, trade in terms of export has improved significantly in Tanzania in the last 10years. **In 2010 exports from SEZ were estimated at \$300M which has now increased to \$2,286M in 2020** according to our respondent.

b) **Investment**

FDI: Foreign Direct Investment as a result of SEZ has also been increasing, in 2010 it was recorded at **\$560M as compared to \$2,316M in 2020.**

c) **Employment**

The rate of employment for both **male and female** has increased to **over 82%** since the establishment of SEZ.

- **Challenges for SEZ**

Literature identifies the following challenges for Export Processing Zones in Tanzania:

- ✓ EPZ scheme has not effective to generate significant economic impact on the local economy because of:
- ✓ Weakened legal framework (public policy support was not well organized)
- ✓ Unreliable energy supply
- ✓ Labor of the requisite skills is not sufficiently available,
- ✓ Lack of linkages to the local economy.

Literature identifies the following challenges for Special Economic Zones in Tanzania:

- ✓ Inadequacy of physical infrastructure onsite and offsite SEZ including transport infrastructure, serviced land and factory buildings for leasing to potential investors.
- ✓ Unreliable supply of power, water, internet
- ✓ Clogged administrative procedure
- ✓ Weak linkages to the local economy
- ✓ Limited technological transfer to local SMEs
- ✓ Restrictive measures for start-ups due to high capital investment requirement currently at of USD 500,000 for foreign investors and USD 100,000 for local investors

6) **Uganda**

- **Legal Framework and SEZ Definitions**

The Uganda Free Zone act of 2014 was developed to provide guidance on the creation and management of Free Trade Zones, this led to institution of Uganda Free Zones Authority (UFZA) and Free Zones Regulations No.68 of 2016.

- **SEZ Management Body and its Functions**

There are two major types of SEZ in operation in Uganda the Free Zones and Industrial and Business Parks.

The management of Special Economic Zones in Uganda is under the Uganda Free Zones Authority (UFZA) and falls under the under the supervision of the Ministry of Finance Planning and Economic Development (MFPED). UFZA is responsible for the establishment, development, management, marketing, maintenance, supervision and control of free zones and to provide for other related matters. Specifically, UFZA does the following:

- ✓ Establish, Develop and Manage Free Zones
- ✓ Regulate, Licence, Supervise and Control Free Zones
- ✓ Promote and Market Free Zones

The Industrial Parks are managed by Uganda Investment Authority (UIA). The

UIA operates as a one stop facilitator for investors.

- **SEZs in the Country**

The Free Zones that are licensed for operation are; Kimsam Investments Free Port Zone, Shree Modern Textiles Free Zone and Block chain Technologies Free Zone.

- **Benefits and Incentives for SEZs**

The benefits that free zone developer, operator, or manager licenses include;

- ✓ Exemption of taxes and duties on all export processing, imported raw materials, and intermediate goods, machinery and equipment, spare parts, for exclusive use in the development and production of output for business enterprise,
- ✓ Acceleration of export-oriented manufacturing,
- ✓ Boosting Direct Domestic Investment (DDI) and attraction of Foreign Direct Investment (FDI), generation of employment opportunities and incomes for people,
- ✓ Boosting exports and increasing foreign exchange earnings.

- **Economic Impact of SEZ in Uganda**

- a) **Trade**

Trade: Export earnings from Free Zones also grew by 141% from US\$ 64 million in FY 18/19 to US \$ 154 million. The growth is said to have been driven by increased demand for processed agricultural and mineral products (semi-processed gold accounted for larger percentage).

- b) **Investment**

Free Zones investment in Uganda stood at US\$154,172,592 during the FY2019/20, an increase by 143% from US\$63,836,296 registered in FY2018/19.

FDI and DDI: According to the secondary data FDI and DDI have increased in Uganda as a result of the free zone. **In the F/Y 2020/2019 FDI was estimated at \$35,100,011. DDI stood at \$36,184,762.**

- c) **Employment**

Employment from the free zone has been high even though it declined in 2020, this could be attributed to the Covid-19 pandemic. Salary expenditure on locals in the financial year **2020/2019 was estimated at \$9,149,213.**

- **Challenges for SEZ**

The challenges for SEZ include:

- ✓ Limited or poorly developed infrastructures both onsite and offsite infrastructures like roads, power, water supply, ICT
- ✓ Weak financial institutions, capital and money markets to support domestic investment in the Free Zones.
- ✓ Limited land for investment and expansion of production plants due to

- poor land tenure system.
- ✓ Lack of free zone political champions leading to slow implementation of policy.
- ✓ The challenges faced by Free Trade Zone include;
- ✓ Lack of standards in products,
- ✓ supply chain constrains,
- ✓ lack of Market information,
- ✓ lack of export infrastructure and global competition
- ✓ Unaware of free zones by Ugandans

2.2 Existing EAC Laws and Regulations on Special Economic Zones

The establishment of Export Processing Zones and Special Economic Zones were anticipated at the time of Partner States' ratification of the Protocol on the Establishment of the EAC Customs Union in 2004.

The Protocol provides for Special Economic Zones but only expounds on one type of Special Economic Zone namely Freeports. Presently, the only annex to the Protocol that deals with SEZ matters is Annex VIII on EAC Customs Union Freeports operations regulations. The protocol further provides for other Special Economic arrangements by Partner States.

The Protocol also included Export Processing Zones (EPZs) as one of several export promotion schemes. EPZs were implemented through the EAC Customs Union (Export Processing Zones) regulations under Annex VII to the Protocol.

The EAC Customs Management Act of 2004 -the law that implements the Protocol- only provides for the treatment of goods within Freeport and EPZs and makes no mention of other forms of SEZ schemes.

The following table summarizes the relevant sections of the EAC legal framework that relate to Special Economic Zones:

Table1: Legal Framework for Special Economic Zones within various EAC Laws

Existing Legal Framework	Relevant Sections	Summary of the Section
The Protocol on the Establishment of the EAC Custom Union.	<ul style="list-style-type: none"> - Article 25(3) on principles of Export Promotion Schemes - Article 29 on Export Processing Zones - Article 31 on Freeport and - Article 32 on other arrangements 	<p>Limit of sale from EPZs into customs territory of 20% of annual production of a company</p> <p>Partners states may provide for the establishment of export processing zones, freeports and other special economic arrangements</p>
	<p>Annexes to the Protocol on the Establishment of the EAC Customs Union.</p> <p>Annex VII to the EAC Protocol on the EAC Customs Union (EPZ) Regulations</p>	<p>Uniformity among Partner States in the implementation of EPZ and Freeport operations in ensuring transparency, accountability and consistency with the provisions of the protocol</p>

Existing Legal Framework	Relevant Sections	Summary of the Section
	- Annex VIII to the EAC Protocol the EAC Customs union Freeports operations regulations	
The EAC Customs Management Act 2004	Part XIV, Section 167-170 on Export Processing Zones and Freeports	Customs treatment of goods within Export Processing Zones and Freeports including the exemption of duty in accordance with the Protocol
	- The EAC Customs Management Act Regulations, 2006 Part XIV, Section 169-178 on Export Processing zones, - Part XV, Section 179-184 on Freeports.	Explains the control of goods within an Export Processing Zone. Explains permitted activities in Freeports and removal of goods in a Freeport.

2.3 Limitation in Current Special Economic Zone Institutional, Legal and Policy Framework in EAC

EAC Partners States have embraced the SEZ programs in order to attract investment to address socio-economic challenges. However, the full benefit is yet to be realized due to several limitations to the current SEZ institutional, legal and policy framework at EAC level as well as in Partner States. The problems include:

- (a) limited types of Special Economic Zones Schemes (only EPZs and Freeports) are elaborated on and operationalized in the EAC Laws and Regulations;
- (b) limited scope of authorized SEZ activities within present schemes (i.e. only manufacturing and trading) identified in EAC Laws and Regulations;
- (c) differing SEZ incentives, eligibility criteria and licensing criteria across EAC Partner States;
- (d) lack of financial sector policy to support funding of SEZ development in Partner States;
- (e) financial market playing a limited role in supporting SEZ development;
- (f) ineffective mechanism for engaging private sector in the development of SEZ;
- (g) environmental challenges associated with SEZ development;
- (h) limitation on access to domestic market in existing schemes within EAC;
- (i) unintegrated value chain with limited backward and forward linkages.

It is therefore important that the EAC Partner States work to address all the above challenges so that SEZs can fully contribute to socio-economic development. The strategy adopted in this policy is to have a harmonized EAC SEZ policy and appropriate legal provisions in EAC Customs Laws.

2.4 General Socio-Economic Challenges in EAC

The EAC region has been among the 20 fastest growing economies in the world from 2006 to 2010⁴). According to EAC Facts and Figures report (2019), the EAC region had an average real per capita GDP of US\$ 193.7 billion in 2019. The EAC registered an average overall real GDP growth rate of 5.3 percent in 2018 compared to an average growth of 4.4 percent in 2017. Notably total exports from the intra EAC trade was US\$ 4,030.4 million while the total imports was US\$ 2,513.7 million, recording a trade surplus of US\$ 1,516.7 million in 2018.

However, even as the EAC Partner States are making significant economic progress, they still face a number of socioeconomic challenges. These challenges include high unemployment (which keeps on increasing in all Partner States), high level of poverty, prolonged trade balance deficits and high rural-urban migration (22% being urban population).

The above socio-economic challenges are a result of low levels of development in key sectors such as Agriculture, Industry and Services. This is due to low levels of technology, lack of a successful modern entrepreneurial cadre, inadequate fixed capital formation; inadequate industrial base; inefficient industrial production, poor infrastructure, low level of value addition, cumbersome and costly licensing procedures, bureaucracy, difficulties in accessing land and limited scope of activities allowed in existing investment promotion schemes. In addition, where investment incentives are provided, they are not harmonized. As a result, the region has not been able to attract sufficient investment, export earnings have remained low and EAC experiences high levels of unemployment and poverty.

Special Economic Zones are effective tools to substantially address economic and social challenges facing EAC Partner States.

2.5 Problem Statement

Based on the situation analysis, it is observed that EAC Partner States do not have a comprehensive, harmonized framework to develop their national special economic zone programs. As a result, therefore, EAC Partner States who have wished to introduce different types of Special Economic Zones programs have found that due to lack of a harmonized EAC SEZ framework, these cannot be adequately facilitated by the laws and institutions of the Community. This has resulted in delays in effective implementation of SEZ program within East Africa, reducing the Community's realization of the socio-economic development benefits.

The development of the EAC SEZ policy will provide an integrated framework for establishment and operation of SEZ schemes in the Community.

⁴ IMF report on Regional Economic Outlook for Sub Saharan Africa; "Recovery and New Risks", April 2011

3.0 EAC SPECIAL ECONOMIC ZONE CONCEPT

The EAC SEZ concept will provide an integrated package of features for attraction of beneficial investment into SEZs within Partner States. These features will include the following:

- (a) legally designated geographical areas;
- (b) well-developed infrastructure suited to economic activities taking place therein;
- (c) various special economic zones schemes which promote and facilitate investment in specific economic sectors;
- (d) economic and other laws that are more free-market-oriented than a country's typical or national laws;
- (e) streamlined investment and administrative procedures;
- (f) allowing either or both Customs Controlled Areas and Non-Customs Controlled Areas;
- (g) fiscal and non-fiscal benefits to licensed SEZ firms;
- (h) access to domestic markets subject to fulfilment of the harmonized conditions applicable under each SEZ scheme including payment of duties and other applicable taxes and charges (including a surcharge) to provide for effective safeguard to firms operating within the EAC Customs Territory.

The SEZ concept is characterized by its geographical definition where government authorities proclaim special conditions in a limited area with physical, social and economic segregation from the rest of the economy. The segregation is for purposes of control, monitoring, supervision and protection of government revenue from leakage. The segregation also offers investors a sense of specialty and exclusivity as part of attraction incentive.

The EAC SEZ concept comprises of the following specific SEZ schemes:

- (a) Multipurpose SEZ:
- (b) Economic Zone (EZ):
- (c) Export Processing Zone (EPZ):
- (d) Free Trade Zone (FTZ):
- (e) Freeport:
- (f) Free enterprises (FEs) or single factory/single unit free zones:
- (g) Industrial park

The SEZs can therefore be conceptualized under various characteristics depending on the overall economic policy dispensation of an implementing country. Some of these are needed to exploit extractive industries, economic liberalization or freeing up macro-economic trade and foreign exchange regimes as well as industrial infrastructure development for replication in the rest of the economy. The EAC SEZs shall be characterized by flexibility in market orientation, where goods can be sold in the customs territory (domestic market) upon payment of duties and other applicable taxes and charges. Furthermore, goods may be sold from one SEZ enterprise to another. The EAC SEZs will also provide a greater selection of eligible activities to include primary agricultural activities, services, commercial activities, manufacturing and processing as well as non-core business activities.

The EAC SEZs will encompass narrow sector-specific specialized zones; multi –sector zones that may include more than one SEZ scheme; as well as large integrated mega-

zones referred to as Township SEZs that can accommodate several SEZs schemes in one area along with social amenities such as housing, hospitals, schools, shopping centers and playgrounds. The Township SEZs may also incorporate logistical infrastructure such as airports, ports, railways and roads.

The EAC SEZ concept in this policy provides for a wide variety of economic zones schemes from which a Partner State can determine which to prioritize and implement. The size and scope of these zones vary greatly as do the specific economic activities that take place in them, from the traditional Export Processing Zones (EPZs) to Tourist and Recreational Centers for tourism development; Freeport Zones and Free Trade Zones for logistics and trade to research-intensive Science and Technology Parks for innovation, and Information Communication Technology Parks for support of broadcast media and information technology services.

4.0 PURPOSE AND BENEFITS OF THE POLICY

This policy establishes a clear and collectively shared strategy for review of the scope and harmonization of Schemes under SEZ. In this regard, the policy will guide the formulation of strategies and legal frameworks for implementation of SEZ schemes in the region, setting clear limits where necessary.

The Policy will provide:

- (a) expanded range of special economic zones schemes and respective activities, elaborated and operationalized by EAC Laws and Regulations;
- (b) harmonized SEZ incentives, eligibility criteria and licensing criteria across EAC Partner States;
- (c) structured Policy Framework to support funding of SEZ development in Partner States;
- (d) framework for effective private sector participation in SEZ including public private partnership;
- (e) solutions to environmental challenges associated with SEZ development;
- (f) access to domestic market subject to fulfilment of the harmonized conditions applicable under each SEZ scheme;
- (g) structure for integrating value chains.

5.0 POLICY VISION, MISSION AND OBJECTIVES

5.1 Vision

“EAC to be the most attractive investment destination in Africa, with world class infrastructure and streamlined services, contributing to the attainment of the development goals of Partner States”.

5.2 Mission Statement

“To promote and provide for the development of a harmonized and enabling environment for diverse beneficial SEZ related investments in economic activities that will enable EAC Partner States to achieve sustainable economic growth and development”.

5.3 Objectives

The overall Policy objective is to provide for establishment and development of competitive SEZs.

Specific objectives are to:

- (a) provide guidance to Partner States on development of an aligned legal, regulatory, and institutional framework for SEZs in EAC;
- (b) provide a common SEZ concept with standardized definitions and terms across EAC to enable Partner States to implement broad-based and flexible SEZ programs for economic development;
- (c) provide guidance on establishment of harmonized incentives provided under each SEZ Scheme within EAC Partner States;
- (d) promote and support regional integration and development through forward and backward linkages;
- (e) improve regional competitiveness to attract both domestic and foreign direct investment;
- (f) provide guidance to EAC organs on the development and amendment of appropriate laws and regulations relating to SEZ.

5.4 Scope of the Policy

The Policy shall apply to all EAC Partner States and will guide development, operation and regulation of SEZs within EAC Partner States. It provides a harmonized framework of definitions, key features, criteria, incentives, activities and classification of SEZs, for application by Partner States.

5.5 Principles of Special Economic Zone Schemes

Partner States shall establish SEZ schemes for purposes of accelerating development; promoting and facilitating both export and domestic market-oriented investments; enhancing competitive production of goods and services and developing an enabling environment for investment attraction.

The following are the core principles that will guide the implementation of the EAC SEZ Program. Partner States shall:

- (a) promote participation of the private sector within SEZs;
- (b) promote innovation and adoption of technology within SEZs;
- (c) promote backward and forward economic linkages using local raw materials;
- (d) uphold Environmental conservation laws and regulations;
- (e) provide incentives to priority SEZ sectors and schemes;
- (f) adopt harmonization of SEZ programs through subsidiarity⁵;
- (g) facilitate goods and services from SEZs to access export markets;
- (h) allow access to domestic markets subject to fulfilment of the harmonized conditions applicable under each SEZ scheme including payment of duties and other applicable taxes and charges (including a surcharge) to provide for effective safeguard to firms operating within the EAC Customs Territory excluding the EPZ schemes.

5.6 Policy Statements

This policy addresses various challenges identified in the policy problem statements above.

The following shall be policy statements for EAC SEZ schemes;

- **RANGE OF SPECIAL ECONOMIC ZONE SCHEMES**

Each EAC Partner State will implement a range of harmonized SEZ schemes which may vary in activity, type, size and scope.

- **KEY ASPECTS OF SPECIAL ECONOMIC ZONE SCHEMES FOR EAC PARTNER STATES**

Partner States will establish SEZ Schemes which shall include the following minimum requirements:

- (a) legal designation of geographical areas as SEZs;
- (b) provision of well-developed infrastructure suited to economic activities to take place therein;
- (c) establishment of economic and other laws that are more free-market-oriented than a country's typical or national laws ;
- (d) streamlined SEZ investment and administrative procedures;
- (e) allowing for either or both Customs Controlled Areas and Non-Customs Controlled Areas within a given SEZ with measures in place to avoid tariff jumping;
- (f) offering fiscal and non-fiscal benefits to licensed SEZ firms;

⁵ This will be done by harmonizing National SEZ laws and regulations as per Article 33 of the EAC Customs Union Protocol in line with the EAC SEZ framework. Partner States will also maintain autonomy to regulate domestic policies where not stipulated within EAC SEZ framework.

- (g) allowing access to domestic markets subject to fulfilment of the harmonized conditions applicable under each SEZ scheme including payment of duties and other applicable taxes and charges (including a surcharge) to provide for effective safeguard to firms operating within the EAC Customs Territory.
- (h) Legal and institutional agency that regulates and support zones success and development.
- (i) Establishment of investment promotion agencies
- (j) Specialization of SEZs based on comparative advantage relative to other members in EAC

- **LAWS AND REGULATIONS FOR ESTABLISHING AND OPERATIONALIZING SPECIAL ECONOMIC ZONE SCHEMES**

The operations of SEZs in EAC Partner States shall be governed and facilitated by the EAC Laws.

The EAC shall develop harmonized regulations and guidelines to implement the various provisions under this Policy including types of SEZ schemes, authorized SEZ activities, incentives, and movement of goods to and from an SEZ.

The Partner States shall use harmonized laws, regulations and guidelines for determining and setting up various SEZ schemes.

- **ELIGIBILITY AND DESIGNATION CRITERIA FOR SPECIAL ECONOMIC ZONES**

Partner States shall define in their national legislation clear criteria and procedures for identification and designation of a geographical area as an SEZ.

Such criteria shall include environmental standards, minimum land tenure, physical planning requirements, schemes to include and minimum infrastructure development standards suited for the economic activities planned for the area.

Partner States shall establish eligibility criteria for each category of license or permit to be granted by SEZ competent authorities.

The criteria for SEZ enterprise license shall include new investment, intention to operate in the zone as the primary place of business, compliance with environmental regulations and intending to undertake authorized SEZ activities.

- **INCENTIVE FRAMEWORK FOR SPECIAL ECONOMIC ZONE INVESTMENTS**

- (a) Partner States shall develop a harmonized incentive framework for SEZ schemes in the region;
- (b) Partner States shall offer fiscal and non-fiscal incentives to licensed SEZ business entities and such incentives shall be targeted, globally competitive and specific to categories of SEZ schemes

- **CUSTOMS FRAMEWORK FOR SPECIAL ECONOMIC ZONES OPERATIONS**

EAC SEZs operations in relations to Customs in Partner States shall be governed and facilitated by the EAC Customs Laws.

SEZs shall incorporate either Customs Controlled Areas or non-Customs Controlled Areas or both. Such Customs Controlled Areas shall be clearly demarcated and have restricted access.

- **ESTABLISHMENT OF COMPETENT AUTHORITY**

Effective implementation of these SEZ programs shall require each Partner State to establish or designate a Competent Authority to coordinate, regulate, promote, develop, facilitate and operate these SEZs.

- **MODEL FOR DEVELOPMENT OF SPECIAL ECONOMIC ZONES**

SEZs in EAC Partner States may be developed through private, public or Public Private Partnerships (PPPs) framework.

- **USE OF LOCAL RAW MATERIAL**

Appropriate laws and regulations shall be put in place to encourage SEZ business entities to utilize raw materials sourced within the Community.

- **SUPPORT TECHNOLOGICAL TRANSFER**

Appropriate laws and regulations shall be put in place to encourage SEZ business entities to work with SMEs with the focus on technological transfer.

6.0 IMPLEMENTATION FRAMEWORK

The implementation of the policy is the responsibility of the EAC Secretariat and the Partner States in partnership with the private sector. In that context various implementation instruments will be developed to operationalize the policy. These include development of the implementation strategy as well as institutional, legal and regulatory framework. In addition, complementary policies should be reviewed to harmonize with this policy.

6.1 Legal Framework

Appropriate amendments shall be made to the EAC Customs Union Protocol to implement the objectives and key elements of this policy. Partner States shall amend and/or enact the relevant regional and national laws and regulations necessary for the effective implementation of this Policy

6.2 Institutional Framework

In order to effectively coordinate and manage the implementation of this policy the following institutional framework will be adopted:

(a) At EAC level:

The Council shall provide policy direction and strategic guidance to the Partner States in implementing SEZ programs in accordance with this policy.

(b) At National level:

- (i) Partner States shall designate the appropriate Ministry to be in charge of all policy matters related to the development of SEZs and shall coordinate with all other relevant Ministries;
- (ii) Partner States shall designate or establish competent authorities to manage the SEZ program;
- (iii) Partner States shall direct other complementary departments and authorities such as Customs, Immigration, Environmental management, transport, labour etc., to prioritize support for the SEZ program and to the competent authority.
- (iv) In addition, the EAC shall establish a consultative forum composed of members from all Partner States to enhance learning and exchange of views on SEZs in the EAC.
- (v) Throughout the entire implementation process Partner States shall engage other stakeholders such as private sector and local communities.
- (vi) Need for consistent political leadership, predictability and transparency in the government of partner states in their support of SEZ program and commitment to the regional integration.

7.0 MONITORING AND EVALUATION

Monitoring and evaluation will be an integral part of the implementation of this policy to provide feedback useful in guiding policy direction and to track progress.

A five-year action plan shall be prepared by the EAC Secretariat and approved by the Sectoral Council on Trade, Industry, Finance and Investment who will be responsible to steward the implementation of this SEZ policy within the EAC.

The Sectoral Council will receive periodic progress reports on the implementation.

This policy shall be evaluated in accordance with the EAC Secretariat monitoring and evaluation framework.