The Manufacturing Sector in Zanzibar:

The Case Study of the Capacity Utilization, Manufacturing Costs, Business Environment, Investment Incentives, and Skills Gaps

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Acronyms

AGOA	–	African Growth and Opportunity Act
CO	–	Certificate of Origin
CO2	–	Carbon dioxide
COMESA	–	Common Market for Eastern and Southern Africa
CCA	–	Compliance Cost Assessments
CAGR	–	Compound Annual Growth Rate
CSMs	–	Customer Satisfaction Measures
CVE	–	Cape Verde Escudo
EAC	–	East African Community
EFD	–	Electronic Fiscal Device
EPA	–	Economic Partnership Agreement
EPZA	–	Export Processing Zone Authority
EUR	–	Euro
FDI	–	Foreign Direct Investment
FEZ	–	Free Economic Zone
FTA	–	Free Trade Area
GDP	–	Gross Domestic Product
GSM	–	Grams per Square Meter
GSP	–	Generalized Systems of Preference
HACCP	–	Hazards Analysis Critical Control Point
ICT	–	Information Communication Technology
IT	–	Information Technology
IOC	–	Indian Ocean Commission
IUP	–	Único sobre o Património
KW/h	–	kilowatt hour
LCU	–	Local Currency Unit
EDB	–	Mauritius Economic Development Board
MW	–	megawatts
MoU	–	Memorandum of Understanding
MSME	–	Micro, Small and Medium
MT	–	metric tons
PP	–	polypropylene
R&D	–	Research and Development
RGoZ	–	Revolutionary Government of Zanzibar
SADC	–	Southern African Development Community
SMEs	–	Small and Medium Enterprises
SSA	–	Sub-Saharan Africa
TVET	–	Technical and Vocational Education Training
TRA	–	Tanzania Revenue Authority
UNDP	–	United Nations Development Programme
URT	–	United Republic of Tanzania

US$	–	United States Dollars
VAT	–	Value Added Tax
WDI	–	World Development Indicators
yrs	–	Years
YY-TZ	–	YY-TZ Agro-Processing Company Limited
ZIPA	–	Zanzibar Investment Promotion Authority
ZMCL	–	Zanzibar Milling Company Limited
ZPC	–	Zanzibar Ports Corporation
ZSFL	–	Zanzibar Sugar Factory Limited
ZAWA	–	Zanzibar Water Authority
ZBS	–	Zanzibar Bureau of Standards
ZECO	–	Zanzibar Electricity Corporation
ZRA	–	Zanzibar Revenue Authority

Executive Summary

A: Manufacturing Capacity Utilisation

The capacity utilisation rate measures the percentage of a plant's potential output that is being realized. The rate is an indicator for countries' industrial capabilities as well as physical and institutional infrastructure supporting the overall productive economy.

The study surveyed six purposefully sampled large industries in Zanzibar. Such industries Utilise, on average, 56 per cent of their installed capacity. The rate is far below the 70 per cent average for the manufacturing industries in the Sub-Saharan African Countries (SSA) and the global average of 72 per cent. This is despite the surveyed industries engaging in exporting and their production facilities being dominated by modern machinery. Exporters tend to face hyper competitive environment in the destination market which should in turn result into innovation, high productivity, and high rates of capacity Utilisation. The relatively low-capacity Utilisation rate in Zanzibar therefore points to non-plant related factors as potential impediments to the further advancement of the industrial sector in the Island.

The non-plant related factors that were mentioned by the surveyed industries include irregular supply of raw materials, competition from the cheap and substandard imports, and port congestion (inefficiencies and infrastructure). The latter is of significance value as the manufacturing sector in Zanzibar is largely depending on imported raw materials. Also, despite the cost of power being relatively low in Zanzibar (when benchmarked against countries such as Mauritius, Carpe Verde, Kenya, and Uganda), power instability and outages (in some cases averaging 3 times a day) is among the leading causes of capacity underUtilisation.

B: Manufacturing Costs

The unit costs of manufacturing in Zanzibar are relatively higher, than the same costs from benchmarking countries. The unit costs of raw materials being used to produce non-woven bags in Zanzibar is US$ 1.25 against US$ 0.16 in India. Different from Zanzibar which imports most of its raw materials (and therefore encounter all associated costs e.g., logistics, port delays etc.), countries such as India have a large raw material producing subsector that feeds the industries producing final consumer goods.

To produce a 150 grams of processed cashew nuts in Zanzibar costs US$ 1.19, far higher than the unit cost of US$ 0.94 in India. The unit cost of raw cashew nuts in Zanzibar is also higher than in India by the difference of US$ 0.21. India like many other large countries has the advantage of economic of scale in production (lower unit fixed costs, and the opportunities to negotiate lower variable costs). These countries also have established large export and domestic markets.

The manufacturer of wheat flour in Zanzibar incurs US$ 432 to produce 1 metric ton (MT) of wheat flour. It is US$ 218 in Russia and US$ 338 in United States of America (USA). The largest gap in unit costs is observed in the sugar industry. The sugar manufacturer in Zanzibar spends US$ 1,065 to produce 1 MT of sugar. The cost is one-third in Brazil (US$ 350), it is US$ 407 in Thailand, and US$ 375 in India. Milling stations in some countries can switch between sugar and ethanol production depending on market factors. In such cases where sugar becomes a by-product, its production cost turns negligible.

The higher unit costs in Zanzibar are attributed to the same business environment constraints that contribute to capacity underUtilisation. This is in addition to other factors such as the relatively higher costs of labor; and because of limited production scale, the inability of industries to source raw materials at a discount. Dependence on imported raw materials also scale up cost of production. The situation becomes worse when port services are characterized by inadequate port infrastructure and inefficiency in cargo handling. In one of the surveyed industries, demurrage charges make 10 per cent of the direct costs of materials.

C: Business Environment

Specific challenges to the business environment can be grouped into three categories of legal frameworks, administrative and structural-related challenges. Main constraints under the legal frameworks include requirement for formal certifications from foreign experts, multiplicity of taxes, and fees, cost of investment certificates, labor regulations on working hours that are insensitive to the operational nature of some industries, costly land rent, and the relatively high minimum wage.

Administrative-related challenges include the unresolved land dispute between the the sugar factory and the government, delays in issuing business licenses, tendency to inflate tax liability, unfair competition from cheap and substandard imports, frequent breakdown of the Tanzania Revenue Authority (TRA) online system, Electronic Fiscal Device (EFD) programed with incorrect rate for excise duty, inappropriate method of estimating excise duty, the input VAT for electricity is not claimable, limited taxpayer education, unclear methods for estimating fees, delays in granting import duty exemptions, delays in releasing the Certificate of Origin (CO), and bad customer service from the electricity utility company.

Structural-related challenges include the demand for collateral when one applies for bank loans (banks do not accept equipment and machines as collateral), power instability and outage, inadequate power facilities (fuses/transformers), technical skills gaps, time-consuming process to resolve labor disputes, and port delays (inefficiencies and infrastructure gaps).

D: Benchmarking Investment Incentives

The study also benchmarked the investment incentives regime in Zanzibar against the incentives on offer from other countries. For strategic investments, Zanzibar has far higher threshold of investment capital (US$ 100 million), than the case for Mauritius (US$ 11.2 million) and Cape Verde (Euro 27 million). This is despite the economies of Mauritius and Cape Verde being bigger than the Zanzibar's economy. Also different from Mauritius, the Zanzibar's incentive regime is silent on exemptions for foreign labor. In the two benchmarking countries, the incentives for strategic investors are discretionary and depend on the negotiations between investors and the government. That approach, however, comes with uncertainty on incentives that one can secure from the onset.

For investors outside the Free Economic Zones (FEZs), different from Zanzibar, the Mauritius incentive regime specifies the streamlined procedures for the recruitment of expatriates and foreign labor with an 8-year work permit policy for expatriates in the manufacturing sector and has outlines the list of preferential market access. Also, the income tax regime in Mauritius specifies sectors that are eligible for an extended income tax-holiday.

The Mauritius incentives regime also gives more clarity on the Value Added Tax (VAT) reimbursements for raw materials being used to produce export products. For the developer of FEZs, the incentives regime on VAT and customs imports duty exemption in Kenya is more generous than the one in Zanzibar (perpetual exemption from VAT and customs import duty on inputs).

This study strongly recommends for the review of the existing incentives to be preceded by a study that will respond to the following questions 1) to what extent has the current incentives regime attracted increasing investments? 2) which incentives where more attractive to investors than others, and why? 3) which incentives were more effective than others, and why? 4) which benefits did the Zanzibar economy gained from investors 5) which incentives were the pivotal in the investors' decisions to enter the market? 5) how many would have invested had, for instance, the current thresholds were lower? 6) what are the direct and indirect costs of the current incentives?

The proposed study needs to focus on investment incentives and not overfilled with other objectives that would end up demanding multiple conceptualisations, methodologies, and samples that differ to the ones necessary to focus on investment incentives.

1.0 Introduction

The Revolutionary Government of Zanzibar (RGoZ) is determined to spur industrialization as among the means to meet the Zanzibar Vision 2025 of attaining the "*upper middle-income status by the year 2050 through sustainable and inclusive human development*[1]" This study aims at supporting such efforts by building a knowledge base and inform policy reforms in the five areas of 1) business environment 2) production Utilisation capacity 3) production costs 4) skills development 5) investment incentives.

The study surveyed six large scale manufacturing industries in Zanzibar and benchmarked the situation in Zanzibar against the situation in comparable countries and regional averaged. The five areas are key for an economy to attain industrial competitiveness, which is defined as the capacity of an economy to increase its presence in international and domestic markets while developing industrial sectors and activities with higher value added and technological content.

The structure of the report is as follows. The next section presents the data collection and analytical methodologies. Section 3 presents the findings, that are categorized into 5 sub-sections 1) manufacturing Utilisation capacity 2) business environment 3) investment incentives 4) Research and Development (R&D) 5) skills gaps, and 6) production costs. Policy recommendations are presented under each of the sub-sections. Section 4 concludes.

2.0 Methodology

2.1 Data Collection

The collection of data from the purposefully sampled six manufacturing industries involved structured interviews and documentation review. The surveyed was carried out from 8th -11th February 2023. These surveyed industries were the Zanzibar Milling Company Limited (ZMCL), YY-TZ Agro-Processing Company Limited (YY-TZ), Basra Textile Mills Limited (Basra), Drop of Zanzibar Limited, Turky Mifuko Company Limited (Turky Mifuko), and Zanzibar Sugar Factory Limited (ZSFL).

The investment incentives that ZIPA offers were obtained from schedule 6 and 7 of ZIPA Act no. 14 2018. Benchmark data were obtained from the online documentation search. Such data include global and regional averages, and data from comparable countries whose data could be found from the online sources.

2.2 Data Analysis

The analysis of production costs and Utilisation capacity are based on simple descriptive statistics. Such data were analysed and benchmarked, first as an aggregate (total production costs per unit of final product) and by segments (e.g., direct, indirect production costs per unit of final product[2]). The level at which benchmarking was done always depended on the depth of information available.

The analysis of business environment and skill gaps was quantitative (in terms of proportions of survey responses) and qualitative (in terms of views of the industries, and policy recommendations). The categories under the business environment domain follows the World Bank's renowned enterprise surveys and the ongoing REPOA's enterprise survey in Zanzibar.

The purpose of aligning with the World Bank's survey is to allow benchmarking the situation in Zanzibar with the rest of the world. Similar to the analysis of the business environment, the skills gap indicators adopted in this study align with the World Bank's skills gap survey that covered the United Republic of Tanzania in 2015.

3.0 Findings

3.1 Manufacturing Capacity Utilisation

The manufacturing capacity Utilisation rate measures the percentage of a plant's potential output that is being realized. The rate is key for one to assess operational efficiency as well as costs and pricing. The higher the rate, the lower the manufacturing cost per unit gets, which in turn allows the producer to sell its products at a lower price and ultimately gaining more competitiveness.[3]

Utilisation capacity is also an indicator for countries' industrial capabilities as well as physical and institutional infrastructure supporting the overall productive economy. It is generally considered that an 85 per cent Utilisation rate is optimal. The next subsections benchmark Utilisation capacity in Zanzibar against other countries and regional averages.

3.1.1 Overall Performance in Zanzibar

Except for ZMCL that produces at 85 per cent capacity, none of the remaining surveyed industries exceed 70 per cent Utilisation capacity (Table 1).[4] On average the Utilisation capacity in Zanzibar stands at 60 per cent and declines to 56 per cent when excluding the outlier (that is, ZMCL).

That Utilisation rate is far below the 70 per cent average for the manufacturing industries in SSA and the global average of 72 per cent (Figure 1). As capacity Utilisation is linked to productivity, this study finding implies that productivity in Zanzibar is also likely to be relatively lower than the benchmark countries and regional performance.

All the surveyed industries claim to be operating modern machinery – with only one using a combination of modern and old technology in its manufacturing processes. Thus, if the industries use modern technology and are engulfed in low Utilisation capacity, it is likely that the relatively low Utilisation capacity is explained by non-plant related factors, the business environment, for instance.

Four out of the six surveyed industries export, at least a certain proportion of their produce (Table 1). It is well known that firms that export tend to face hyper competitive environment in the destination market which should in turn result into innovation, high-capacity Utilisation as well as productivity levels. This is not happening for the

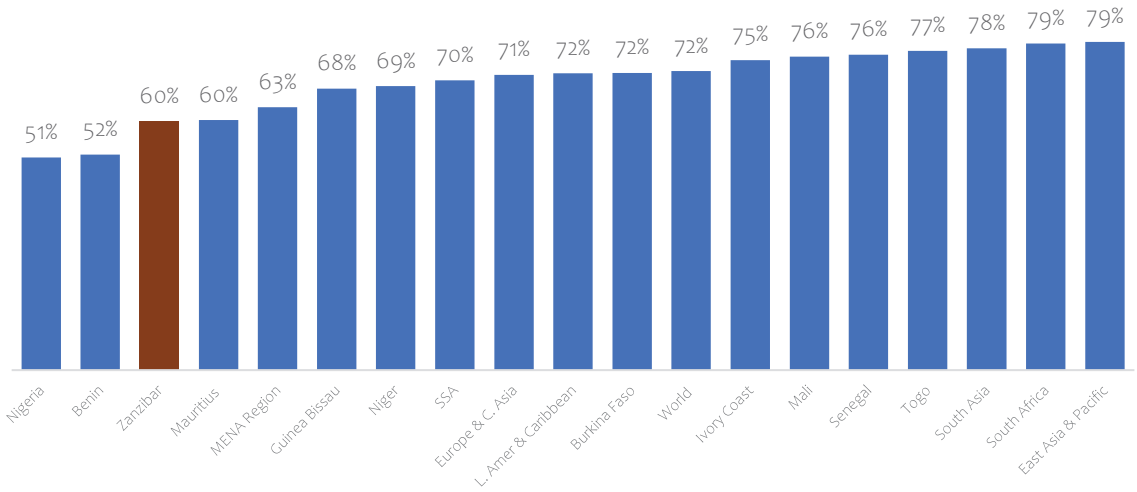
manufacturing industries in Zanzibar, signaling factors such as business environment as critical impediment to higher Utilisation capacity and productivity growth.

Table 1: Utilisation Capacity in the Selected Manufacturing Industries in Zanzibar

	Installed Capacity	Unit of measurement	Utilised Capacity	Technology	Proportion being exported
Bags - rolling	5	Tons per shift	50%	Modern	50%
Bags - cutting	30,000	Bags	70%	Modern	50%
Water	10,000	Bottles per hour[1]	55%	Modern	0%
Sugar	800	tcd[2]	70%	Modern	0%
Textile	40	Million meters per year	40%	Modern	100%[3]
Wheat flour	350	MT per day	85%	Old, in-between & very modern	100% of brain[4]
Cashew nuts	280	tons per year	50%	Very modern	50%

[1]Tons of canes per day (tcd); [2]0.5 litre bottles; [3]50% (Mainland Tanzania); 50% (Kenya, Uganda, and South Sudan); [4]80% of brain is exported to Kenya.

Figure 1: Benchmarking Manufacturing Utilisation Capacity in Zanzibar[5]



Source: Trading Economics (2023) for the benchmark countries and regions. Data for Mauritius is sourced from the World Bank's Enterprise Survey. Survey data for the average Utilisation capacity for Zanzibar.

3.1.2 Industry Specific Utilisation Capacity

3.1.2.1 Wheat Milling Utilisation Capacity

The milling subsector in Zanzibar is key for ensuring food security with its products bringing variety to the consumers' food basket. The wheat product is used as human food, livestock feed (the bran, for instance), and for industrial use (starch, for instance).

Increasing demand for wheat flour in Zanzibar is expected to persist in the foreseeable future because of the 1) fast growing population growing at above 3 percent annually 2) wheat flour remaining as one of the most affordable sources of protein 3) strong local traditions of consuming food items made from wheat flour.

The installed capacity at ZMCL stands at 350 MT per day, with the plant producing at 70-100 per cent capacity (averaging 85 per cent).[6] The 85 per cent Utilisation rate at ZMCL is far higher than the global average of 72 per cent, and above the averages for Tanzania and South Africa (Table 2). It is the highest capacity Utilisation rate of the six industries that were surveyed by this study.

The rate is also in line with the overall optimal capacity Utilisation rate standard of 85 per cent for manufacturing industry. At ZMCL,

the wheat flour recovery rate[7] stands at 72 per cent, the rate that aligns with the global averages (ranging from 75 to 78 per cent).[8]

Globally, the large-scale players have the highest capacity Utilisation rates, while smaller players often have lower Utilisation rates. The reason is that the small players are less able to command a significant share of grain supply. Whereas the plant at ZMCL is relatively small (based on the global standards), its higher Utilisation rate comes from its links with large milling plants in Mainland Tanzania. The links allow the plant to, for instance, get support when ordering wheat grain from the global market.

Table 2: Benchmarking Wheat Milling Utilisation Capacity in Zanzibar

	Utilisation Capacity
Zanzibar (ZMCL)	85%
Serbia	60%
South Africa[9]	78%
Tanzania[10]	
Large-scale plants	50-60%
Small-scale plants	>50%
Global average	72%
Sub-Saharan Africa (all industries)	69.9%
World (all industries)	72.1%

Source: Survey data, AsokoInsights (2020), Grain South Africa (undated), World Bank' World Development Indicators (WDI 2023)

Irregular supply of raw materials has been the major constraint for ZMCL to attain even higher Utilisation capacity. The firm imports wheat grain from Ukraine and the Balkan states, the region that is currently engulfed in war. Because of the disruptions in the supply chain for wheat grain, it currently takes up to a month for an importation order to be honored.

Importing from Mainland Tanzania has been an alternative source of wheat grain. The option however comes with two challenges 1) the wheat grain from Mainland Tanzania is relatively expensive as it attracts 10 per cent import duty 2) it creates storage difficulties when its arrival collides with delayed consignment from the Balkan states.

Different from the other surveyed industries, ZMCL considers electricity outage as a minor challenge - mostly because the plant is located next to the main power distribution station in Unguja. The plant also shut down on weekends and one more day for preventive maintenance. Electricity outage during these three days do not have any effect on production.

Thus, the relatively higher Utilisation capacity at ZMCL is an outcome of 1) access to reliable power supply2) maintaining alternative source of raw materials (Balkan states and Mainland Tanzania) 3) investment in back up facilities – when instruments (memory cards, for instance) get damaged.

3.1.2.2 Non-Woven Bags

The installed capacity at Turky Mifuko Limited is 5 tons per shift (rolling machine), and 30,000 bags per shift (cutting machine). The Utilisation capacity rates for the rolling machine is 50 per cent and 70 per cent for the cutting machine.

In the absence of data from other countries, the two rates are benchmarked against the overall manufacturing sector averages for SSA and the world. The 60 per cent average Utilisation capacity for non-woven in Zanzibar (the average of cutting and rolling) in Zanzibar remains far below the two regional benchmarks (Table 3).

Table 3: Benchmarking Utilisation Capacity for Non-Woven Bags in Zanzibar

	Manufacturing Utilisation capacity
Zanzibar	
Rolling	50%
Cutting	70%
Sub-Saharan Africa (all industries)	69.9%
World (all industries)	72.1%

Source: Survey Data, and the World Bank's WDI (2023)

The leading reasons for capacity underutilisation include power outages (averaging of 3 times a day). Port congestion also undermines capacity Utilisation because of the delays in the release of imported raw materials. All the raw materials for producing non-woven bags are imported, making logistical aspects from ports to

road facilities critical for capacity Utilisation and cost competitiveness.

Another reason for capacity underUtilisation is competition from the cheap and substandard imports. Such imports contravene the 70 Grams per Square Meter (GSM) standard set by the Zanzibar Bureau of Standards (ZBS). As a result, importers of such products gain cost competitive advantage.

3.1.2.3 Bottled Drinking Water

The installed capacity at the Looter Group of Companies (DROP drinking water) is 10,000 0.5 liter-bottles per hour. The Utilisation capacity is only 55 per cent. In Mainland Tanzania and Kenya, the Utilisation rate is more than 10 percentage points higher (Table 4).

Table 4: Benchmarking Bottled Water Utilisation Capacity in Zanzibar

	Utilisation capacity
Zanzibar	55%
Tanzania	65.3%[11]
Kenya	68.3%[12]

Source: KNBS (2019), United Republic of Tanzania (2018)

The main reason for capacity underUtilisation is power instability and outage. Despite investing in surge protection devices, such instruments are not entirely protective against power instability. Operation costs rise from the need to replace damaged electronics, and the associated delays from ordering replacements (freight time, port delays). Repair technicians are not always available on the spot (they have their own schedule) which further break operations.

3.1.2.4 Cashew nuts

The installed capacity at YY-TZ Agro-processing Limited is 280 tons per year. Only 50 per cent is currently being Utilised. This Utilisation rate is below the rate in Mozambique (51 per cent) and Benin (54 per cent) (Table 5). The Utilisation rate in Zanzibar is also far below the averages for the big cashew nuts producer countries of India (84 per cent) and Vietnam (81 per cent).

The domestic processing capacity in the two countries is far larger than cashew nut production, which gives rise to their strong import demand for raw cashew nuts in international markets.

The Utilisation rate in Zanzibar is however more than twice the average rate in Mainland Tanzania (24 per cent), and marginally higher than the averages for Cote d'Ivoire, and Burkina Faso. Table 5 shows that overall, the global cashew nuts processing industry is characterized by high disparities in capacity Utilisation. The overall average of 54 per cent Utilisation rate for African countries is a challenging development aspect.

Table 5: Benchmarking Cashew nut Processing Utilisation Capacity for Zanzibar

	Production Utilisation capacity	**Estimated processing capacity 2018 (tons)**	**Processed 2018 (tons)**
Zanzibar	50%		
India	84%	2.000,000	1,675,000
Vietnam	81%	1,800,000	1,450,000
Cote d'ivoire	49%	140,100	68,000
Mozambique	51%	105,700	53,517
Tanzania	24%	42,073	10,000
Ghana	51%	45,750	23,300
Nigeria	42%	48,000	20,000
Benin	54%	35,000	18,750
Burkina Faso	48%	18,000	8,701

Source: Comparable data from UNCTAD (2021)

Seasonality in input supplies (raw cashew nuts) is the main reason for capacity underUtilisation at YY-TZ. Low season runs from July to October, followed by high season from November to June. After significant efforts in establishing export markets, the demand in recent years has outpaced production at YY-TZ.

Electricity supply at the Amaani Industrial Park where the YY-TZ is located is relatively reliable. Traditionally, firms can improve capacity Utilisation by entering new markets and expanding the range of products. While YY-TZ has done both (expand its customer base in the Netherlands and added cashew nuts butter to its product range), working capital remains a challenge for the firm to meet increasing

demand. Banks in Zanzibar require immovable assets (land, for instance) as collateral. YY-TZ only rents the buildings it operates from.

3.1.2.5 Textile

Basra Textile Limited Utilises only 40 per cent of its 40 million meters per year installed capacity. The rate is the lowest when benchmarked against other countries (Table 6). It is 17 percentage points lower than the Utilisation rate in Mainland Tanzania. South Africa and global average for all industries presents Utilisation rates that are close to twice that of Zanzibar.

Table 6: Benchmarking Utilisation Capacity for Textiles Production in Zanzibar

	Production Utilisation capacity
Zanzibar	40%
India	74%[13]
South Africa	70%[14]
Mauritius	60%[15]
Tanzania	57[16]
Kenya	61%[17]
Sub-Saharan Africa (all industries)	70%
World (all industries)	72%

Source: Statista (2022),1 Engineering News (2022), AU, ECA and United Nations Development Programme (UNDP 2020), United Republic of Tanzania (URT 2018), KNBS (2019), and World Bank's WDI (2023)

Power outage is the leading reason for capacity underUtilisation. It not only halts production processes but also damages equipment (e.g., the boiler). Coal power as an alternative is relatively more costly. Coal must be transported from Ruvuma to Dar es Salaam (port charges) and thereafter from Dar es Salaam to Zanzibar (additional port charges).

Port delays in clearing imported raw materials also contribute to capacity underUtilisation. About 90 per cent of the raw materials that the firm uses (grey fabrics) are imported from China and India. The plant has of recent made some advanced on managing the lead time of imported raw materials, by internalizing the delays from port congestion and other factors.

Another important reason for capacity underUtilisation is the ongoing plant rehabilitation involving installation of the new machines (e.g., yarn producing machine) as well as filling vacancies.

3.1.2.6 Sugar Production

Among the development significance of the sugar subsector is its higher multiplier effects relative to other consumer goods industries. In the absence of specific multiplier-effects-related study for Zanzibar, data from Mauritius show that the industry maintains a multiplier effect of 2.57 against 2.13 and 1.66 in the textile and financial intermediation sectors, respectively.

The ZSFL's plant Utilises only 70 per cent of its installed capacity of 800 tons of canes per day (tcd). Because of limited supply of sugarcane, the plant operates for only one season a year. According to the firm's management, the facility has been a loss-making operation since it was acquired by the current owners in 2015. Its profitability, according to the firm management, depends on the firm ability to access more land and raise the supply of sugarcane, and upward adjustment to the cap price set by the government.

The 70 per cent capacity Utilisation rate at ZSFL is higher than the average in Kenya (60 per cent) but lower than that of Uganda (80 per cent) (Table 7). UnderUtilised capacity in the two benchmarking countries is constrained by similar issues (raw material availability) and different from Zanzibar, the outdated technology and inefficient management of factory facilities.

Table 7: Benchmarking Sugar Manufacturing Utilisation Capacity in Zanzibar

	Utilisation capacity Rate	Manufacturing capacity	No. of factories
Zanzibar	70%	800 tcd	1
Kenya	60%[18,19]	56,800 tcd	16
Uganda	80%[20]	NA	14
Tanzania	NA	NA	
Mauritius	NA	75-310 tons cane per hour[21]	11

Sub-Saharan Africa (all industries)	69.9%
World (all industries)	72.1%

Source: Survey data, Onyango, K. et al (2018); Republic of Kenya (2020); and World Bank's WDI (2023)

3.1.3 Recommendations

The external environment (port inefficiency and inadequate infrastructure, electricity instability and outages, competition from cheap and substandard imports, and limited supply of raw materials) emerge as the primary causes of capacity underUtilisation.

There findings point to the following. First, efforts to promote new investments in the manufacturing sector are likely to fail if the infrastructural and inefficiency constraints are not addressed. Addressing such constraints will not only facilitate improved capacity Utilisation but also the cost competitiveness of locally produced goods).

Second, addressing such constraints is necessary to avoid a state where new industries will be trapped in low-capacity Utilisation operations. Third, because of capacity underUtilisation, even the new industries will not only fail to expand employment opportunities (both direct and indirect) but will also be trapped in the low productivity environment.

The private sector also needs to proactively invest in, for example, surge equipment to protect machines against power instability. Such efforts will significantly minimize downtime and equipment failure and ultimately allow for increasing Utilisation rates. Industries also need to advance their expertise in managing raw material lead time – as among the options to be protected against global shocks and domestic constraints such as inadequate port infrastructure.

3.2 Manufacturing Costs

3.2.1 Non-Woven Bags

3.2.1.1 Introduction

The non-woven bags are produced by Turky Mifuko Company Limited. The firm is the first to produce such bags in the United Republic of Tanzania (URT). A non-woven bag is made from a non-

woven polypropylene (PP) textile. They are considered environmentally friendly as they are reusable, recyclable, and biodegradable, and therefore part of global ongoing efforts to reducing the pollution by plastic bags.

The firm is producing six different types of non-woven bags. They are H-cut, amenities, laundry, W-cut, D-cut and paper bag (images for each type are presented in annex 1 and the flow chart in annex 2). The bag types differ on the application and the capacity to carry weight. For example, the D-cut type is being used as a shopping bag, whereas the amenities bag type is for very small item (e.g., medicines). The national standard for the bags is 70 Grams per Square Meter (GSM[22]).

3.2.1.2 Unit Costs

Unit costs are presented per gram, the higher the weight, the higher the unit cost. The H-cut bag type is the heaviest (41.4 grams) followed by the laundry bag (34.0 grams). Amenities bag type is the lightest with 4.8 grams.

The raw material cost per gram includes four items 1) PP which accounts for 50 per cent of the raw material being used to make the bags 2) calcium 3) recycle materials 4) color masterbatch (solid additive used for coloring the bags). Direct expenses include items (apart from the raw materials) that go directly into the production process (production labor, spare parts). Administration and other indirect expenses per gram include all administrative costs as well as sales and distribution costs.

The production process for making the non-woven bags involves two stages 1) production of rolls 2) cutting. Whereas the production of rolls involves the use of only one machine, the cutting process occupies four machines. The machines are switched off for one hour after every seven consecutive hours of production.

Table 13 itemizes costs per gram and per bag. H-cut is the costliest bag at TZS 236.61, followed by laundry bag (TZS 195.82) and W-cut (TZS 172.03). Amenities is the least cost bag at TZS 27.88, and it is the smallest when it comes to size.

Table 8: Cost per Bag (TZS)

	H Cut	Amenities	Laundry	W Cut	D Cut	Paper Bag
Raw material costs per gram	2.88	2.88	2.88	2.88	2.88	2.88
Direct expenses per gram	1.08	1.08	1.08	1.18	1.08	1.08
Admin & other indirect expenses per gram	1.80	1.80	1.80	1.84	1.80	1.80
Total expenses per gram	5.76	5.76	5.76	6.00	5.76	5.76
Cost per bag	238.61	27.88	195.82	172.03	144.33	68.77

Source: Turky Mifuko Company Limited

3.2.1.3 Benchmarking the Unit Costs

Table 14 compares the unit costs of producing non-woven bags in Zanzibar against similar costs in Kenya and India (cost per bag and raw materials costs per kilogram (kg)). To allow comparison, the costs in local currencies are converted into US$ using both the market exchange rate and the Purchasing Power Parity (PPP) exchange rate.

The raw materials cost per kg of non-woven bags in Zanzibar is 8 times that of India. Specifically, while it costs US$ 1.25 to make one kg of non-woven bag in Zanzibar, the cost is only US$ 0.16 in India. India has the advantage of own production of raw materials, extensive enforcement of bans for single-use plastic bags. Also in India, many shops provide the bags for free, allowing economies of scale in production. Whereas there are about 10,000 manufacturers of non-woven bags in India, it is only one producer in Zanzibar. Zanzibar also imports all the raw materials being used to produce the bags.

Table 9: Cross-Country Cost Comparison

	Market exchange rate (LCU/1US$)			PPP exchange rate	
	Cost per bag (local currency)	End of 2021 exchange rate	US$ per bag	End of 2021 exchange rate	US $ per bag
Zanzibar (TZS)	61.27	2,297.76	0.03	890.58	0.07
Kenya (KShs)	10.20	109.64	0.09	43.80	0.23

	Market exchange rate (LCU/1US$)			PPP exchange rate	
	Raw material costs per kg (Local currency)	End of 2021 exchange rate	US$ per kg	End of 2021 exchange rate	US $ per bag
Zanzibar	2,880	2,297.76	1.25	890.58	3.23
India	11.5	73.91	0.16	23.14	0.50

3.2.2 Cashew nuts

3.2.2.1 Introduction

YY-TZ is operating from the Amaani Industrial Park, with the production started in November 2021.The firm processes and packs cashew nuts as final products (in 150 grams bag). It exports 80 per cent of the produce to its main export destination of Netherlands. It is a sophisticated market and because of that, the company is investing in R&D to meet the taste of such markets. The remaining 20 per cent is for the domestic market. The flow chart is presented in annex 3.

Competition in the domestic market is distorted by cheap and substandard cashew nuts processors including unregulated home-based processing units which evade costs of regulatory compliance. Raw cashew nuts being imported from Mainland Tanzania.

At the beginning the company invested significantly in securing export markets. The market has been secured, and the demand is currently surpassing the production. Reasons for the growing export market include rising health conscious and vegan diets, with cashew nuts fast becoming the world's favorite nut.[23] The global market of cashew nuts is valued at US$ 6.27 billion.[24] Satisfying the increasing export market demand is mostly constrained by access to working capital from the local financial institutional and seasonality in the availability of raw cashew nuts.

3.2.2.2 Unit Costs

Cashew nut processing is a labor-intensive task. The unit cost for cashew nuts processing is critical because of its complicated supply chain, where each level of the chain (buyers, importers, exporters, and suppliers) intends to make a margin.

The unit costs of producing a 150 grams bag of cashew nuts are presented in Table 15. Raw cashew nuts are the main raw material for processing cashew, overshadowing all other cost components with 67 per cent of the total costs (US$ 0.96 out of US$ 1.17).

The next cost component is the indirect cost (administrative and overheads cost pool) which accounts for 10 per cent of the total unit cost. It is followed by the costs of bags at 9 per cent. The direct costs (labor, power etc.) accounts for only 7 per cent of the total unit costs.

Table 10: Unit Cost (US$ per 150 grams bag of cashew nuts)

	US$	**%**
Raw materials		
Raw cashew nuts	0.96	67%
Box	0.04	3%
Hand tag	0.03	2%
Sticker	0.008	1%
Bag	0.13	9%
Sub total	**1.168**	**82%**
Direct cost	0.1	7%

Indirect costs	0.14	10%
Export logistics	0.02	1%
Sub total	**0.26**	**18%**
Total	**1.428**	**100%**

Source: Survey data and author calculation

3.2.2.3 Benchmarking the Unit Costs

The unit cost of producing a 150 grams of processed cashew nuts in Zanzibar is benchmarked against the unit costs in India (Table 16). It costs US$ 1.19 (using PPP exchange rates) in India to produce a 150-gram bag of processed cashew nuts, the cost that is US$ 0.24 less than in Zanzibar. The unit cost of raw cashew nuts in Zanzibar is also higher than in India by the difference of US$ 0.21.

The cashew nuts processors in India are cost competitive as India is among the largest processing and consuming nations (India account for 46 per cent of the global processing cashew nuts). Its domestic consumption is also growing, with about 50 per cent of the cashew nuts processed being consumed domestically. Africa consumes and processes relatively low levels – only 5 per cent of its production.[25] .

Table 11: Cross-Country Unit Cost Comparison

	Market exchange rate (LCU/1US$)			PPP exchange rate		
	Cost per 150-gram bag (local currency)	**End of 2021 exchange rate**	**US$ per bag**	**Cost per 150-gram bag (local currency)**	**End of 2021 exchange rate**	**US$ per bag**
Zanzibar	3,285.8	2,297.76	1.43	1,273.5	890.58	1.43
India	27.54	73.91	0.37[26]	27.54	23.14	1.19

	Market exchange rate (LCU/1US$)			PPP exchange rate		
	Raw material cost per 150-gram bag (Local currency)	**End of 2021 exchange rate**	**US$ per kg**	**Cost per 150-gram bag (local currency)**	**End of 2021 exchange rate**	**US$ per bag**
Zanzibar	2,205.9	2,297.76	0.96	855.0	890.58	0.96
India	17.25	73.91	0.23	17.25	23.14	0.75

3.2.3 Wheat Flour

3.2.3.1 Introduction

The global wheat flour market is expected to continue growing in the forecast period of 2023-2028 at a Compound Annual Growth Rate (CAGR) of 0.9 per cent to attain a volume of 424.89 million MT by 2028, from 402.65 million MT in 2022. The major drivers of the market include rising disposable incomes, increasing population, growing food sector, rising demand for end-use products, and plenty of nutrients offered by the product.[27]

ZMCL is the subsidiary of Bakhresa Group that has operations in 9 countries.[28] The primary raw material being used to produce wheat flour is wheat grain, being imported mostly from the Balkan states, and in some cases from Mainland Tanzania.

The main product emerging out of the milling process is wheat flour and the by-products are bran, pollard, and impurities. The wheat flour extraction rate (extracting wheat flour from wheat grain) is 74 per cent and 21 per cent for bran and pollard. Bran is entirely exported to Kenya where is it is consumed as animal feed (poultry and other livestock) as part of a balanced ration with other inputs. The milling flow chart is presented in annex 4.

3.2.3.2 Unit Costs

Table 17 presents the unit costs of milling one ton of wheat flour. The dominant cost is wheat grain at US$ 257.7. It is equivalent to 76 per cent of the entire cost of producing one ton of wheat flour. Next, at a distance are the demurrage charges[29] which account for 8 per cent of the unit costs (US$ 32.5 per one ton of wheat flour). This cost component shows that port improvements (efficiency and infrastructure) will have direct impact on cost competitiveness of products being manufactured in Zanzibar.

Within each cost category, Table 1 shows that wheat grain accounts for more than a third of the direct material costs (76 per cent) followed by demurrage charges at 10 per cent. Salaries and wages dominate the overheads at 47 per cent of the overhead costs. The remaining costs are equally distributed between electricity, administration and depreciation, and repair and maintenance.

Administration costs (including salaries on non-production employees, office operations, advertisements etc.) dominate the indirect costs at 47 per cent share. It is followed closely by the selling and distribution costs which takes 45 per cent of the total indirect unit costs.

Table 12: Cost per Ton of Wheat Flour (US$)

Direct Material Cost (per ton)	Units cost (US$)	Share of each cost category	Share of the total unit cost	Overheads	Units cost (US$)	Share of each cost category	Share of the total unit cost	Indirect cost	Units cost (US$)	Share of each cost category	Share of the total unit cost
Wheat grain (FoB)	257.70	76%	60%	Electricity	4.73	19%	1%	Finance costs	5.07	8%	1%
Freight	27.73	8%	6%	Admin. & depreciation	4.28	17%	1%	Selling & distribution costs	29.99	45%	7%
Insurance	0.41	0%	0%	Salaries & wages	11.69	47%	3%	Admin. costs	31.57	47%	7%
Demurrage	32.50	10%	8%	Repair & maintenance	4.04	16%	1%				
PSI	1.55	0%	0%								
Port charges	5.00	1%	1%								
Short landing	1.43	0%	0%								
Transport	2.10	1%	0%								
Inspection	0.10	0%	0%								
Maritime	0.30	0%	0%								
COC	0.30	0%	0%								
Other charges	1.45	0%	0%								
PP bags	9.95	3%	2%								
Stitching, Thread & Addictive	0.05	0%	0%								
Sub-total	**340.57**	**100%**	**79%**		**24.74**	**100%**	**6%**		**66.63**	**100%**	**15%**
Grant total per ton									**431.94**		**100%**

Source: Survey data and author calculations

Some of the costs were provided in TZS. The author converted such costs to US$ using the BoT exchange rate dated 3 May 2021 (TZS 2,287.09/1 US$). The cost data were dated May 2021.

3.2.3.3 Benchmarking Unit Costs

As the case with the other manufacturing products in Zanzibar, the unit cost of producing one ton of wheat flour in Zanzibar is higher than similar costs in other countries whose data could be obtained (Table 18). Whereas it costs US$ 432 in Zanzibar to produce one ton of wheat flour, the cost is US$ 338 in USA and US$ 218 in Russia.

Table 13: Cross Country Comparison of Cost per Ton of Wheat Flour (US$)

	Direct Material Cost	Total Unit Cost
Zanzibar	340.57	431.94
USA	311.79	337.59[30]
Russia[31,32]	159.45	218.29

3.2.4 Sugar Production

3.2.4.1 Introduction

ZSFL is located at Unguja North region. The factory was established in 1964, as a grower, processor, trader, and exporter of sugar. It was taken up by the new owner Misra Costech Sugar Company of India who also brought in their own management team of engineers to rehabilitate the factory.

The factory has installed processing capacity of 800 tcd and intends to expand the capacity to 1,200 tcd. Unit costs of sugar production will benefit from future increasing sugar cane crushing capacity, given the high proportion of fixed costs inherent in sugar milling. [33]

The flow chart is presented in annex 5.

Due to limited supply of raw materials (sugar cane), the factory operates for one season a year. It was only in 2019 that the factory managed to operate for two seasons. The factory is currently investing in advancing the out-grower schemes to meet its demand of raw materials.

3.2.4.2 Unit Costs

The cost of producing a ton of sugar in Zanzibar stands at US$ 1,065, out of which US$ 438 is the cost of raw materials (sugar cane) (Table 18). Sugar cane is the dominant cost item accounting for 41 per cent of the total unit cost. It is followed by conversion cost

(chemicals, repair etc.) making up 33 per cent of the total unit costs. Finance comes last with the remaining 26 per cent.

Within the conversion cost category, depreciation and manufacturing, and other administration expenses account for 16 per cent and 10 per cent share of the conversion costs respectively. Other items under the conversion cost category follow at a distance with less than 5 per cent shares (salaries and wages, and repair and maintenance).

Table 14: Cost per Ton of Sugar (US$)

	US$	Share of each cost category	Share of the total unit cost
Raw materials			
Sugarcane	438	100%	41%
Subtotal	**438**	**100%**	**41%**
Conversion cost			
Packing materials	7	2%	1%
Process chemicals	8	2%	1%
Salaries and wages	33	9%	3%
Repair and maintenance	32	9%	3%
Depreciation	168	48%	16%
Manufacturing and other administrative expenses	102	29%	10%
Subtotal	**350**	**100%**	**33%**
Finance cost			
Interest and financial charges	277	100%	26%
Subtotal	**277**	**100%**	**26%**
Total	**1,065**		**100%**

Source: Survey data and author calculation

3.2.4.3 Benchmarking Unit Costs

Brazil is the world's largest sugar producer, closely followed by India making the two countries vital benchmarks. The two countries are projected to respectively account for about 21 per cent and 18 per

cent of the world's total sugar output by 2030.[34] Table 18 compares the unit costs of producing 1 MT of sugar in Zanzibar against other sugar producing countries.

Table 18 shows that the unit costs of sugar production in Zanzibar is more than or close to 3 times that of Brazil and India. Whereas the cost of producing 1MT of sugar in Brazil is US$ 350, it costs US$ 1,065 to produce the same amount of sugar in Zanzibar.

The unit costs from the other benchmarking countries are higher than that of Brazil and India but remaining significantly lower than the unit costs in Zanzibar. In Thailand, for example, 1 MT of sugar cost US$ 407 the rate that is higher than the unit cost in Brazil, but more than half of the unit cost in Zanzibar.

The unit cost variations between the largest global producers are mostly an outcome of many factors. Such factors range from the pricing models of sugar cane, including countries like India which sets high cane price to protect farmer's incomes, to the costs of natural gas, farmers size and their contractual models with the mills.[35]

Table 15: Cross Country Comparison of Cost per Ton of Sugar (US$)

	US$ per ton
Zanzibar	1,065
Brazil	350
India	375
European Union	525-631
Thailand	407
China	812

Source: Zancaner, A. (2022).

3.2.5 Bottled Water

3.2.5.1 Introduction

The bottled water companies in the developing world used to target tourists, rich people, big businesses, and expatriate community – as their primary customers. However, over the years, the realities of increasing income levels, growing middle class, urban life, weather conditions, lower production costs, and a shift towards more health-conscious lifestyles lured consumers across all

income groups to use bottled water, as the main source of drinking water.

The Drop of Zanzibar Limited produces bottled drinking water of 3 different bottle sizes (1.5 liters; 0.5 liters; 33oml; and 19 liters bottles). Except for the 19 liters bottles, the rest are bundled in cartons containing different number of bottles. The 1.5 liters are bundled in a carton of 6 bottles, the 0.5 liters in a carton of 12 bottles, and the 330ml carton consists of 24 bottles.

The major raw materials (in terms of value) are the preforms which are imported from Mainland Tanzania. Other raw materials include ground water, labels, caps, water, wrapping (outer-box), sleaves, boiler - shrink label, and lubricant. The ground water undergoes different processes as presented by the production flow chart based on the Hazards Analysis Critical Control Point (HACCP) (annex 6). The production process involves several steps including pre-treatment filtering, antiscalant processes, carbon filtering, filling, and capping.

3.2.5.2 Unit Costs

Preforms is the dominant cost, accounting for 37 per cent of the total unit costs of making one bottle of 1.5 liters (Table 19). Overhead and direct costs follow next with 27 and 8 per cent of the total unit cost respectively. The pattern of the distribution of the manufacturing costs is the same for the remaining bottle sizes (0.5 liter and 330ml) where preforms and overhead continue to dominate the total unit costs.

The cost distribution within the cost category of raw materials shows that, for the 1.5 liter of bottled water, the preforms make 64 per cent of the unit costs of raw materials. It is followed by wrapping/outer box accounting for 10 per cent of the unit costs for raw materials. For the 19-liter bottle, the cost share of preforms rises to 87 per cent of the unit costs for raw materials. Different from Table 19, the next Table presents the unit costs based on 1 carton for each of the bottle size.

Table 16: Cost per Bottle of Water (TZS)

	Drop1.5L -Shrink One 1.5L Bottle	Share of each cost category	Share of the total unit cost	Drop 0.5L- Shrink One 0.5L Bottle	Share of each cost category	Share of the total unit cost	Drop 330mlx24	Share of each cost category	Share of the total unit cost	19 Litre Bottle	Share of each cost category	Share of the total unit cost
Raw Materials												
Preforms/ Bottles	179	64%	37%	86	58%	32%	73	58%	39%	2,314	87%	73%
Labels	25	9%	5%	11	7%	4%	10	8%	5%	112	4%	4%
Caps	21	8%	4%	21	14%	8%	21	17%	11%	193	7%	6%
Water	15	5%	3%	6	4%	2%	4	3%	2%	35	1%	1%
Wrapping/Outer box	28	10%	6%	14	10%	5%	10	8%	5%	-	0%	0%
Sleaves	6	2%	1%	6	4%	2%	6	5%	3%	-	0%	0%
Boiler - shrink label	2	1%	0%	2	1%	1%	2	2%	1%	-	0%	0%
Lubricant	3	1%	1%	3	2%	1%	3	2%	2%	20	1%	1%
Subtotal	279	100%	58%	148	100%	55%	126	100%	67%	2,674	100%	84%
Direct Cost	39		8%	39		14%	20		10%	200		6%
Depreciation	34		7%	17		6%	8		5%	310		10%
Overheads	131		27%	66		24%	33		18%	100		3%
Total Unit Cost	**483**		**100%**	**270**		**100%**	**186**		**100%**	**3,184**		**100%**

Source: Survey data and author calculations

Table 17: Cost per Carton of Bottled Water (TZS)

	Drop1.5L - Shrink One 1.5L Carton (6 Bottles)	Share of each cost category	Share of the total unit cost	Drop 0.5L- Shrink One Carton 0.5L (12 Bottles)	Share of each cost category	Share of the total unit cost	Drop One 330ml Cartoon (24 Bottles)	Share of each cost category	Share of the total unit cost
Raw Materials									
Preforms/ Bottles	1,074	64%	40%	1,032	58%	32%	1,752	57%	39%
Labels	150	9%	6%	126	7%	4%	228	7%	5%
Caps	126	8%	5%	252	14%	8%	504	16%	11%
Water	90	5%	3%	66	4%	2%	96	3%	2%
Wrapping/Outer box	171	10%	6%	171	10%	5%	244	8%	5%
Sleaves	36	2%	1%	72	4%	2%	144	5%	3%
Boiler - shrink label	12	1%	0%	24	1%	1%	48	2%	1%
Lubricant	18	1%	1%	36	2%	1%	72	2%	2%
Subtotal	**1,677**	**100%**	**63%**	**1,779**	**100%**	**55%**	**3,088**	**100%**	**68%**
Direct Cost	234		9%	468		14%	468		10%
Depreciation	202		8%	202		6%	202		4%
Overheads	788		30%	788		24%	788		17%
Total Unit Cost	**2,667**		**100%**	**3,237**		**100%**	**4,546**		**100%**

Source: Survey data and author calculations

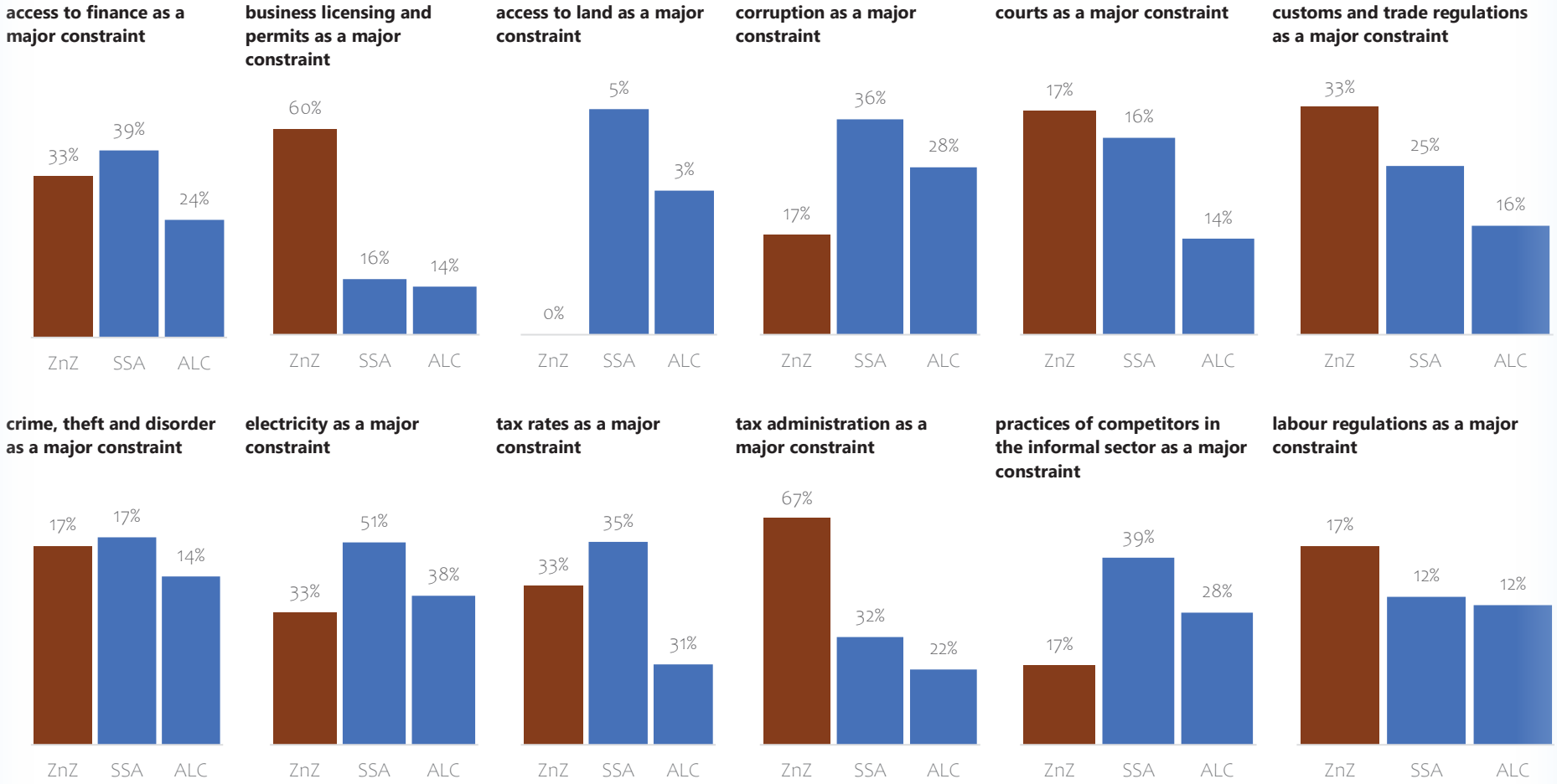
3.3 Business Environment

3.3.1 Benchmarking Business Environment in Zanzibar against SSA and World Averages

The business environment benchmarking follows the 18 assessment categories from the World Bank's Enterprise Survey (taking only the averages from the manufacturing sector). They are 1) access to finance 2) access to land 3) business licensing and permits 4) corruption 5) courts 6) crime, theft and disorder 7) customs and trade regulations 8) electricity 9) inadequately educated workforce 10) labor regulations 11) political instability 12) practices of competitors in the informal sector 13) tax administration 14) tax rates 15) transport 16) environmental standards 17) worth ethics, and 18) imports.[36]

Figure 2 shows that Zanzibar is underperforming other countries in the 5 business environment assessment categories of 1) licensing and permits 2) courts 3) customs and trade regulations 4) tax administration, and 5) labor regulations (Figure 2). Other categories where Zanzibar is either close to the averages for SSA and global and/or surpasses that of either of the two regions include electricity, tax rates, and access to finance.

Figure 2: Per cent of Companies Identifying .....



Source: Survey data and World Bank's enterprise survey dataset (2023)

3.3.2 Access to Finance

3.3.2.1 Findings from the Survey

Thirty-three (33) per cent of the surveyed industries identified access to finance as major constraint to doing business. The rate is 9 percentage higher than the global average of 24 per cent. Three major challenges were mentioned by the industries.

First is the refusal of local banks to accept machinery and equipment as collateral. Firms located inside the Amaani Industrial Park do not own the buildings. Such facilities are only rented from the par authority. The firms end up seeking foreign loans which comes with two challenges 1) exchange rate risks when repaying such loans[37] 2) rising interest rates from the ongoing global instability.

According to the management of one of the surveyed industries, the interest rate of its United States Dollars (US$) 11.5 denominated foreign loan has recently rose from 5.3 per cent to 10.2 per cent. The second challenging experience on access to finance is the inability to of the local banks to offer large loans. Again, foreign loans become alternative to local financing.

Limited access to credit is likely an outcome of lack of innovative financial products and limited competition in the banking sector. There is insufficient market pressure on banks to innovate and reach out to diverse businesses.

Two of the surveyed industries did not consider access to finance as a constraint. They are matured entities and have already secured a good track record with the local financial institutions. They also considered themselves as self-sufficient in working and investment capital provided by owners of the industries.

3.3.2.2 Policy Recommendations

- Establish Zanzibar Financial Charter (or development framework) to guide development of financial sector in Zanzibar. A diagnostic study on binding constraints in the financial sector is necessary to inform the drafting of the charter. In 2021, UNDP did a similar study for Mainland Tanzania.[38]
- Invest in a supportive information infrastructure (credit bureaus) as one of the means to minimize risks to lenders.

Promote increasing Foreign Direct Investment (FDI) in the banking sector.

- Provide incentives to attract venture capital investors, business angels, private mutual guarantees, leasing companies, and collateral-free loan screening mechanisms.
- Review regulations to provide mechanisms for intellectual property to be used as collateral.
- Introduce capacity-development program and Technical Assistance (TA) to industries aiming at modernizing their business operations to make them more attractive to lending from financial institutions.

3.3.3 Access to Land

3.3.3.1 Findings from the Survey

Except for ZSFL, access to land was not a constraint for the remaining five surveyed industries. The five industries have secured land to operate from (either by locating within the Amaani Industrial Park or by having secured titles). To avoid potential land disputes, one of the industries has proactively constructed a water source and access road for the surrounding community.

There are two land-related issues with ZSFL. First is the 3,000 acres that ZSFL claims to be unallocated to the factory following the privatization of the factory in 2015. Second, is the relatively costly land rent amounting to US$ 120 per acre, the rate that is significantly higher than the rates in Mainland Tanzania and Uganda (Table 8). The land rent data for Mainland Tanzania and Uganda are sourced from the website of the government investment authorities.

Table 18: Benchmarking Land Rent in Zanzibar

	Local Currency per acre	Exchange rate (Local Currency Units (LCU) per International Dollar)[39]	Equivalent in US$ (per acre)
Zanzibar	53,434.8	890.58	120
Mainland Tanzania	1,000	890.58	1.12
Uganda	6,553	1,310.60	5[40]

Source: Government Investment Authorities, World Bank's WDI (2023)

3.3.3.2 Policy Recommendations

Because of the limited sample (only six surveyed industries), land issues did not emerge prominently in the survey. The ongoing large enterprise survey by REPOA that will survey more than 12 sectors is likely to reveal more land-related issues. The limited information obtained from this study calls for two measures to be considered by the government.

- Establish a permanent solution to the disputed additional 3,000 acres with ZSFL. Among the good practices for enabling business environment is having in place methods for resolving land disputes that are quick and can be relied upon.

- Review the rates for land rent by considering practices from peer countries.

3.3.4 Business Licensing and Permits

3.3.4.1 Findings from the Survey

Business licensing is a commonly used instrument to regulate businesses' entry into markets and operation within markets. To obtain the required licenses, businesses typically must comply with a series of legal requirements, which can impose substantial administrative and financial burdens on their activities. Thus, a sound business licensing system plays a critical role in creating conducive regulatory environment. [41]

Business licensing and permits is a major constraint for 60 per cent of the surveyed industries, the rate that is more than three times the world and SSA averages. Three major constraints were raised 1) delays in securing local government business license 2) requirement for formal certificates from foreign experts 3) multiplicity of taxes, and fees 4) unclear methods for estimating fees and charges 5) Zanzibar Water Authority (ZAWA) fee of TZS 1,200 per cubic meters of ground water, despite the fact that not all the water is Utilised for producing bottled water (some for office uses including cleaning etc.).

It is taking up to a month for one to receive a business license, mostly because of the decision from local government authorities to issue new template every year. Demanding formal certificates for foreign experts results into businesses missing out on experts who are well experienced but lack formal qualifications. As an alternative to formal qualification, countries such as Vietnam allows businesses to submit practicing certificates with at least five years of work experience.[42]

Multiplicity of regulatory bodies results multiplicity of fees, and charges. In one of the surveyed industries, the research team observed a total of 13 certificates wall-displayed (annex 7). Some regulatory bodies practices involve estimating fees as a percentage of invoice value. Others do not deliver the services that businesses have been paying for (e.g., garbage collection fees by local government authorities without garbage collection service).

The surveyed industries are also concerned with the cost of investment certificates. Table 9 shows that while the certificate costs an investor US$ 200 and annual fees in Zanzibar, there is no application fee for investment certificates in countries such Kenya, Uganda and Mauritius. The certificates however cost US$ 1,100 and US$ 500 in Mainland Tanzania and Rwanda respectively.

Differently from other countries, Zanzibar maintains annual renewal fee reaching US$ 2,500 and varies depending on the capital invested in the business. The rate of pension contribution by employees is significantly higher in Zanzibar at 13 per cent. This rate is 8 and 8.5 percentage points higher than in Seychelles and Mauritius (Table 9).

Industries locating at the Amaani Industrial Park are relatively better served by regulatory bodies. One example is the support from ZIPA to such industries when one applies for business licenses.

Table 19: Benchmarking Other Fees and Charges in Zanzibar

	Investment Certificate Fees	Pension contribution by employer
Zanzibar	Us$ 200[1]	13%
Mainland Tanzania	1,100[5]	10%
Kenya	0[2]	5%
Uganda	0[2]	10%
Mauritius	0[3]	4.5%
Rwanda	US$ 500[4]	3%
Seychelles		5%
Nigeria		10%
Burundi		6%

Source: Various sources

[1]Application fee and there are annual fee depending on the capital investment (US$ 2,500 annual fee for strategic investors)

[2]The application for and issuance of the Investment Certificate is free of charge (no annual fee)

[3]For the premier investor certificate (no annual fee)

[4]Application and annual renewal fee

[5]Application fee

3.3.4.2 Policy Recommendations

- Revisit the licensing regulatory regime by considering 1) integrating all the fees and charges into one 2) setting up online one-stop-shop for license application. The review can be guided by the principles of "single industrial license", "silence is consent" and "once-only.[43]"
- Abolish the practice of introducing new templates for business license every year. In the medium term consider introducing online application and renewal of business licenses – as it is currently happening in some of the LGAs in Mainland Tanzania.
- Review the requirement for formal certificates for foreign experts to consider experience level as an alternative to formal certificates.
- Establish an inventory of regulatory licensing authorities including their practices of estimating fee estimation.
- Make mandatory the Compliance Cost Assessments (CCA) and Customer Satisfaction Measures (CSMs). The two will need to set of clear and comparable performance measures of the regulations being enforced. To make the regulators accountable,

the CCA and CSMs need to be embedded in the legislations governing different sectors. The surveys will assist the government in tracking the cost and nature of, for instance, the paperwork burden imposed on businesses and to track changes in that burden over time.[44]

- Strengthen accountability of the regulatory bodies to professional conduct in line with the established rules and regulations.
- Review the approach by ZAWA when estimating the volume of water being Utilised as input to the process of producing bottled water.

3.3.5 Customs and Trade Regulations

3.3.5.1 Findings from the Survey

The proportion of the surveyed industries identifying customs and trade regulations as a major constraint was 33 per cent. The rate is far higher than the averages for SSA (25 per cent) and world (16 per cent). Industries (e.g., the sugar factor) that source majority of its raw materials locally are less affected by the customs-related constraints.

The first complaint is the tendency by regulatory bodies to inflate tax liability when one exports to Mainland Tanzania. Second, is the unfair competition from cheap and substandard imports that do not conform to the established standards. Imported non-woven bags, for example enter the market with far less than the established standard of 70 GSM.

Third, is the time-consuming interface between ZIPA and TRA when one applies for import duty exemptions. Forth, is the delayed release of CO. The delays have result in some incidences of goods reaching export destinations in advance of the CO. There are two reasons for the delays 1) CO procedures are yet to be computerized 2) according to the East African Community (EAC) customs management regulation, the CO must come from the supreme tax authority, which for the United Republic of Tanzania (URT), it is TRA and not the Zanzibar Revenue Authority (ZRA).

The fifth complaint is the conflicting environmental related regulations between the two sides of URT. An example is the use of sleeves (the thin plastic layer around the bottled water caps). Differently from Zanzibar, the sleeve is prohibited in Mainland

Tanzania. Sixth, businesses that export are compelled to seek endorsements from the Tanzania Bureau of Standards (TBS) because the ZBS is not recognized in the customs regime.

3.3.5.2 Policy Recommendations

Most of the surveyed industries export (Table 1). Even if such industries do not export, they are largely depending on imported raw materials. Both characteristics make customs and trade regulations key to the prosperity of the manufacturing sector in Zanzibar.

- Make TRA accountable to the established regulations when estimating tax liabilities.
- Enhance the capacity of government authorities to enforce the established laws that protect domestic producers from cheap and substandard imports.
- Revisit the existing procedures aiming at accelerating processing of import duty exemptions between ZIPA and TRA.
- Computerize the release of CO as well as the possibility for ZRA to be recognized in the EAC customs arrangement.

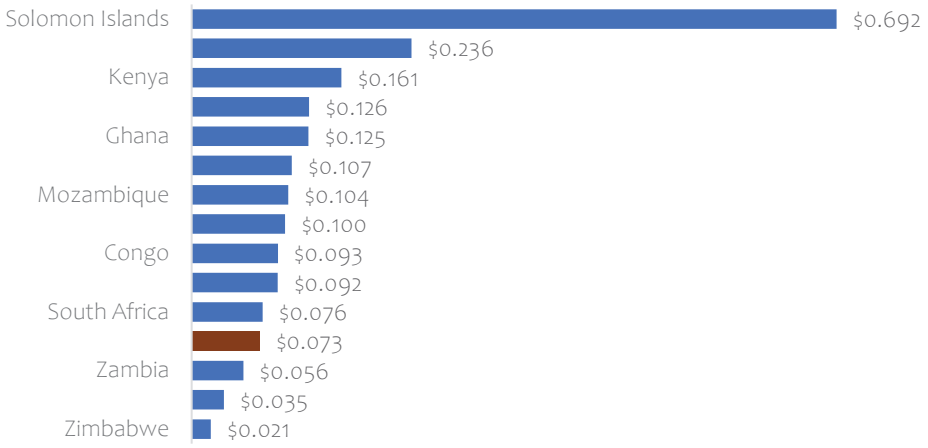
3.3.6 Electricity

3.3.6.1 Findings from the Survey

It is among the first order obstacle to business. Complaints from the surveyed industries include 1) power outage reaching three times a day in some locations. In some cases, power cuts is a full working day experience 2) in some locations, the installed power facilities (fuse/transformers) are of low capacity compared to the power load of the surrounding industries 3) poor customer service from ZECO 4) high cost of electricity. Two industries (ZMCL and YY-TZ) do not experience power reliability issues for the reasons discussed in subsection 3.1.2.

The study verified some of the complaints through benchmarking. In the case of cost of electricity, Figure 3 shows significant cross-country variations in the average price per kilowatt hour (KW/h).[45] Except for the three countries of Zimbabwe, Ethiopia, and Zambia, the cost in Zanzibar remains relatively lower than many other African countries.

Figure 3: Benchmarking Cost of Electricity in Zanzibar (Average Price of 1KW/h US$)



Source: Cable (2023) for benchmark data, and ZECO for the power tariff in Zanzibar

3.3.6.2 Policy Recommendations

It is difficult to find an economy that has developed a diversified, industrialized economy without widespread access to reliable and affordable electricity. Reliability of electricity matters because of its importance in not only reducing the costs (e.g., costs of using back-up generators) but also in terms of supporting increasing productivity. Policy recommendations are as follows:

- Invest in a system that will allow highly vulnerable and strategic industries to receive preferential supply at a premium price but lower than self-generation cost.
- Compel utilities to improve customer service through engaging with industries to understand customers' challenges and develop *specific* solutions to meet their needs.
- Introduce time-of-use pricing targeting the specific needs of large customers. Kenya, Rwanda, Malawi, Cameroon, and several other countries already have a form of time-of-use arrangement.
- Incentivize industries to invest in power generation for their own consumption and supplying the surplus to the grid. One potential opportunity for power production comes from ZSFL that (according to the company management) has the capacity of generating 3 megawatts (MW).
- Upgrade the infrastructure (transformers and associated equipment) to meet the load of large users.

3.3.7 Inadequately Educated Workforce

3.3.7.1 Findings from the Survey

Skills deficiency is acknowledged by the surveyed industries as more challenging on the technical than administrative positions. The industries invest in turning the unskilled employees into skilled pool through in-house and on-job training (using nationals and foreign experts as trainers). The industries tend to set low qualification when hiring knowing that they will end up investing in skills upgrading.

Equipment suppliers also train national employees when servicing the equipment. Only one industry claimed to outsource training services. Examples include training from the Fire Department on electrification and drilling operations.

Another strategy by the industries is to hire foreign expatriates from Asian countries and Mainland Tanzania. The challenge with this approach is the relatively higher labor cost, and high turnover. The latter is because of the reluctancy of some of the new recruits to relocate to Zanzibar.

The major regulatory challenge from hiring experts is the requirement for formal qualifications for an expert to be granted with work permit (see the discussion under subsection 3.2.4).

Among the likely root causes of skills deficiencies is the fact that the two industries that produce textiles and woven bags are the first to be established in Zanzibar. The skills deficiency is further expanded by the complicated production processes. Such processes involve the use of equipment that combine Information Technology (IT) and electronics (mechanical and engineering) as well as use of equipment sourced from different countries (Taiwan, German, and Turkey). Each of these equipment entails significant differences in automation procedures.

3.3.7.2 Policy Recommendations

- Review the education-related polices and systems focusing on quality and relevance aspects.
- Invest in upgrading the technology being used in the Technical and Vocational Education Training (TVET) centers. The investment should have an objective of aligning the TVET system

with the technological progress in the manufacturing sector in Zanzibar and elsewhere.

- Commission a study on skills needs of the manufacturing sector and employability skills of the TVET graduates. Bring together all stakeholders to regularly deliberate the relevance of the TVET subsector to the manufacturing sector.
- Establish a scholarship program that will offer training on selected technical professions that are in great demand by the industries.
- Encourage employers to engage in the development of training courses/curriculum for TVET and the provision of internships, with such arrangements formalized via Memoranda of Understanding (MoU)

3.3.8 Courts

3.3.8.1 Findings from the Survey

Only 17 per cent of the surveyed industries identified courts as a major constraint to doing business. This rate is close to that of SSA and marginally 3 percentage points above the global average of 14 per cent. Overall, the majority of the surveyed industries have yet to experience court cases.

Concerns raised by the surveyed industries include delays by the courts and police to process labor-related disputes that, according to the surveyed industries, appear straight forward. One of the industries claimed that it is taking more than a year to conclude its court case with a dismissed employee. Court congestion and disorganization are the other areas of concerns raised by the surveyed industries.

Timely and correct interpretation of laws has also been a challenging experience to the industries. An example is the mix-up that emerged from interpretating the ban on plastic materials.

3.3.8.2 Policy Recommendations

- Review the court system and address the challenges it encountered in delivering its mandate. This is key to identify reasons behind the perceived delays in court cases associated with labor-related disputes.

3.3.9 Crime, Theft and Disorder

3.3.9.1 Findings from the Survey

Except for few incidences (theft of small items), incidences of crime, theft and disorder are not of major concerns for majority of the surveyed industries. All the surveyed industries have secured gated estates either by being located within the Amaani Industrial Park or operating from their own sites.

However, theft is a major concern around the sugarcane farms (stealing of water pumps, motors, and pipelines). Differently from the sugar milling plant, these farms are not enclosed with brick walls.

3.3.9.2 Policy Recommendations

Not a major concern for the surveyed industries.

3.3.10 Labor Regulations

Labor regulation is part of a complex system of laws and institutions intending to protect workers' interests and to assure a minimum standard of living for its population. Theoretically, governments intervene in the labor market because such markets are imperfect characterized by rents in the employment relationship, and that employers abuse workers to extract these rents, leading to both unfairness and inefficiency. For employees, labor regulations impose additional costs to the business including requirements, for instance, money for workers safety, fair remuneration and benefits etc.

3.3.10.1 Findings from the Survey

The proportion of industries identifying labor regulation as a major constraint was 17 per cent. The rate is higher than the SSA and global average of 12 per cent.

Key concerns from the surveyed industries include: 1) time-consuming process to resolve labor disputes even when the businesses have followed established regulations when dismissing employees 2) labor regulations on working hours are insensitive to the operational nature of some industries.

One of the labor regulations, for instance, requires employees to have a day off after every five working days. This regulation is incompatible with the operational nature of textile industries where

once a boiler is switched on, it must operate for several days. The factory, therefore, must run for 26 days consecutively, with employees given four days rest thereafter.

Another concerned is on the pension payments. The industries are concerned that pension payments are honored only when one retires differently from foreigners who receive their contributions immediately at the end of their contract.

The industries are also unhappy with the set TZS 300,000 as minimum monthly wage. The minimum wage rate is considered among the key triggers for higher cost of productions and ultimately submitting the industries uncompetitive in cost. Second, because of the high wage bill, the industries are reluctant to expand employment opportunities.

The minimum wage in Zanzibar is twice as high as that of Mainland Tanzania, and lower than that of Kenya and Mauritius. Despite being lower than the two countries, it is worth mentioning that the productivity in Mauritius (measured by output per worker) is more than 10 times (US$ 24.76) that of Tanzania (US$ 2.93). The same in Kenya where its productivity is close to twice (US$ 4.74) that of Tanzania.[46]

Table 20: Benchmarking Minimum Wage in Zanzibar

	Minimum monthly wage (LCU)	**Exchange rate (LCU per international $)[47]**	**Minimum monthly wage (US$)**
Zanzibar	TZS 300,000	890.58	336.9
Mainland Tanzania	TZS 150,000[48]	890.58	168.4
Kenya	15,201.65[49]	43.80	347.1
Mauritius	Rs10,399[50]	16.48	631.0

Source: Various Government Sources

3.3.10.2 Policy Recommendations

- Review and simplify processes associated with labor dispute resolutions. Capacity building to government entities on conciliation and mediation skills can be considered as well.

- Review the labor regulations on working hours to reflect differences in the operating nature of industries. The reviewed regulations can for instance allow flexibility on resting days. The reforms can be implemented in a manner that the government will be meeting its several developmental objectives, including advancing business environment, and at the same time continue to protect worker rights.

3.3.11 Practices of competitors in the informal sector

3.3.11.1 Findings from the Survey

Cheap and substandard imports are among the major concerns (see the discussion in the preceding subsections). The informal competitors have cost advantage as they do not pay for permits (ZBS, Fire, OSHA, business license) and they produce from home (e.g., cashew nuts processors). In addition, the absence of standards for the textile industry contributes to increasing market penetration of substandard imports.

Though unrelated to informality, the large wheat consumers such as China tend to procure large quantities of wheat in advance, resulting into higher costs of raw materials for small importers such as Zanzibar.[51]

3.3.11.2 Discussion and Policy Recommendations

- Accelerate the ongoing process of introducing standards for textile products in Zanzibar.

3.3.12 Tax Administration

3.3.12.1 Findings from the Survey

Tax administration, as a major constraint to doing business was mentioned by 67 per cent of the surveyed industries. This rate is more than twice that of SSA (32 per cent) and more than three times the global average (22 per cent).

Complaints from surveyed industries include 1) frequent breakdown of the TRA online system 2) frequent changes to the rates for stamp duties (from 0.7 per cent to 0.3 per cent to 1.5 per cent) 3) EFD machines have programed excise duty at 2 per cent instead of 1.5 per cent 4) low capped price of wheat flour at TZS

82,000 per bag and the associated method of estimating excise duty on the turnover instead of the margin[52] 5) inflating tax liability when estimating value of imports from Mainland Tanzania 7) the input VAT for electricity is not claimable.

Other complaints include 6) time consuming process when one requests import duty exemptions 7) limited taxpayer education by TRA leading to business being vulnerable to penalties 8) businesses cannot claim input VAT from raw materials procured from Mainland Tanzania.

The research team questions the validity of this claim for the following reason. The proportion of business volume to buyers from Zanzibar might be relatively small and disincentivize businesses in Mainland Tanzania from investing in sophisticated VAT exemption process (bondage facility to separate items sold domestically i.e., in Mainland Tanzania, and the ones being exported to Zanzibar which will benefit from VAT exemption).

Other complaints include 9) different from Mainland Tanzania, the VAT process remains manual 10) excise duty is paid after producing rather than after selling. This is contrary to the purpose of the tax (excise duty is a consumption tax) and has to be paid after selling the excised product 11) TRA refusal to consider the empty large bottles as raw material to the water producing industry.

The research team questions the validity of this concern. To the understanding of the research team, as far as the bottles can also be used as final products (in addition to their other use as raw materials), they attract import tax as semi-processed products.

3.3.12.2 Policy Recommendations

For an enabling environment that support business development, revenue authorities need to continually review their operating approaches and procedures. Most of the issues raised by the surveyed industries related to the conduct, operational procedures, and ways by which TRA interacts with taxpayers. Below are the other recommendations to be considered.

- Invest in efficient online systems that would save the transaction costs of one complying with tax regulations.
- Ensure predictability of tax rates by avoiding regular changes to the rates.

- Reprogram the EFD machines to be in line with the tax rates specified in the tax laws.
- Revisit the capping of wheat flour as well as the method of estimating excise duty to have a common understanding between revenue authority and businesses.
- Invest in the accountability and professional conduct of employees of revenue authority when interacting with individuals. This also include having transparent policies and procedures that conform to the tax laws.
- Rationalize processes associated with requests for import duty exemptions.
- Invest in taxpayer education including distribution of information and communication materials that highlight tax rules and procedures. Revenue authorities also need to regularly consult with taxpayers and other stakeholders on changes to, and the development of, policies and procedures.
- Migrate to online processes for VAT returns coupled with investing in advanced Information Communication Technology (ICT) infrastructure.

3.3.13 Tax Rates

3.3.13.1 Findings from the Survey

Tax rates was identified as among the major constraint by 33 per cent of the surveyed industries. The rate is largely along the same range as the global average (31 per cent) and SSA (35 per cent). The surveyed industries are specifically concerned with the 1) VAT rate of 15 per cent 2) import duty on equipment despite qualifying for exemptions 3) withholding tax rate on technical expertise 4) 5 per cent on turnover for loss making businesses 6) 10 per cent import duty for wheat grain from Mainland Tanzania, whereas it is it is 0 per cent from Balkan states. The rate increases production costs when wheat flour producers are forced to import wheat grain from Mainland Tanzania at the time of unreliable supplies from the Balkan region.

Table 11 and 12 benchmarks the VAT rate for Zanzibar and the withholding tax technical expertise respectively. The 15 per cent VAT in Zanzibar emerges as the lowest in the EAC region. Its rate is 1 percentage point less than the rate in Kenya, and 3 percentage point less than the rest of the other countries in the region. The

withholding tax on technical expertise in Zanzibar appears to be in line with most of the benchmarking countries.

Table 21: Benchmarking VAT Rates

	VAT rate
Zanzibar	15%
Mainland Tanzania	18%
Burundi	18%
Kenya	16%
Rwanda	18%
Uganda	18%
Ethiopia	15%
Angola	14%
Botswana	12%
Mauritius	15%
Nigeria	7.5%
Zimbabwe	14.5%

Source: East African Community (2023) and PWC (2023)

Table 22: Benchmarking Withholding Tax on Technical Expertise

	Withholding tax on technical expertise
Zanzibar	15%
Mainland Tanzania	15%[53]
Kenya	20%[54]
Uganda	15%[55]
Mauritius	10%[56]
Seychelles	15%[57]
Cape Verde	15%[58]

Source: Various

3.3.13.2 Discussion and Policy Recommendations

- Introduce a specific study to review the current investment incentives including the 5 per cent that is imposed on turnover for loss making businesses. See the conclusion under sub-section 3.3.2.

3.3.14 Transport

3.3.14.1 Findings from the Survey

Transport was not considered as a challenge mostly because industries outsource the service. However, the surveyed industries raised two issues. First, is the long distance to export destination. Exports go through Zanzibar port (port charges) to Mainland port (port charges) before reaching the regional market. This requires the port in Zanzibar to be very efficient to compensate for the disadvantages.

Second, is port delays, which (in some cases) takes up to four weeks for cargo ships to discharge containers. It is more of a concern if the goods being exported or imported are perishables items. Industries are also unhappy with the alternative port of Mombasa whose inefficiency increases transportation costs for the cargo destined for Zanzibar.

3.3.14.2 Policy Recommendations

In early 2023, the Zanzibar Ports Corporation (ZPC) received modern equipment which are expected to minimize berthing time for cargo ships. In addition to these positive efforts, further measures could include:

- Ensuring close monitoring of the port operations including the ability to maintain the recently installed equipment.
- Upgrading the labor skills to the required standard aiming at minimizing inconveniences in offloading cargo.
- Accelerate the ongoing construction of a multipurpose seaport at Mangapwani areas, North Unguja.
- Accelerate the ongoing efforts of digitizing port operations to improve port operations, efficiency and eliminate paperwork and the challenge of queuing.

3.3.15 Environmental Standards

3.3.15.1 Findings from the Survey

Environmental standard is not part to the 2021 World Bank Enterprise survey benchmark data. Of the 6 surveyed industries, it was only the textile industry raised concerns on environmental issues, in particular the absence of incinerators to dispose textile

waste. Basra Textiles is the first textile production plant in Zanzibar and has therefore created the demand for specialized waste disposal technology.

3.3.15.2 Policy Recommendations

- Invest in incinerators that would not only take care of textile waste but also other hazard materials that are not biodegradable. The firm is in discussion with the government for temporary environmentally friendly means to dispose the existing waste that is piling up at the factory.

3.3.16 Worth Ethics

3.3.16.1 Findings from the Survey

Work ethics is not part to the 2021 World Bank enterprise benchmark data. Seventeen per cent of the surveyed industries from this study identified worth ethics as major constraint. The industries are concerned with 1) employees becoming responsible and accountable only when supervised 2) socio-cultural issues are prioritized above work responsibilities 3) lack of commitment to assigned tasks 4) recklessness when it comes to safeguarding factory's equipment.

To generate work commitments from the employees, firms do 1) offer relatively higher employment benefits (e.g., health insurance to families of the employees; salaries above the market rates) 2) sensitize employees on work commitment 3) invest in monitoring systems (e.g., security cameras). One of the industries has secured a core group of ethical employees and when new recruits join, they end up aligning to the group culture.

3.4 Research and Development (R&D)[59]

3.4.1 Findings from the Survey

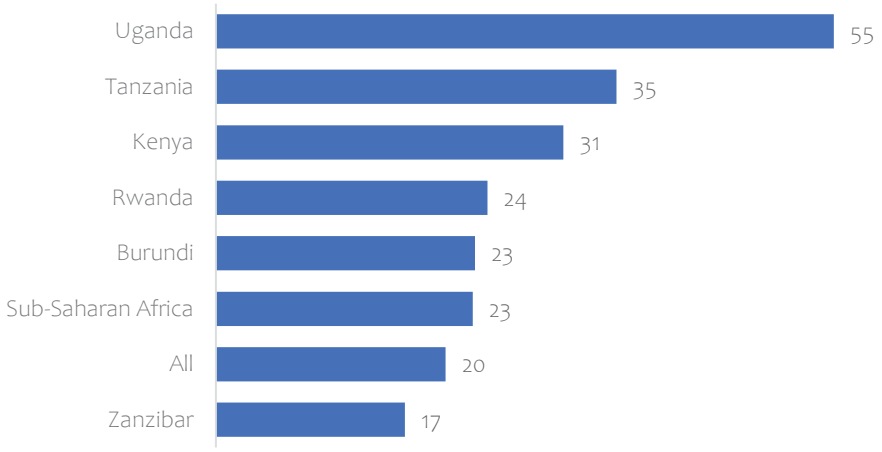
Only one out of the six surveyed industries invest in R&D (16.7 per cent). The rate is the lowest among the EAC member countries and below the world and SSA averages of 20.3 per cent and 22.7 per cent respectively (Figure 4). Among the investment incentives in

Zanzibar is the 100 per cent allowance on R&D expenditure to strategic investors.

Likely reasons for the low appetite to invest in R&D include 1) most of the surveyed industries produce standard products (bottled water, wheat flour etc.) 2) as Zanzibar is a relatively small market, some of the industries, Turky Mifuko Ltd, for example, is the only producer of such bags in Zanzibar. In the absence of competition, firms lack incentivizes to invest in R&D and innovate 3) the market is not sophisticated, that is, it does not demand sophisticated products.

The surveyed industries receive customer specifications and adjust accordingly. Such specifications, however, do not require major divergence from the primary design of the products that the industries produce. The only industry investing in R&D is YY-TZ which outsource such function. Because it participates in hyper competitive market with sophisticated consumer tastes and preferences, it must innovate to stay competitive.

Figure 4: Benchmarking Spending on R&D in Zanzibar



Source: World Bank's Enterprise Survey Dataset and Survey Data

3.5 Skills Gaps

3.5.1 Skills Gaps Across Different Domains

Skills gaps are mostly observed in the technical field particularly in the production line. The surveyed industries address this challenge by 1) hiring from Mainland Tanzania and/or foreign experts from outside URT Tanzania 2) assigning an engineer in every production shift who is responsible to take spot decisions whenever a need arises 3) invest in in-house training of national employees.

The need for technical skills, however, significantly differ between industries. The demand for technical skills is much higher for industries using very advanced and automated equipment. Computer skills are much more demanded by administrative staff than the production lines. Most new administrative recruits have basic computer knowledge and are subjected to in-house training for specialized computer applications.

Literacy, interpersonal and communication skills are of good quality, except for industries with foreigners who do not speak Swahili and English. However, critical thinking remains a challenging skills gap, likely an outcome of lack of such training in the education system (strategic thinking, exploring creative ideas, awareness of the impact of one decision, offering ideas that benefit the business etc.). The latter is an outcome of lack of unenthusiastic to engage in critical and strategic thinking.

3.5.2 Job Vacancies

In the past two years, the proportion of industries with vacancies in the fields of technicians/professionals and plant and machine operations is 60 and 80 per cent respectively (Figure 5).

Of the vacancies that were available in the past two years, plant and machine operations was leading with 38 per cent of all the vacancies, followed by professionals (23 per cent) and technicians (16 per cent). Sales and service, and management positions are of the least constraint (3 and 7 per cent respectively).

Almost all the vacancies were filled, except for management positions where only 40 per cent of the vacancies were filled. In terms of the time, it takes to fill the vacancies, management positions took more time (an average of 11 weeks). The recruitment of plant and machine operators took an average of 6 weeks. The key constraint in this area is the reluctancy of potential candidates to relocate to Zanzibar.

3.5.3 Policy Recommendations

- Identify key gaps in technical skills and consider investing in a scholarship program for nationals to get formal training outside Zanzibar.

- Review the Technical and Vocational Education Training (TVET) system aiming at identifying means to align their training with the emerging skill need of the industries in Zanzibar.

Figure 5: Job Vacancies

Figure 5a: % of industries with vacancies

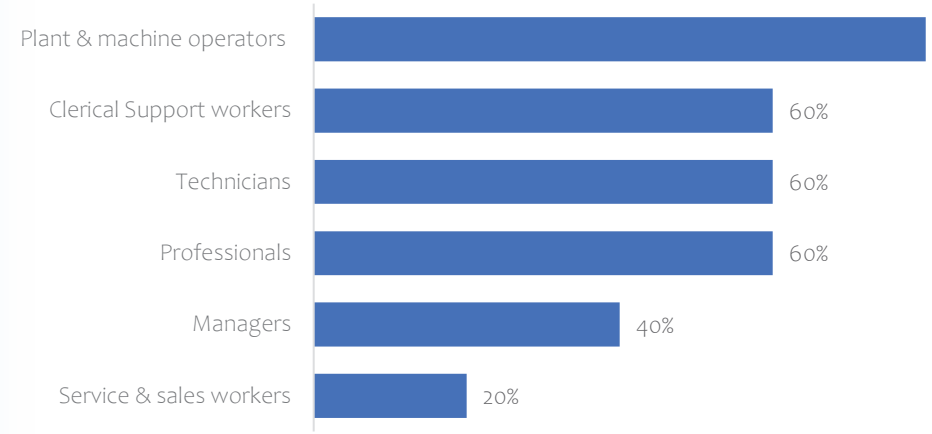


Figure 5b: % of vacancies in each category

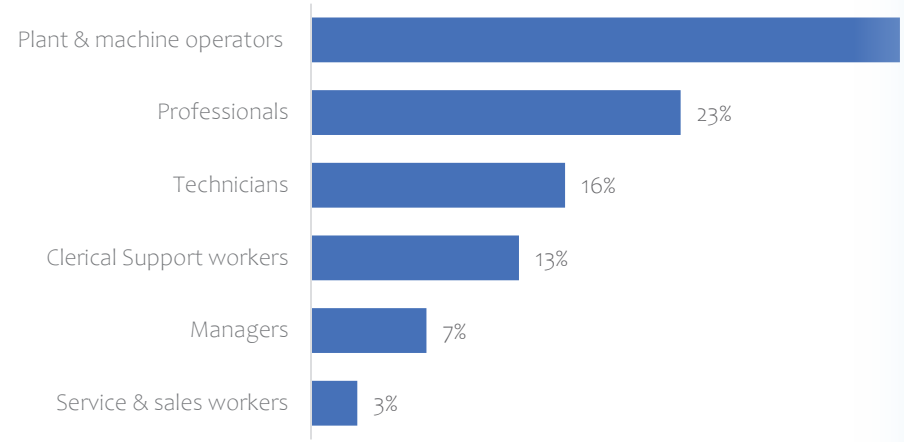


Figure 5c: % of vacancies filled in each category

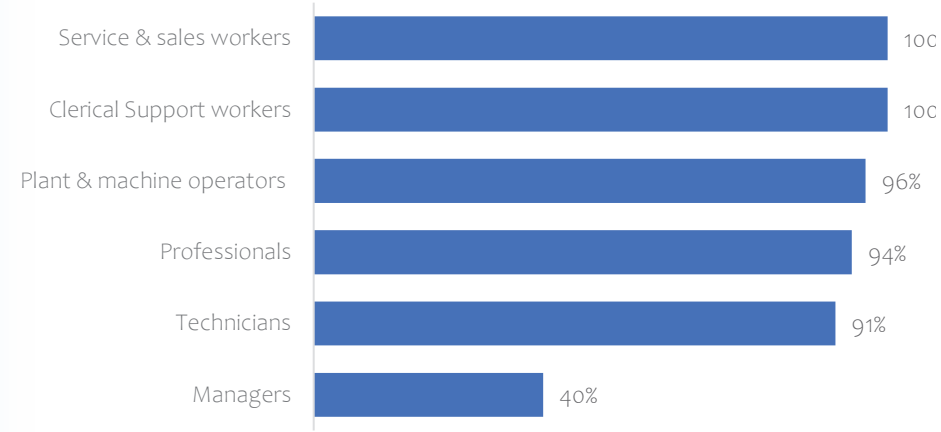
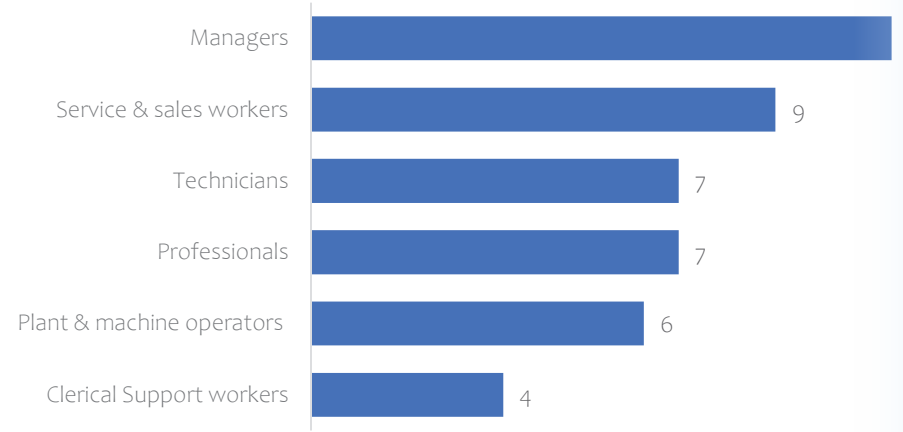


Figure 5d: Average no. of weeks to fill each vacancy



3.6 Investment Incentives

The investment incentives provided in Zanzibar are stipulated in the ZIPA Act (2018) sixth schedule (benefits, incentives, and allowances for strategic investment), seventh schedule-part I (incentives and allowances in the free economic zone) and part II (incentives and allowances outside the free economic zone). This section starts by presenting the international best practices for designing and implementing investment incentives. This is followed by benchmarking the investment incentives provided in Zanzibar against incentives from other countries.

3.6.1 Best Practices for Designing and Implementing Investment Incentives[60]

- Specify the **role** of FDI in the economy, the **potential** for further FDI, to what extent the regulatory framework is **supportive** of this potential, and what **improvements** could ensure its realization.
- Incentives should be offered on the basis of host **country requirements**, not in an attempt to match those of other countries.
- Investment Promotion Agencies (IPAs) should not be subunits of a ministry but be either **autonomous** public bodies, semi-autonomous agencies reporting to a ministry, joint public-private or private entities.
- Determine the **objectives** of the incentive (i.e., the market imperfections that the incentive is designed to reduce)
- Information on incentives must be provided to potential investors in an effective and **timely manner**, potentially through an efficient IPA.
- Incentives, both tax and financial, should only be used as focused instruments to correct market failures and as a second-best policy option after having **evaluated** the alternatives available.
- Investment promotion and the associated incentives must be seen in the context of **larger** development efforts and the overall enabling environment must include (e.g., general economic atmosphere that rewards enterprises and innovation, a dependable legal system; infrastructure and skills, fair and equitable treatment; legal protection; guarantees against expropriation; and transparency).
- Restrictions on entry, ownership, fund transfer and repatriation of profits and capital invested should be minimal.

- If incentives are being used primarily as means to market a country's openness to investment, it is suggested that the incentive be short-term and limited.
- Incentives programs should be **time-bound**.
- Incentives programs should be **reviewed** regularly to ensure that they continue to remain relevant and effective. That is, compare the **benefits** to the **costs** of granting incentives and this should be done periodically.
- Information on the processes and procedures related to incentives administration should be **transparent** and publicly available.
- While stability is important, predictable flexibility ensured by mandatory **reviews** is preferable to maintain effective incentives.
- The process of applying for incentives should be **simple** and **minimize discretion**, and for tax incentives it should be automatic.
- Incentives should be linked to **investment levels**, while tax holidays should be used sparingly.
- They should be provided in the relevant **tax code**.
- Tax policy must aim at ensuring simplicity and stability in the tax system, especially in countries where institutional or political risk is high.
- Tax expenditure statements should be prepared regularly to measure the **costs** of tax incentives.
- Incentives are more effective when they are offered up for **short time periods**, as opposed to offered over a long period.
- As a general rule, tax incentives offered longer than 5 years are excessively **costly**.
- The best commercial ambassadors are often successful and satisfied **incumbent** investors (thus, the focus should be on encouraging sequential investment in current firms, through the maintenance of a supportive environment, and perhaps the appointment of a business ombudsman to handle investor concerns)
- Incentives should be **rules-based** and are open to all investors regardless of nationality or industry coupled with an independent judiciary,
- Incentives are formerly incorporated into the **tax code** and limited discretion be retained for particularly desirable projects. Having few exemptions also limits the need to verify case-by-case compliance.

- Incentives should not be paid out **prior** to investment but be of a type to promote activities that generate spillovers such as training, R&D and interaction with domestic firms.
- Incentives that reduce import duties on machinery and equipment can encourage linkages and **technology transfer** to domestic firms.
- If investors are required to fulfill certain conditions as part of granting incentives, it is imperative that post-grant **monitoring** of the investment project is undertaken.
- Tax holidays should not be used as a means to **offset** a high local tax rate, as the type of investment attracted by these schemes is likely to be footloose and unwilling to remain when the holiday has ended.
- To attract more long-term FDI, typically with long gestation periods, firms be allowed to **carry forward** losses incurred during the tax holiday period.
- Investment tax credits can be preferable to tax holidays since they target investment directly and enhance **transparency** by requiring the filing of tax returns.
- Tax policy must be designed with the awareness that different measures attract **different types of investors**. Start-up companies prefer incentives that reduce initial expenses, such as equipment and material exemption, while expanding companies prefer ones related to profit. Manufacturing industries prefer incentives targeting depreciable assets, as they own more fixed assets than service industries. Furthermore, SMEs are far more responsive to fiscal incentives than are large multinationals.

3.6.2 Benchmarking Investment Incentives in Zanzibar

3.6.2.1 Strategic Investors

3.6.2.1.1 Eligibility Criteria

Zanzibar

The applicant for a strategic investment status should 1) invest assets equivalent of US$ 100 million and above and contributing at least 30 per cent of this investment in the form of equity 2) employ at least 1,000 people or 3) investing assets equivalent to US$ 50 million in the innovative investment or in the disadvantageous regions in any of the priority sectors of a) industrial manufacturing or assembly b) up market tourism c) agriculture and fisheries d) real

estate development e) energy f) infrastructural development, and g) information and communication technology.

Mauritius[61]

The project of the strategic investor should have a minimum investment of Rs 500 million rupees (US$ 11.2 million[62]) in 1) emerging sectors 2) pioneering industries and first movers 3) innovative technologies and industries; or 4) such targeted economic activities as the Minister may approve OR the project relates to the manufacture of pharmaceuticals; or medical devices.

Cape Verde[63]

A project of the strategic investor should meet the following conditions cumulatively a) the investment amount is greater than Cape Verde Escudo (CVE) 3 million (Euro (EUR) 27,207,182.70[64]) b) the investment is relevant for the promotion and acceleration of the national economy's development, considering as such those that are integrated in the Government's program c) the investment creates at least 20 direct skilled labour. The assumptions in (a) and (c) above are reduced by: • 50% when the investment is implemented in municipal territory with an average Gross Domestic Product (GDP) per capita, in the last three years, lower than the national average.[65]

Summary:

The economies of Mauritius and Cape Verde (GDP US$ 13.7 billion and GDP US$ 1.9 billion[66] respectively) are larger than the Zanzibar's economy (GDP US$ 1.4 billion[67]) but have lower threshold of investment capital for one to qualify as strategic investor (Mauritius US$ 11.2 million and Cape Verde US$ 28.9 million versus Zanzibar's US$ 100 million).

Similar to Zanzibar, the incentives being assigned to strategic investors in Mauritius define the priority sectors. The incentive package in Cape Verde does not. As strategic investment tends to get significantly higher incentives than other investment types, by having a very low investment threshold is likely to lead to higher cost of incentives (e.g., revenue loss) than the benefits (e.g., employment gains). Thus, any decision to revise the threshold should be informed by an analysis of the benefits and costs of the current regime.

3.6.2.1.2 During Implementation and Subsequent Operations of the Investment

Zanzibar

During implementation of the investment:

a) Exemption from all duties and taxes on importation and local purchases of construction goods and materials during the project construction b) Exemption of income tax on interest on capital borrowed from foreign banks. c) 5 years (yrs) grace period on payment of land lease d) 100 per cent foreign ownership is allowed. e) Engagement of foreign contractors in allowed. f) 5yrs grace period on payment of land lease for marina in tourism investment.

During operations of the approved investment:

a) 50 per cent exemption of the prevailing rate for corporate income tax b) 50 per cent exemption of profit tax for repatriated profit c) 50 per cent exemption for accelerated depreciated for 5yrs d) 50 per cent exemption of income tax on interest on capital borrowed from foreign banks e) 100 per cent allowance on R&D expenditure f) 100% retention of all profit after tax g) 100 per cent foreign ownership is allowed. Without prejudice to the provision of paragraph 1 and 2 of this Part, strategic investment in manufacturing sector, may further be granted the following additional incentives a) exemption from payment of any tax on all goods produced for exports b) exemption from payment of trade levy for raw materials and industrial inputs purchased from Tanzania Mainland c) exemption from payment of import duty, excise duty and VAT on importation of heavy machines and equipment d) Exemption from payment of VAT on local purchase of heavy machinery or equipment required during production phase; and e) Additional 5yrs allowance of 50 per cent accelerated depreciation

Mauritius[68]

Incentives are negotiable with the Mauritius Economic Development Board (EDB), assessed by a technical committee and approved by the Minister of Finance and may include: 1) rebates, exemptions and preferential rates, in relation to taxes, duties, fees, charges and levies under any enactment 2) facilities, grants and exemptions in relation to 1) land and buildings 2) infrastructure and public facilities 3) utilities; and 4) labour requirements, including foreign labor.

Cape Verde[69]

An investment project designated as a "project of national interest" may sign contracts with the State of Cabo Verde and foreign investors. These contracts are called "establishment agreements", where exceptional benefits can be granted regarding import duties, IUR-PC (Single Income Tax - Legal Person), Único sobre o Património (IUP) (Property Tax) or Stamp Tax.

Summary:

Different from Mauritius, the incentive regime in Zanzibar is silent on exemptions for foreign labor. Also, the incentives in Zanzibar are itemized (differently from the ones on offer in Mauritius and Cape Verde). In the two benchmark countries, the incentives to be offered to strategic investors largely depend on the outcomes of negotiations between such investors and the government.

The disadvantage of this approach (discretion and negotiation-based) is uncertainty of incentives that one can secure from the onset. Zanzibar also separates incentives packages during implementation of investment from those assigned during operation of the approved investment.

3.6.2.2 Incentives and Allowances Outside the Free Economic Zone (FEZ)

Zanzibar

Incentives on offer in Zanzibar but not in the list of incentives from Mauritius.

a) exemption from payment of import duty, excise duty, VAT and other similar taxes on machinery, equipment, spared parts, vehicles, and other input necessary and exclusively required by that enterprise during construction period indicated in the investment certificate b) exemption from payment of business license fee for the first three months of trial operations d) 100 per cent foreign ownership e) 100 per cent retention of all profits after tax f) 100 per cent allowance for free repatriation of profit after tax. Without prejudice to the provision of paragraph 1 of this Part, approved investor investing in manufacturing sector may further be granted the a) exemption from payment of trade levy for raw materials and industrial inputs procured from Tanzania Mainland b) exemption from payment of import duty, VAT, and other similar taxes on raw and packaging materials during project operations c) Exemption of

income tax on interest on registered borrowed capital; and d) 100 per cent allowance investment deduction on capital expenditure within five years. 3) without prejudice to the provisions of paragraph 1 of this Part, approved investor investing in real estate business may also be granted the: a) exemption of income tax on interest on borrowed capital b) stamp duty exemption.

Mauritius

Incentives on offer in Mauritius but not in the list of incentives from Zanzibar.

- Streamlined procedures for the recruitment of expatriates and foreign labor with an 8-year work permit policy for expatriates in the manufacturing sector.
- Preferential market access through Common Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC), Economic Partnership Agreement (EPA), African Growth and Opportunity Act (AGOA), Generalized Systems of Preference (GSP), Indian Ocean Commission (IOC), Turkey Free Trade Area (FTA) & Pakistan FTA.
- No import duties on equipment and raw materials.
- Sea freight rebate scheme: Refund of 25% of the Basic Freight Cost to a maximum of USD 300 per 20-feet container and USD 600 per 40 –feet container exported to 45 eligible ports in Africa including Madagascar and Reunion.
- Investment Tax Credit for investment in high-tech manufacturing equipment
- Support for Trade Promotion & Marketing Scheme allowing 60% refund on air freight costs incurred on exports of textiles and apparels, fruits, flowers, vegetables, and chilled fish.
- Acquisition of property for business purposes, by a non-citizen investor, is authorized.
- Duty-Free and VAT free on goods and equipment imported into Freeport zones.

Zanzibar and Mauritius

Similar incentives on offer in both Zanzibar and Mauritius

Zanzibar	Mauritius
▪ Corporate tax exemption	▪ Exemption from corporate tax. ▪ 3 per cent corporate tax on profits derived from exports of goods.

of up to 5yrs	▪ 8-year income tax-holiday for companies engaged in the manufacturing of pharmaceutical products, medical devices, and high-tech products.
▪ 100 per cent allowance on R&D; and	▪ Tax Incentives for R&D. ▪ Accelerated depreciation of 50 per cent per annum on capital expenditure incurred on R&D. ▪ Companies can claim a double deduction in respect of qualifying expenditure on R&D until income year 2021-2022.
▪ Exemption from payment of any tax on all goods produced for exports	▪ No export duties ▪ VAT on raw materials is payable at customs clearance but reimbursable on exports.
▪ Capital gains tax on properties sold or purchased	▪ No Registration Duty and Land Transfer Tax on any transfer of a building or land earmarked for the construction of a building, to be Utilised for setup of qualifying high-tech manufacturing activities.
▪ 100 per cent allowance investment deduction on capital expenditure within five years	▪ Accelerated depreciation on machinery, equipment and construction of industrial premises dedicated to manufacturing activities.

Summary:

There are basic incentives that appears under Mauritius regime but missing from the Zanzibar's incentive regime. They are 1) streamlined procedures for the recruitment of expatriates and foreign labor with an 8-year work permit policy for expatriates in the manufacturing sector 2) list of preferential market access. The two can be considered for Zanzibar.

There are also four investment types offered by both Mauritius and Zanzibar. Different from the incentive regime in Zanzibar, the income tax regime in Mauritius went further by extending the period for income tax-holiday to specific priority sectors (pharmaceutical products, medical devices, and high-tech products). The Mauritius regime also gives more clarity on VAT reimbursements with regards to raw materials being used to produce export products. The lesson from the Mauritius regime is the need for detailed elaborations of what the incentives imply.

3.6.2.3 Developer of a FEZ

Zanzibar

Incentives on offer in Zanzibar but not in the list of incentives for Mainland Tanzania, and Kenya

- Treatment of goods destined into FEZ as transit goods.

Kenya

Incentives on offer in Kenya but not in the list of incentives for Zanzibar.

- 100 per cent investment deduction on new investment
- Operation under essentially one license issued by the Export Processing Zone Authority (EPZA).
- Rapid project approval and licensing
- No exchange controls – liberalized foreign exchange regime.
- One-stop-shop service for facilitation and aftercare
- Quality infrastructure for lease
- The EPZA SME Development Programme, where the SMEs get the following.
  - EPZ Tax incentives: similar to other large EPZA enterprises

- Purpose-built infrastructure with smaller warehouses.
- Reduced rent rate and service charge; With a rent-free period of 4 months to allow for set up.
- Capacity building: Business Development Services are provided.

Similar incentives on offer in Zanzibar and Kenya but not in the list of incentives for Mainland Tanzania

Zanzibar	Kenya
▪ Exemption from payment of stamp duty on any instrument executed in or outside the FEZ relating to transfer, lease, or hypothecation of any movable or immovable property situated within the FEZ or any document, certificate, instrument, report, or record relating to any activity, action, operation, project, undertaking or venture in the FEZ	▪ Perpetual exemption from payment of stamp duty on legal instruments
▪ Onsite customs inspection of goods within FEZ	▪ Onsite customs documentation and inspection by customs staff

Zanzibar, Mainland Tanzania, and Kenya

Similar incentives on offer in Zanzibar, Mainland Tanzania and Kenya

Zanzibar	Mainland Tanzania[70]	Kenya[71]
▪ 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 FEZ infrastructure	▪ 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;	▪ Perpetual exemption from VAT and customs import duty on inputs

▪ Exemption from payment of corporate tax for an initial period of 10yrs and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act	▪ Exemption from payment of corporate tax for an initial period of 10yrs and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act	▪ 10-year corporate tax holiday
▪ Exemption from payment of withholding tax on rent, dividends, and interest for the first 10yrs.	▪ Exemption from payment of withholding tax on rent, dividends, and interest for the first 10yrs.	▪ 10-year withholding tax holiday
▪ Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulances, firefighting equipment and fire fighting vehicles and up to two buses for employees' transportation to and from the FEZ	▪ Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulance, firefighting equipment vehicles and up to two buses for employees' transportation to and from the EPZ.	▪ Perpetual exemption from VAT and customs import duty on inputs

Similar incentives on offer in Zanzibar and Mainland Tanzania but not in Kenya

Zanzibar	Mainland Tanzania[72]
▪ Exemption from payment of property tax for the first 10yrs.	▪ Exemption from payment of property tax for the first 10yrs.
▪ Treatment of goods destined into FEZ as transit goods	▪ Treatment of goods destinated into EPZ as transit cargo.

Summary:

Tax incentives being offered in all the three territories (Zanzibar, Mainland Tanzania, and Kenya) appear to be very similar (e.g., duration of corporate tax holiday etc.). However, the incentives regime on VAT and customs imports duty exemption in Kenya is more generous (perpetual exemption from VAT and customs import duty on inputs) than similar offers in Zanzibar and Mainland Tanzania. Differently from the other territories, the incentives on offer in Zanzibar define specific inputs subjected to the exemptions (machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature).

3.6.2.4 Approved investors producing for sale into the customs territory.

Kenya

Incentives on offer in Kenya but not in the list of incentives for Zanzibar.

- Operation under essentially one license issued by EPZA.
- Rapid project approval and licensing
- No exchange controls – liberalized foreign exchange regime.
- One-stop-shop service for facilitation and aftercare
- Quality infrastructure for lease

Zanzibar and Mainland Tanzania

Incentives on offer in Mainland Tanzania but not in the list of incentives for Zanzibar.

- Provision of business visa at the point of entry to key technical, management and training staff for a maximum of two months, thereafter the requirements to obtain a residence permit, according to the Immigration Act, shall apply.
- Exemption from VAT on utility and wharfage charges.
- Entitlement to an initial immigration quota of up to 5 persons during the startup period and thereafter any application for an extra person shall be submitted to the Authority which shall, in consultation with Immigration Department and Commissioner for Labor, authorize any additional persons deemed necessary taking into consideration the availability of qualified

Tanzanians, complexity of the technology employed by the investor and agreements reached with the investor.

Similar incentives on offer in Zanzibar and in Mainland Tanzania, but not in the list of incentives for Kenya.

Zanzibar	Mainland Tanzania
▪ Exemption from pre-shipment or destination inspection requirements	▪ Exemption from pre-shipment or destination inspection requirements.
▪ Access to competitive, modern, and reliable services available within the FEZ	▪ Access to competitive, modern, and reliable services available within the EPZ
▪ Subject to compliance with applicable conditions and procedures for foreign exchange and payment of tax whatever appropriate, unconditional transfer through any authorized dealer bank in freely convertible currency of:	▪ Unconditional transferability through any authorized dealer bank in freely convertible currency of:
▪ net profits or dividends attributable to the investment	▪ net profits or dividends attributable to the investment
▪ payments in respect of loan servicing where a foreign loan has been obtained	▪ payments in respect of loan servicing where a foreign loan has been obtained.
▪ Royalties, fees and charges in respect of any technology transfer agreement	▪ royalties, fees, and charges in respect of any technology transfer agreement
▪ the remittance of proceeds in the event of sale or liquidation of the licensed business or any interest attributable to the licensed business	▪ the remittance of proceeds (act of all taxes and other obligations) in the event of sale or liquidation of the business enterprises or any interest attributable to the investment
▪ payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with licensed business	▪ payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

Zanzibar, Mainland Tanzania, and Kenya

Similar incentives on offer in Zanzibar, Mainland Tanzania, and Kenya

Zanzibar	Mainland Tanzania	Kenya
▪ Exemption from payment of withholding tax on interest on foreign sourced loan	▪ Exemption from payment of withholding tax on rent, dividends, and interest for the first 10yrs.	▪ 10-year withholding tax holiday
▪ Remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature to the production in the FEZ	▪ Remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature related to the production in the EPZ.	▪ Perpetual exemption from VAT and customs import duty on inputs
▪ Remission of customs duty, VAT, and any other tax payable in respect of importation of one administrative vehicle, one ambulance, firefighting equipment and fire fighting vehicles and up to two busses for employees' transportation into and from the FEZ	▪ Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulance, firefighting equipment vehicles and up to two buses for employees' transportation to and from the EPZ.	▪ Perpetual exemption from VAT and customs import duty on inputs
▪ On site customs inspection of goods within FEZ	▪ On-site customs inspection of goods in the EPZ.	▪ Onsite customs documentation and inspection by customs staff

Summary:

There are incentives from the benchmarking countries that can easily be considered for Zanzibar. They include 1) investors to operate under essentially one license issued by

EPZA 2) rapid project approval and licensing 3) one-stop-shop service for facilitation and aftercare 4) quality infrastructure for lease.

3.6.2.5 Approved investors producing for export market.

Zanzibar

Incentives on offer in Zanzibar but not in the list of incentives for Mainland Tanzania, and Kenya

- Approved investors producing for export markets in non-manufacturing or processing sectors shall be entitled to the:
- Subject to compliance with applicable conditions and procedures, assessing the export credit guarantee scheme.
- Exemption from pre-shipment or destination inspection requirements
- Treatment of goods destined into FEZ as transit goods.
- Access to competitive, modern, and reliable services available within the FEZ, and
- 20% of total turnover is allowed to be sold to the local market and is subject to the payment of all taxes.
- no limit to the duration that goods may be stored in the Freeport Zone
- For the purposes of this section investors licensed primarily for export markets are investors whose exports are more than 80% of total annual production

Kenya

Incentives on offer in Kenya but not in the list of incentives from Zanzibar.

- Operation under essentially one license issued by EPZA.
- Rapid project approval and licensing
- No exchange controls – liberalized foreign exchange regime.
- One-stop-shop service for facilitation and aftercare
- Quality infrastructure for lease

Similar incentives on offer in Zanzibar and Mainland Tanzania but not in the list of incentives in Kenya

Zanzibar	Mainland Tanzania
▪ Exemption from payment of all taxes and levies imposed by the local government authorities for products produced in the FEZ for a period of 10yrs	▪ Exemption from payment of all taxes and levies imposed by LGAs for products produced in the EPZ for a period of 10yrs.
▪ Exemption from pre-shipment or destination inspection requirements	▪ Exemption from pre-shipment or destination inspection requirements.
▪ Treatment of goods destined into FEZ as transit goods	▪ Treatment of goods destinated into EPZ as transit cargo
▪ Access to competitive, modern, and reliable services available within the FEZ, and	▪ Access to competitive, modern, and reliable services available within the EPZ
▪ Subject to compliance with applicable conditions and procedures for foreign exchange and payment of tax whenever appropriate unconditional transfer through any authorized dealer bank in freely convertible currency of:	▪ Unconditional transferability through any authorized dealer bank in freely convertible currency of:
▪ net profits or dividends attributable to the investment	▪ net profits or dividends attributable to the investment.
▪ payments in respect of loan servicing where a foreign loan has been obtained	▪ payments in respect of loan servicing where a foreign loan has been obtained.
▪ royalties, fees, and charges in respect of any technology transfer agreement	▪ royalties, fees and charges in respect of any technology transfer agreement
▪ the remittance of proceeds in the event of sale or liquidation of business enterprise or any interest attributable to the investment	▪ the remittance of proceeds (act of all taxes and other obligations) in the event of sale or liquidation of the business enterprises or any interest attributable to the investment
▪ payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise	payments of emoluments and other benefits to foreign personnel employed in Tanzania in connection with the business enterprise.

Similar incentives on offer in Zanzibar and Kenya but not in Mainland Tanzania

Zanzibar	Kenya
▪ 100 per cent foreign ownership is allowed; and	▪ Unrestricted investment by foreigners

Zanzibar, Mainland Tanzania, and Kenya

Similar incentives on offer in Zanzibar, Mainland Tanzania, and Kenya

Zanzibar	Mainland Tanzania	Kenya
▪ Remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature to the production in the FEZ	▪ 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;	▪ Perpetual exemption from VAT and customs import duty on inputs
▪ Exemption from payment of corporate tax for an initial period of 10yrs and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act	▪ Exemption from payment of corporate tax for an initial period of 10yrs and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act	▪ 10-year corporate tax holiday
▪ Exemption from payment of withholding tax on rent, dividends, and interest for the first 10yrs.	▪ Exemption from payment of withholding tax on rent, dividends, and interest for the first 10yrs.	▪ 10-year withholding tax holiday
▪ On site customs inspections of goods in the FEZ	▪ On-site customs inspection of goods in the EPZ.	▪ Onsite customs documentation and inspection by customs staff

▪ Remission of customs duty, VAT, and any other tax payable in respect of importation of one administrative vehicle, one ambulance, firefighting equipment, and fire fighting vehicles and up to two busses for employees' transportation into and from the FEZ	▪ Remission of customs duty, VAT and any other tax payable in respect of importation of one administrative vehicle, ambulance, firefighting equipment vehicles and up to two buses for employees' transportation to and from the EPZ.	▪ Perpetual exemption from VAT and customs import duty on inputs

3.6.3 Recommendations

The good practice is for the process of reviewing the existing incentives to be preceded by a study that responds to the following specific questions 1) to what extent has the current incentives regime attracted increasing investments? 2) which incentives where more attractive to investors than others, and why? 3) which incentives were more effective than others, and why? 4) which benefits did the Zanzibar economy gained from investors 5) which incentives were the pivotal in the investors' decisions to enter the market? 5) how many would have invested had, for instance, the current thresholds were lower? 6) what are the direct and indirect costs of the current incentives?

The study should also be specific on investment incentives and not overfilled with other objectives that would end up demanding multiple conceptualizations, methodologies, and samples that differ to the ones necessary to focus on investment incentives. Also, in carrying out such study, it is worth highlighting that, nations use a combination of growth-related reforms (business climate improvements, industrial policy improvement etc.) to facilitate investment, and it is therefore difficult to pinpoint the specific effect (attribution) of incentives.

4.0 Conclusion

The study highlights several constraints that impede enabling business environment, improved capacity Utilisation and lower manufacturing costs. It also highlights the differences between the investment incentives regimes in Zanzibar and the benchmarking countries. Some of the constraints to enabling business environment are administrative and can be addressed swiftly within the administrative mandates of the regulatory bodies. Other issues require legal reforms, some relating to the laws that cover the United Republic of Tanzania (URT).

The survey data came from purposeful sampling of the manufacturing industries in Zanzibar and therefore excludes views from the medium to small scale producers. Despite such limitations, the surveyed industries are not only large in terms of the manufacturing context in Zanzibar, but they are also of significant socio-economic value to Zanzibar. ZMCL, for example, is the leading producer of wheat flour in Zanzibar making its production key to food supply in Zanzibar. Thus, despite the absence of the representative sample, the information from the surveyed industries gives a good representation of large-scale manufacturing environment in Zanzibar.

It is also worth acknowledging that despite the long list of business environment challenges, there are positive developments when it comes to migrating tax administration processes to online facilities, the ongoing construction of a new port, development of additional industrial parks, ongoing process to introduce standards for domestic produced textiles etc.

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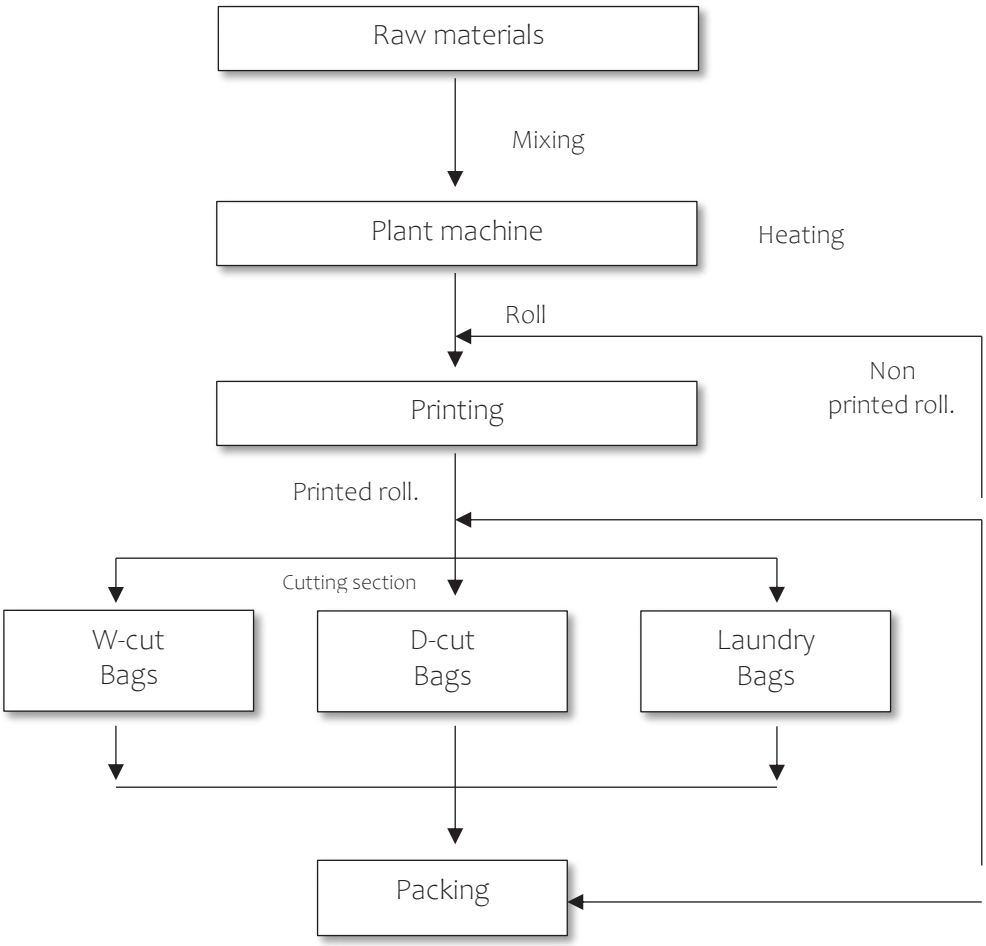
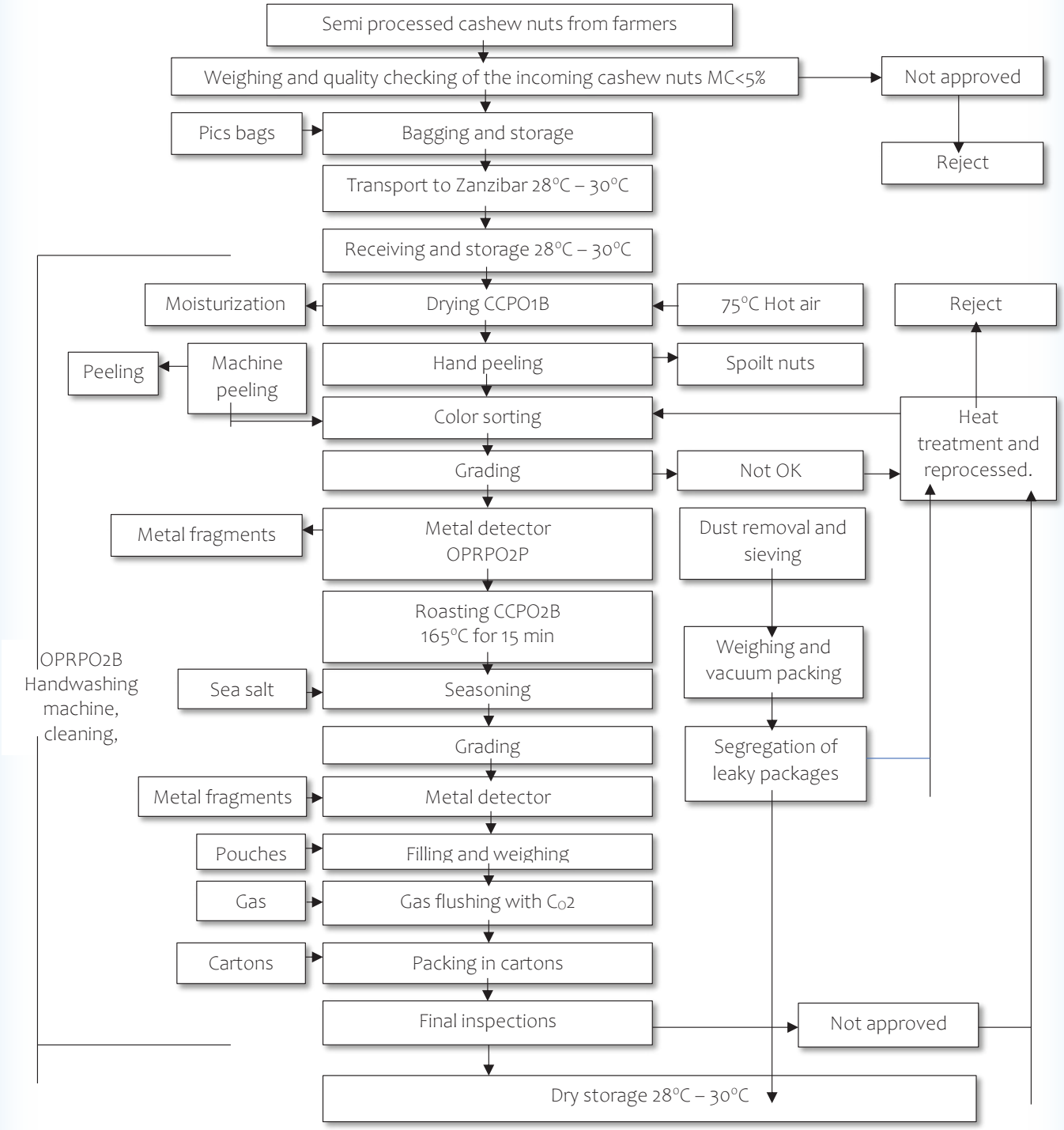
Annexes

Annex 1: Non-Woven Bags on Display at Turky Mifuko

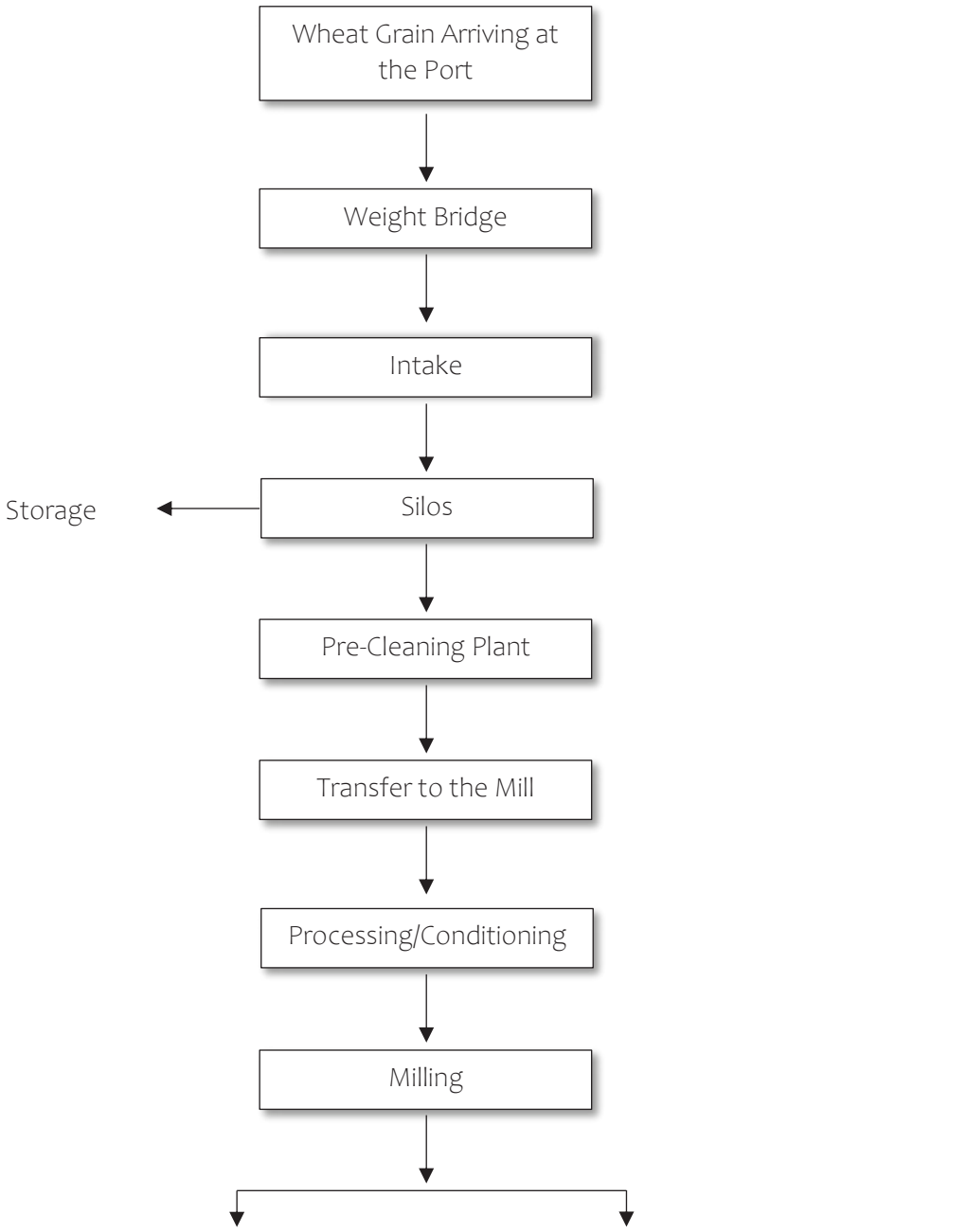
Annex 2: Flowchart of Production of Non-Woven Bags



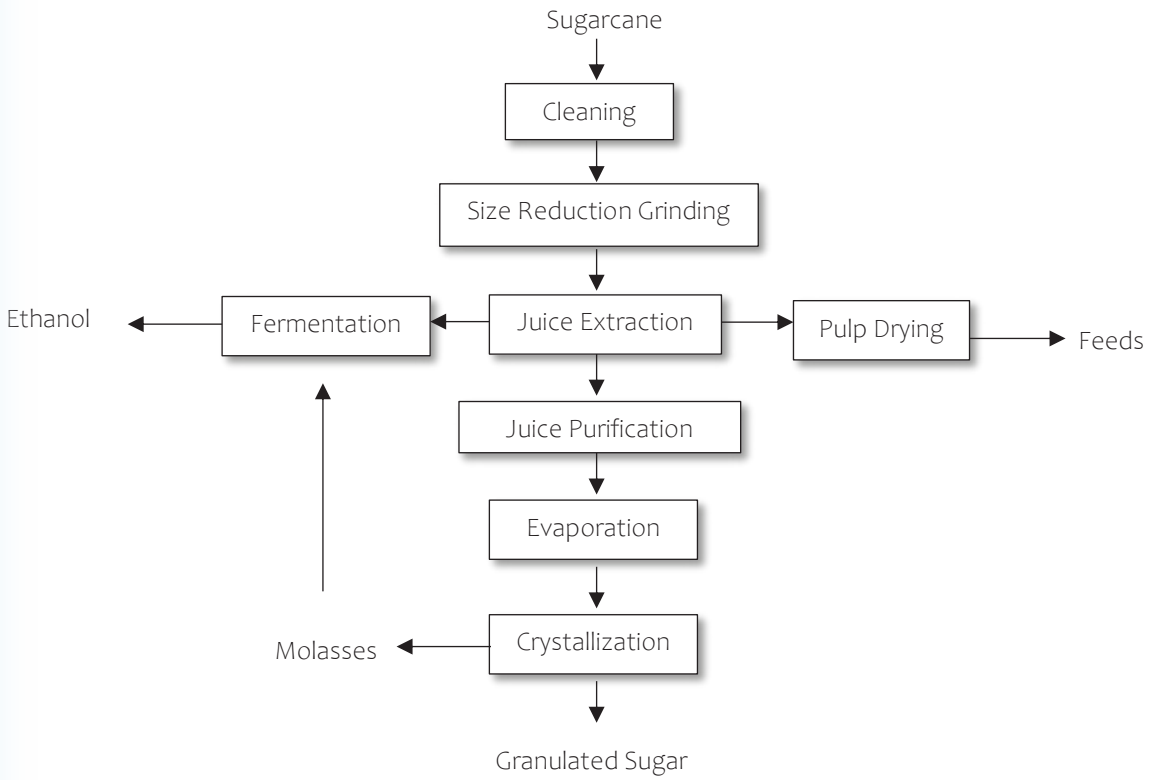
Annex 3: The Cashew nut Flowchart



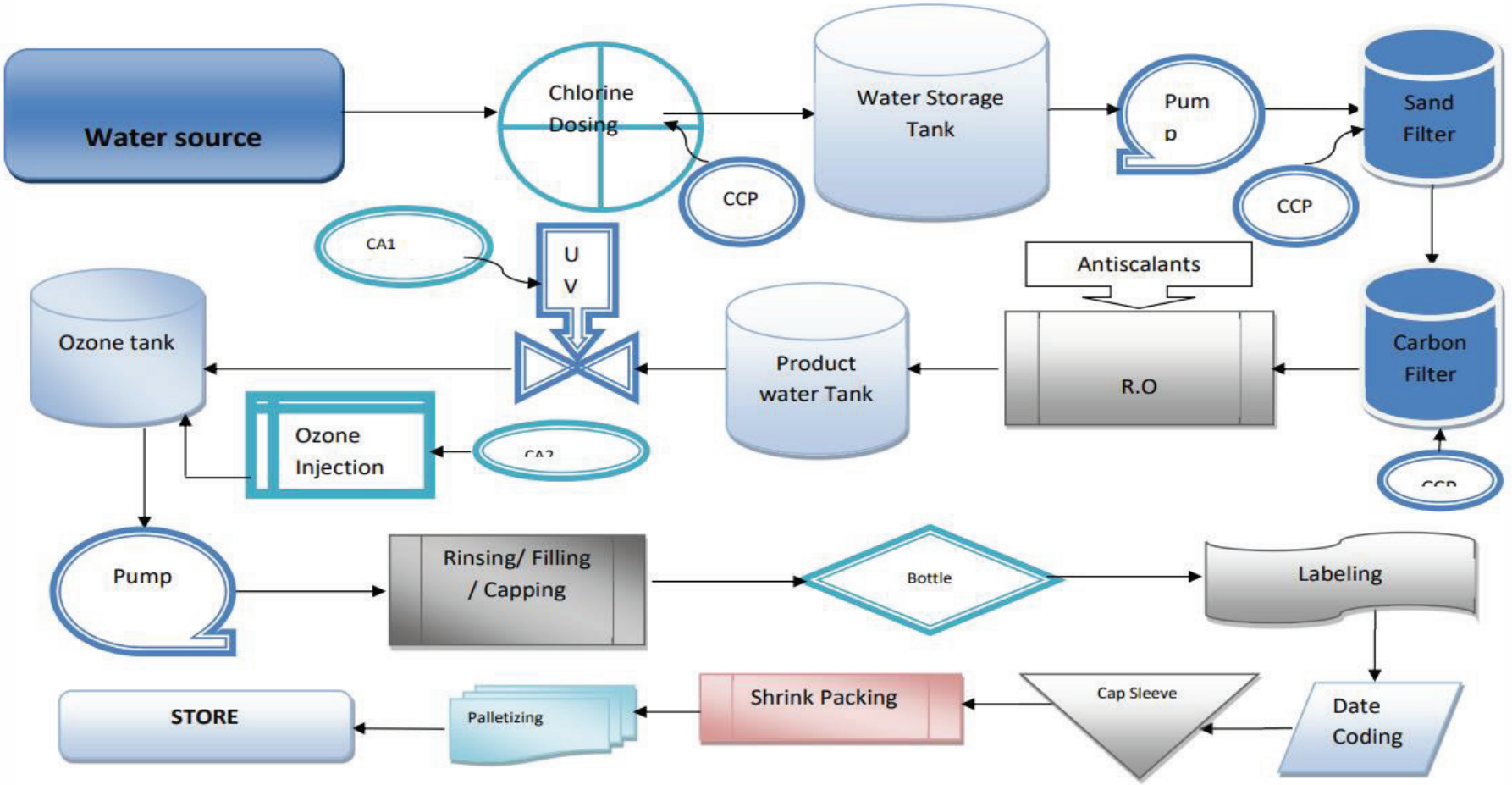
Annex 4: Wheat Flour Milling Flowchart



Annex 5: Sugar Milling Flow Chart



Annex 6: Bottled Water Production Flowchart (HACCP Flowchart)



Annex 7: Certificates from Different Regulatory Authorities

Endnote

[1] Revolutionary Government of Zanzibar (2020).
[2] Indirect costs are incurred for the benefit of multiple programs, functions, or other cost objectives and therefore cannot be identified readily and specifically with a particular program or other cost objective. Indirect costs typically support administrative overhead functions such as fringe benefits, accounting, payroll, purchasing, facilities management, utilities, etc.
[3] Ceteris Paribas
[4] The actual number of units produced (i.e., actual output) by the company, or within a single manufacturing facility/plant, divided by the number of units that could have been produced over the same period of time if the operation was running at full capacity (i.e., potential output), as a percentage.
[5] 1) Trading Economics (2023) 2) UNCTAD (2020).
[6] The plant crushes 4,000 MT of wheat grain per month during the low season from July to August. It is 7,000 MT per month during high season (November – January).
[7] Wheat flour being recovered from wheat grain.
[8] FAO (2009).
[9] Grain South Africa (undated).
[10] AsokoInsights (2020).
[11] United Republic of Tanzania (2018).
[12] KNBS (2019).
[13] Statista (2022).
[14] Engineering News (2022).
[15] AU, ECA and UNDP (2020).
[16] URT (2018).
[17] KNBS (2019).
[18] Onyango, K. et al (2018).
[19] Government of the Republic of Kenya (2020).
[20] Mufumba (2022).
[21] Zafar (2021).
[22] GSM refers to the weight of a fabric - the lower the GSM, the lower the cost of raw material.
[23] Melvin, M. (2020).
[24] Melvin, M. (2020).
[25] Banco de Moçambique (2021).
[26] Averaged the price of Rupee 1,000 and Rupee 1,350 and thereafter converted the 80kg bag into 6,400 grams which are equivalent to 42 bags of 150 grams of cashew nuts, and this is equivalent to Rupee 27.54 per such bag size (BusinessLine 2028).
[27] EMR (2022).
[28] https://bakhresa.com/
[29] Demurrage is a charge payable to the owner of a chartered ship on the failure to load or discharge the ship within an agreed time period.
[30] Gwirtz (2018).
[31] Yanova et al. (2019).
[32] Converted from Russian Rubles to US$ using the exchange rate https://www.oanda.com/currency-converter/en/?from=USD&to=RUB&amount=1
[33] Tongaat (2022).
[34] FAO (2021).
[35] Zancaner (2022).
[36] Environmental standards, work ethics, and imports no longer among the categories being tracked by the World Bank's enterprise survey.
[37] Especially when part of their income is in local currency.
[38] UNDP (2021).
[39] Latest available data is for 2021, see World Bank (2023)
[40] Uganda Investment Authority (2023).
[41] World Bank (2010).

[42] Socialist Republic of Vietnam (2008).
[43] Businesses supplying same information or documents to public institutions only once.
[44] CCA are now mandatory in several countries such as the United Kingdom (UK). Other countries such as Canada, have invested in periodic surveys of regulatory compliance costs (see Seens 2010)
[45] Kojima et al. (2017).
[46] ILO (2023).
[47] Latest available data is for 2021, see World Bank (2023).
[48] United Republic of Tanzania (2022).
[49] Government of the Republic of Kenya (2022).
[50] Government of Mauritius (2017).
[51] China did this during Corona-19
[52] Fixed price of TZS 82,000 X 2% = TZS 1,640 which is higher than the margin of TZS 1,000 per bag (ZMCL sells to traders at TZS 81,000). Traders survive by underreporting sales.
[53] Tanzania Revenue Authority (2023).
[54] Kenya Revenue Authority (KRA).
[55] Uganda Revenue Authority (URA).
[56] PWC (2023).
[57] Orbitax (2023).
[58] PWC (2023).
[59] R&D was not part of the business environment categories but analyzed separately as part of the 7 categories under 'innovation'. This study does the same.
[60] Columbia Centre for Sustainable Investment (2022).
[61] Instead of the name "strategic investment", Mauritius uses the name "premium investor scheme."
[62] OANDA exchange rate 1 Rupee = US$ 44.7373 as of 23 February 2023
[63] Instead of the name "strategic investment", Cape Verde uses the name "projects of national interest."
[64] It is likely that there was a mistake in the publication as the CVE 3 million is likely to be CVE 3 billion, for one to arrive at the Euro 27 million.
[65] TradeInvest (undated). f
[66] For 2021, see World Bank (2023).
[67] For 2021, see Bank of Tanzania (2022).
[68] Instead of the name "strategic investment", Mauritius uses the name "premium investor scheme."
[69] Instead of the name "strategic investment", Cape Verde uses the name "projects of national interest."
[70] Tanzania Investment Centre (undated).
[71] EPZA Kenya (2023).
[72] Tanzania Investment Centre (undated).

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