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**Political Settlements:
A Factor in the Formulation and Implementation of Economic Processing Zones in
Tanzania**

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ABSTRACT

This paper attempts to link the export processing zones (EPZ) formulation and implementation outcomes in Tanzania to the organization, relationships and networking among the various relevant key stakeholders in the economy. In this paper political settlement framework is used to explore the link. The paper gives an overview of the political settlement and manufacturing in the country. The paper then proceeds with an assessment of the various characteristics of the programme in connection to political settlement factors. Issues that were covered include form and contents of EPZ, distributional effects, distribution of bureaucratic responsibilities and rents management and compliance with the programme requirements. The paper also assesses the outcomes of the programme. The paper concludes that political settlement factors have had influenced the formulation, implementation and outcomes of EPZ. The manner in which EPZ is being implemented reflects a general lack of commitment by the ruling coalition that entails having a vision of what is to be achieved and how, and building consensus with relevant private and public sector stakeholders. The ruling coalition may have the vision, the initiative may pass cost/benefit analyses test, and it may have an ideal bureaucratic structure, but if those responsible for carrying it out have no incentive to do so, little will happen.

Key words: political settlement; ruling coalition; political power; export processing zones; and rents management.

1.0 INTRODUCTION

1.1 Background

This paper attempts to link the Export Processing Zones (EPZ) formulation and implementation outcomes in Tanzania to the organization, relationships and networking among the various relevant key stakeholders in the economy. The Tanzania's EPZ history can be traced back to the formulation of the Strategic Industrial Development Plan (SIDP) of 1996 in which EPZ is specifically identified as a "strategic" instrument for achieving export diversification and economic and technological development. Based on this premise the then Ministry of Trade and Industry took the lead role and function of championing, facilitating and coordinating SIDP.

Following the SIDP statement on EPZ in 1996, it took six years before the Economic Processing Zone Act came into force in 2002. The EPZ Program was headed by a Council which was responsible for developing the policy for the program. The Program was then managed by the National Development Corporation (NDC), which was the implementing agent. Apart from managing this Program, NDC had other national economic development mandates and responsibilities. The multiple mandates of NDC had limited its ability to properly supervise the EPZ Program, and in 2006 that responsibility was taken over by the newly established EPZ Authority.

Basically, the Tanzania EPZ programme only took off after the amendment of EPZ Act in 2006 and the setting up of the Export Processing Zones Authority (EPZA) to spearhead the EPZ programme in Tanzania. To assist the EPZA in carrying out its functions, a Strategic Plan was drawn up in 2008 to set a roadmap to move the EPZ programme. Little has been done to link the EPZ formulation and implementation to political settlement factors in Tanzania. A study was therefore conducted to assess the political settlement factors and how they influenced the EPZ design and implementation.

1.2 The study

The study is part of a research which is currently conducted in Tanzania on elites and poverty agenda¹. The research programme is a response to the need to examine the role of political settlement in policy development. The main hypotheses is that policies ought to be a result of interactions between various stakeholders, business community, bureaucrats, politicians and development partners; involving mutual adjustments, coalition building and conflicts within and between elite groups representing these stakeholders. Thus, the nature and policy outcomes in any given country depend on which group of stakeholders has greater influence on the policy process. Because the influence of civil society groups in poor countries is often overrated and indirect, pro-poor growth policies are unlikely to succeed without elite support. The research programme thus focuses on the roles of elites in formulating and implementing productive sector initiatives that promote economic growth and reduce poverty.

The paper seeks to explain policy formulation, implementation and outcomes using EPZ as an example. The paper starts with an overview of the political settlement in Tanzania. The paper then dwells in the characteristics of EPZ. Such characteristics include the design and contents of EPZ; the EPZ formulation process; rent management; and compliance with the EPZ requirements distributional effects, distribution of bureaucratic responsibilities and incentives for compliance; and participation of the private sector. Lastly the paper discusses the various outcomes of the EPZ implementation.

The debate on this topic has been revolving around the role of political settlement² in policy development. The ongoing debates on the role of political settlement in policy development primacy have triggered research in the area. Much has been said about the role political settlement in economic development but less has been done to show how political settlement processes influence policy formulation implementation and outcomes. This research project was therefore needed not only to fill the information gap, but more importantly, to also provide more technical analysis of EPZ formulation and implementation outcomes in Tanzania and how political settlement (i.e. organization,

¹ The research is a collaborative research program, launched in 2008 to bring together research institutions and universities in Bangladesh, Denmark, Ghana, Mozambique, Tanzania and Uganda. The research is funded by the Danish Consultative Research Committee for Development Research. The Elites program is coordinated by the Danish Institute for International Studies, Copenhagen, and runs until the end of 2011.

² Refers to the distribution of organized and bargaining power between contending social groups/classes in a society (Khan, 2010).

relationships and networking among the various relevant key state and business stakeholders) influence the formulation, implementation and outcomes.

1.3 The key arguments

Four key arguments among many can be advanced as the basis for this study. The fact that this study is intended to determine how political settlement factors influenced EPZ formulation and implementation, the first argument for this study relates to the structure of political settlement in Tanzania. We argue that for understanding policy decision processes it is important to have knowledge on factors which drive political settlement in the country. Consequently this paper starts with an overview of political settlement in Tanzania before indulging the analysis of EPZ formulation and implementation.

The second key argument relates to the justification for embarking on EPZ in its present form. The existing "physical infrastructure and facilities do not seem to be consistent with the decision and formulation of EPZ. International best practice suggests that successful EPZs are those that have access to reliable energy and water suppliers, good telecommunications and transport links, facilitate quick and efficient customs clearance of both imports and exports. The conditions in Tanzania were known prior to the decision to formulate the program and it can be surprising to see such an expensive program initiated.

Even political justification for EPZ is not a strong point; which brings us to the third argument. The political power of (emerging) productive entrepreneurs in Tanzanian industry which would have been important in pushing for it is that it is weak. Literature has also shown that initiatives can be pushed by the international community, especially donors. It was established that Development Partners did not play an active role in the EPZ initiation. The initiation of EPZ even in the absence of a push from interested stakeholders requires an investigation.

The third argument regards to rents management and compliance with EPZ requirements. Inadequate compliance with the requirements of the programme constitutes the third argument. It is noted that the government does not adhere adequately to its commitments and the investors do not adequately comply with the 80% exports and 20% local sales. There is also no evidence that the Government has gone into the program looking to use it as a platform for wider reforms, and there is no evidence that the program is being used in any way as a "laboratory" or testing ground for reform, with the possible exception of the efforts to promote private sector participation through private development and PPPs.

1.3 Outline of the paper

The remaining part of the paper contains three sections. In Section 2.0 Research methodology is outlined. In Section 3.0 results and discussions are presented. Emerging conclusions and policy implications are provided in Section 5.

2.0 RESEARCH METHODOLOGY

2.1 Conceptual Framework

The study used political settlement framework. Political settlement according to (Khan, 2010) refers to the distribution of organized and bargaining power between contending social groups/classes in a society. The political settlement framework identifies several factors that are potentially important for explaining how policies and implementation arrangements in productive sectors are shaped and evolve over time and how this may affect the results of such initiatives (EPP analytical framework 2010). The nature of political settlement is a function of (i) characteristics of the ruling coalition; (ii) political power of emerging productive entrepreneurs; (iii) political and economic changes; (iv) economic foundation. In this section these are briefly assessed for Tanzania

The framework is used in this study to link political settlement to EPZ formulation, implementation process and results in Tanzania. Consequently, political settlement factors are independent variables while EPZ design, implementation and outcomes are dependent variables in this case.

Political settlement was assessed in terms of the present structure of the ruling coalition and how it has been changing over time; political power of emerging entrepreneurs; emergency of crises that challenge the ruling coalition; and economic foundation of the ruling coalition.

EPZ design and implementation were analyzed in terms of the initiative characteristics i.e. the contents and form of EPZ; the EPZ formulation process; distributional effects; and compliance with the requirements of the scheme. The analysis of EPZ design and implementation also involved tracing the major changes in the design, implementation arrangements over time.

The outcomes were analyzed in terms of: (a) FDI investment and technology transfer; (b) export promotion; (c) employment generation; (d) spill over and backward linkage; (e) promotion of growth and poverty reduction. Of particular interest, poverty reduction was expected to occur, for example, through job creation, rising wages, locating industries in rural areas for rural development. The longer term outcomes would be economic growth linked to economic transformation.

2.2 Research methods

The methods that were adopted in undertaking this study included the following activities;

- Reviewing relevant documents (reports, surveys and other studies);
- Preparing relevant checklists and questionnaires;
- Collecting relevant (quantitative) data from EPZA;
- Conducting interviews with key informants; and
- Conduct interviews with firms operating EPZs.

Quantitative data collected from the EPZ Authority included not only overall achievements of the initiatives, but also specific statistics of the operating firms such as type of EPZ (stand alone or in a compound with other firms); ownership; type of management; type of business; percentage exports; value of exports; export markets; capital investment; annual turnover; and number of employees. However, out of the 30 firms that were listed with the Authority, only 11 had provided their figures/statistics.

At least 10 interviews were conducted with key informants in government institutions, private sector organizations, donor agencies, and civil society organizations. These interviews were conducted using a checklist basically seeking views/opinions on manufacturing investments more generally, but also the specifics of formulation and implementation of the EPZ initiatives.

Interviews were also conducted with 9 firms operating in the EPZ schemes³. These were meant to collect qualitative information on how the firm got started, their assessment of the incentives provided, assessment of government performance in implementation arrangements, and their participation in decision making.

3.0 RESULTS AND DISCUSSION

3.1 Political settlement and manufacturing in Tanzania

Tanzania falls in the *clientelist* political settlement category. According to Khan (2010), the significant feature of a *clientelist* political settlement is that informal holding power modifies the operation of formal institutions and influences the allocation of resources through informal institutions and political discretion. In this section the features of political settlement are briefly assessed for Tanzania highlighting their potential effects on policy formulation and implementation.

3.1.1 Characteristics of the ruling coalition

Tanzania adopted multiparty system, but conditions for *competitive clientilism* ruling coalition are still inadequate. The lack of powerful excluded factions in the country creates conditions for existence of a dominant party ruling coalition. In Tanzania the ruling coalition the ruling party, the presidency, the army and the bureaucracy are central for political settlement. An important contribution regarding the nature of ruling coalition in Tanzania was made by Khan (2010). According to the assessment made by Khna (2010), the ruling coalition has evolved overtime. The time after independence witnessed a ruling coalition with features close to those of a developmental state. The period was characterized by absence of organized elite groups and weak lower level factions. This gave the ruling coalition stability and long time horizon for longer term planning. However, the ruling coalition could not utilize this opportunity to transform into a developmental state because of the contradiction that existed within and between objectives of the ruling coalition by then. The primary concern of the ruling coalition was

nation building which was unfortunately pursued at the expense of growth and formation growth enhancing institutions (Khan, 2010).

Changes started in 1980 following the introduction of economic reforms which allowed private enterprises and later in 1990s with the introduction of multiparty politics which allowed for formal political competition. Both changes, however, were not internally driven and thus it is not surprising that the changes have not greatly changed the nature of political settlement in the country. Khan (2010) classifies Tanzania as having a “(weak) dominant party” ruling coalition pointing out that although there are stronger lower level factions, excluded factions are generally weak. Khan (2010) says that *dominant party* ruling coalitions are likely to have longer time horizons but weaker implementation capabilities caused by the nature of conflicts within the ruling coalition at the national level and between the national and lower levels. Recently there has been clear differences on many issues among the key leaders in the ruling coalition. Dissatisfaction among the lower level factions regarding the performance of the ruling coalition is also growing. Excluded factions at the national level and lower levels increasingly organizing themselves and echoing their views and interests. The ruling coalition is increasingly becoming weak. The ruling coalition, as a consequence uses persuasion and cooption in dealing with the conflicts. Later we will see how the weak implementation capacity influenced the EPZ formulation and implementation problems.

3.1.2 Political power of emerging entrepreneurs

Later in this paper we will also show how the level of political power of entrepreneurs has influenced the formulation process, distribution of rents and compliance with the EPZ requirements. Tanzania is characterised by inadequate political power of emerging productive entrepreneurs and the links between these entrepreneurs and the ruling coalition are virtually informal. The actual and potential size of potential capitalists is small. Moreover, individuals or families that have sufficient capital and managerial skills to start a manufacturing company – let alone an export business - are even smaller in number, and most are Asian-Tanzanians. More formal state-business relations are mediated through business organizations. There are many in the productive sectors but the major ones are not particularly strong and it difficult to find clear cases of their influence on government policy. The focus of their advocacy and lobbying seems to concentrate on factors that can reduce member costs – not on more general policy issues for particular industries.

Political power of entrepreneurs and relations with the ruling coalition are also influenced by the economic nationalism of the ruling coalition. According to Aminzade (2000, 60) the “structural legacies of a racialized colonial order and a race-blind socialist experiment ensured that racial issues would emerge in the liberalized political setting of the post-socialist period.” The indigenisation debate have become increasingly intense after the privatisation of parastatals begun (Maina, 2002). How the ruling coalition – and the opposition parties – will manage the contradictions between economic and political liberalization in this context is therefore crucial both for social stability and for building

an indigenous domestic entrepreneurial class that can drive industrial growth and employment.

Although relations between the ruling coalition and business communities are tenuous, and often informal, they are important. This is “creating a political and economic oligarchy at the top levels of society” (Tucker, Mukandala et al, 2010, 3) in which especially Asian business people (but not only) exchange funding of CCM activities and its election campaigns for rents to individual companies and individuals. Such rents often consist of non-market access to property and other assets, but also to licenses, duty exemptions, tax reductions, etc (Wangwe, 2010). This has gone on for years although interactions have probably been strengthened and accelerated by political and economic liberalization.

3.1.3 Economic and political crises

The significance of economic and political crises lies in their role in providing an opportunity for learning. Later in this paper we will show how the EPZ processes have been drawing lessons from these crises. Before and just after independence Tanzania’s industry was in the hands of the private sector and mostly located in Dar es Salaam. At independence, there was hardly any indigenous African capitalist group (let alone class) in Tanzania. The few and minor “commanding heights” of the economy were owned by foreigners or Asians with recent Tanzanian citizenship. One of the far reaching crisis is the nationalization process in 1960s. Nationalisation of major industrial, agricultural and commercial properties began with the Arusha declaration in 1967. This was followed by the Basic Industry Strategy based on import-substitution and centred around state owned enterprises in 1975. It aimed to boost industrial growth and employment and to transform the economy. These initiatives opened numerous job opportunities for indigenous Tanzanians as managers of firms, trading companies and cooperatives in the economic sectors.

Both the nationalization and the Basic Industry strategy were driven by a political decision to promote the “control of the economy by the indigenous people rather than by expatriates and others non-African in origin” and by politicians seeking to get control over resources controlled by cooperatives according to a government established inquiry quoted by McHenry (1994, 107). Economic nationalism and indigenisation - as much as socialist aspiration - drove these changes (Shivji (1975), Wangwe, 2010, 11).

Another important crisis which challenged the ruling coalition is the introduction of economic reforms in 1980s. In the early-1980s, economic liberalisation and privatization started when the opening up of foreign direct investment and privatisation of parastatals began. It was driven more by donor pressure than by pragmatic considerations about industrial policy (and led to a virtual de-industrialisation of Tanzania. The privatisation enabled some state elites to receive kickbacks or to become (joint) owners of the newly privatised companies (Kelsall, 2002, 610, Matiku, 2009). However, the privatisation does not appear to have helped many indigenous Tanzanians to become manufacturing

entrepreneurs. Most had neither the capital nor the managerial or technical skills needed to take advantage of this dramatic restructuring.

3.1.4 Economic foundation of the ruling coalition

Economic foundation of the ruling coalition influences the way rents are managed by the ruling coalition and compliance with the requirements of the EPZ initiative. The present forms of accumulation do not seem to be precursors to industrial accumulation, but may actually undermine it as the economic rewards in other sectors (including in politics) seem so much better. “A genuine middle-class grounded in production and involved in the chain of accumulation is constantly stifled” (Shivji (2009, 50)). A similar assessment is made by Khan and Gray (2008, 55). The increasing evidence of political competition and corruption reflects “the growing opportunities available to political representatives in managing the non-market transfers and allocations of assets like land and natural resources.”

While the basic industry strategy initiative contributed little to the emergence of an indigenous group of industrialists, it *did* provide other legacies: a substantial group of bureaucrats and politicians with parastatal working experiences are still active. Again, there is no systematic study of this, but many members of parliament, several ministers, and many bureaucrats have a parastatal past. Their view of the private sector is still influenced by that experience as reflected in many official documents. In the Sustainable Industry Development Policy of 1996 (still in force), for example, the private sector is clearly seen as an instrument for implementing government policies: The private sector, being the principal vehicle for direct investment for development of the industrial sector, will tune itself appropriately to effectively create the needed impact” (p.43; see also p 40).⁴

Economic nationalism has been a central element in Tanzania’s economic and social policies since independence. To build an industrial base and manufacturing exports on foreign direct investments and on local entrepreneurs of Asian origin create particular political problems for the ruling coalition. Foreign owned companies are not likely to engage with the state in the types of business-state relationships needed to address longer term issues of industrial policies (Wangwe and van Arkadie, 2000) and occasional populist attacks on them (especially pronounced in the mining sector) are not conducive to such relationships either.⁵

⁴ See also (ESRF, 1998) “Civil Servant Perceptions of private investments”

⁵ A recent PhD by Matiku (2009) shows that economic nationalism also have strong supporters in the academic community, although there are also strong opposing views (Maina 2002).

3.2 EPZ Initiative Design

We pointed out earlier that one of the key arguments for this study is the justification for embarking on EPZ in its present design. In this section an effort has been made to present various motives which led to the introduction of the programme and its present form and link them to the role political settlement in the formulation process. This is done by going through the contents and form of the initiative; and the formulation process.

3.2.1 The content and form of the EPZ initiative

We start by examining the contents of EPZ. This is important for setting a stage for understanding the programme and acting as a precursor for the discussions in the next sections. The EPZ programme in Tanzania consists of a comprehensive EPZ strategy, incentive package, and legal, institutional and regulatory framework. These are briefly discussed below.

The EPZ strategy

Having been impressed by the outcomes from EPZs in other countries Tanzania formulated its EPZ with some optimism. The Tanzania's EPZ Act of 2002 stipulates that the main objectives are (i) to achieve steady improvements in the EPZ environment by removing and simplifying outdated and unnecessary procedures, approvals and regulations and facilitating greater private sector role in the development of EPZs; (ii) to promote export manufacturing activities by implementing proactive and targeted EPZ development strategies and delivering effective investor facilitation services; and (iii) to strengthen linkages between the public and private sectors by developing effective working relationships with other government agencies by promoting consensus and consistency in implementing shared policy objectives and stimulating public-private partnerships (PPP) to attract investments into the EPZ.

By all standards these objectives are long term in nature which would be expected to be adopted by a developmental state or dominant party ruling coalition. Having political settlement driven by a dominant party coalition, Tanzania has greater chances of adopting a programme with long term objectives. The ruling coalition has expectations of being in power for a long time in future so it can have time horizons longer than general elections terms. Khan (2010) highlights on the greater chances of a dominant party coalition to have longer time horizon in planning but warns on the difficulties that arise in the course of implementing the plans. In a dominant party ruling coalition, implementation of plans is in most cases complicated with the need to negotiate the distribution of benefits (rents and profits) between the excluded and the included factions. In a dominant party state, efforts can always be made by the ruling coalition to distribute benefits in such a way that it discriminates against the opposition factions within and outside the ruling coalition.

The EPZ incentive package

EPZ in Tanzania is essentially a deal between the ruling coalition and investors; that the government provides incentives to investors and investors in turn produce products for export and generate employment for the local people. In view of this, companies that invest under EPZ enjoy from various incentives provided to attract investors. Three types of incentives are officially offered by the EPZ in Tanzania. The fiscal incentives consist of access to the export credit guarantee scheme; remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature; exemption from payment of withholding tax on rent, dividends and

interest for first 10 years; exemption from payment of all taxes and levies imposed by local government authorities for goods and services produced in the zones for the period of 10 years; and exemption from VAT on utility and wharfage charges (see EPZ Act of 2002 and SEZ Act of 2006).

The second set of incentives are non-fiscal incentives which consist of a permission to sell 20 percent of goods to the domestic market (at least 80 percent must be exported); unconditional transfer of profits, dividends and royalties; access to competitive modern and reliable services within the EPZ; automatic immigrant quotas for up to five people; and exemption from pre-shipment and destination inspection requirements. Finally, procedural incentives constitute yet another important set of incentives provided by EPZA. The EPZ provides administrative support to investors under EPZ. EPZ has a Council with Ministers and other top officials from key ministries/agencies that can help to avoid bureaucracy and secure speedy decision making; company operations under a single license issued by the EPZ; on site customs inspection in the Export Processing Zones; and a One-Stop-Service Centre by EPZA for investors, facilitation and aftercare services. In exchange for access to these incentives, EPZ companies must export at least 80 percent of the goods they produce.

These incentives are typically rents which are provided by the ruling coalition aimed at attracting foreign direct investments. The incentives to attract FDIs have been debatable issue within the state agencies and also with the community. It is perceived by some of the respondents both in the government, political cycles and civil societies that Tanzania grants a relatively generous package of tax incentives. These incentives directly deny revenues to the Treasury and therefore are a cost to the Government. The need to increase government revenue to a developing country like Tanzania cannot be overemphasized, and therefore the argument presented is that tax incentives can only be justified if the returns from these investments compensate for the revenue foregone, which is seen by some as not being the case. An important question is whether or not these counter arguments against foreign investments and tax incentives have influenced or shaped the design of the EPZ schemes.

There are also some debates and arguments particularly on issues to do with foreign versus local investments, focus on larger investors as opposed to SMEs, and fairness of the incentive packages and implications on revenue collection. These debates and arguments did not start at the initiation of the EPZ initiative, but much earlier when formulating the general Investment Act of 1997. However, there is no evidence to show that these arguments influenced in any significant way the design of the initiatives in question.

The EPZ institutional framework

Institutional development is one of the important components of EPZ. Generally, the institutional set up of the EPZ is public sector dominated. When it started in 2002, the EPZ Program was headed by a Council which was responsible for developing the policy for the program. The Program was then managed by the National Development Corporation (NDC), which was the implementing agent. Apart from managing this

Program, NDC had other national economic development mandates and responsibilities. The multiple mandates of NDC had limited its ability to properly supervise the EPZ Program, and in 2006 that responsibility was taken over by the newly established EPZ Authority (EPZA).

The EPZA is governed through its governing Board. The Board is dominated by ministers and the Governor of the Bank of Tanzania, with three non-state associations as members as well (the trade union apex (TUCTA), the business apex (TPSF) and a government-business forum (TNBC)). The day to day activities are vested in the EPZA management headed by the Director General. Most of the EPZA staff are recruited through a non competitive recruitment system which means that it is prone to selection bias problems.

For the EPZ initiatives to succeed, a clear legal and regulatory framework is needed. Superficially, looking at the existing framework in Tanzania, the EPZ Act is comprehensive enough. It set out investment incentives, provide for equal treatment of foreign and domestic investors, and give the EPZA the authority to prepare detailed regulations to guide implementation. The regimes are transparent and accountable, and the fiscal and non-fiscal incentives provided are similar in many aspects to those of other similar programs in the region. Generally, the “general” regulations [including customs regulations] are well-written and describe the rules and conditions for investing in an EPZ, and determine how exports will be managed and monitored.

However, from the discussion with EPZA officials and investors, it was evident that there are institutional problems which require attention. The functional and institutional overlaps between the EPZ and similar initiatives - and the confusion that this has caused was reported. The legal and institutional arrangements for the EPZ initiatives also conflict with other legislation. There are constant squabbles, especially with the Tanzania Revenue Authority, about the entitlement of EPZ companies to various tax breaks. The EPZ legislation is not fully harmonized with the tax legislation. As a consequence such conflicts have been a constant feature of EPZ implementation.

An even more serious institutional coordination problem is that the EPZ legislation now conflicts with the East African Community (EAC) Custom’s Union Protocol. This document, signed in March 2004, stipulates that by July 1, 2010, when the EAC free-trade market becomes a customs union, the selling of goods to EAC member countries will no longer be regarded as ‘exports.’ This will – and has – seriously affected the business plans of some of the EPZ companies who started out exporting to EAC member countries but now no longer qualify for the EPZ incentives unless they sell their goods outside the EAC. This problem has not yet found a solution.

These teething cross-sectoral policy coordination problems show that the machinery of the government to deal with such issues does not work well. This has been documented by many over the years (Brown, Goldworthy and Shellikindu, 1998; Therkildsen 2000, Kiragu 2008). In the EPZ case analysed here, there is no indication that this problem is caused by direct conflicts among different factions or patron-client networks of the ruling

coalition. It is rather the result of inter-ministerial turf wars in the absence of effective centralised authority of the state (itself a result of factional conflicts, it could be argued).

3.2.2 The EPZ formulation process

The premise around EPZ formulation hinges on the preposition that political settlement factors have a bearing on policy formulation and decision. An attempt is made to link the decision and EPZ formulation to the characteristics of the ruling coalition, the political power of entrepreneurs, the recent reforms and economic base of the ruling coalition. The presentation starts with the actual formulation of EPZ followed by a discussion on justification for EPZ and its design.

The formulation of EPZ is rooted in the ruling coalition. The origin of the Export processing zone partly came from the Export Development Strategy and Action Plan (EDS), as this is a step toward implementation of EDS. The Zone was initially a collaborative arrangement decided by the Government and Multilateral International Institutions as part of Economic Reform measures aimed at restoring macroeconomic stability by improving Tanzania's export performance. The Task of undertaking feasibility in the early 1990 for establishing an Export Processing Zone (EPZ) in Tanzania was a result of a contract with Louis Berger International, managed by Bank of Tanzania and funded by the African Development Bank.

The idea was then hatched by the bureaucracy and developed under the auspices of the National Development Corporation with substantial use of consultants. Subsequently, the EPZ idea was included in the Sustainable Industrial Development Plan Economic (1996-2020), which succeeded the Basic Industrial Industry Strategy (1975-1995). After additional consultancy studies, a classic EPZ model for an export-oriented, tax-free zone, with activities focused on agribusiness, textiles and electronics was decided upon and the necessary legislation was passed in 2002.

EPZ can be introduced to achieve political objectives. This reason, is however, not strong for Tanzania because the EPZ initiatives were not demand driven. The private sector came on board when the draft Act was in place. Interviews made with key private sector organizations show that they were requested to just provide comments, and did so on the first drafts of both the EPZ Act and later the SEZ Act. However, being a dominant party ruling coalition state, it is not surprising to see Tanzania adopting an EPZ.

Initiatives can be pushed by the international community, especially donors. The findings of this study have shown that Development Partners did not play an active role in the EPZ initiation. The World Bank was, at that time, rather reluctant to support the initiative, although it had done so in Kenya (which started EPZs in 1993). On Tanzania, the World Bank argued that "the whole world is now an Economic Processing Zones" and did not see why Tanzania should also join the race. Other donors like JICA heard the EPZ when its Act was communicated to them. The decision to embark on EPZ in Tanzania was a government initiative. The conceptualization and formulation of the EPZ initiative was purely a technocratic process with little political input until 2002 when the relevant legislation was passed by Parliament without much discussion and later on, the Act was assented by the President. It is the relevant government institutions working with consultants which were important players in the process.

The Parliament passed the EPZ legislation in 2002 without much debate. Bureaucrats, academics and private sector people had several reservations about these initiatives. Cost was clearly an important concern. Back in the early 1990s ADB estimated that it would cost around \$29 million to develop a good EPZ, similar to those in Malaysia and Mauritius. As no donors were interested in supporting the initiative, this was regarded to be too expensive. That stalled the preparation of EPZs for some time (UNCTAD, 2002). Ten years later, there was still a great deal of skepticism about the EPZ. In addition, many doubted that economic zones would make Tanzania into an attractive destination for local and foreign investors, given the competition from zones in Kenya and other African countries. The fear was also that foreign companies attracted by low-cost labour and tax holidays would be footloose – leaving the country as wages and other costs change (UNCTAD, 2002). It would be a race to the bottom. Labour union officials were deeply skeptical, arguing the EPZ had a reputation of providing poor working conditions in Africa.

The perceived loss of tax revenues caused by the proposed tax-brakes was mentioned by many as a serious issue. The World Bank led public expenditure review of 2006 asked the government to reconsider the tax-brakes provided for in the EPZ and SEZ legislation. “Tax exemptions and loopholes, tax fraud, reduction of tax collection” could proliferate “thereby jeopardizing the fiscal position without necessarily generating the anticipated investment.”⁶ This concern was shared by academics (e.g. Mbelle and Shitundu, 200?), who also argued that the 80 percent export requirement for EPZ-companies would be difficult to enforce. Goods produced in the zones could ‘leak’ out in the domestic market thereby providing an unfair rent to the EPZ companies vis-à-vis companies producing for the domestic market. This was also a concern raised by some private sector and ministry staff we interviewed – and with good reason as the implementation experiences show.

Neither the World Bank concerns nor the issues raised by domestic observers led to significant changes. The domestic voices were not raised in organised settings and may therefore not have had much direct impact. Yet, they may have contributed to a less than enthusiastic support for the subsequent implementation of the EPZ initiative in many quarters as explained later.

3.3 Implementation of the EPZ Initiatives

The quality of implementation of an initiative is a function of the design of the initiative and/or the political settlement factors. The analysis of the implementation of EPZ focuses on two key issues: rents management and compliance with the requirements of the EPZ.

⁶ (see Tanzania: integrated public expenditure and financial accountability review mission 2006 Draft aide memoir April 8 2006, p3-4). This report also states that exemptions amount to 23 percent of total revenues (most of it due to exemptions for donor funded projects, problems with fuel taxation, etc).

3.3.1 Rent management

The discussion about implementation of the EPZ takes into account aspects of both *available* and *potential* rents. The *size* of different rent sources, their respective *deadweight losses* of rent extraction, and their responsiveness to the provision of public goods all greatly matter. Also, the characteristics of the *groups* that benefit from each of the rent sources are important in the EPZ implementation. As a rule, the ruling coalition distributes benefits in anticipation for returns in terms of political support, consolidation of legitimacy and strengthening its economic base. These goals are however conflicting in some cases. The government uses EPZ as a policy to promote industrialization in the country, promote employment generation and promote exports.

To allow this to happen the government provides rents (incentive package) to investors to ensure that EPZ operates in a different institutional, legal and administrative framework. These incentives are implemented through an array of government agencies whose mandates, interests and objectives may not tally with the original objective of formulating EPZ. Although there is no evidence of any “systematic reluctance” by Government agencies in the implementation of the EPZ programs, coordination amongst the different agencies in the public sector including EPZA, the Tanzania Revenue Authority (TRA), Customs, and immigration department has not always been at its best to ensure that all EPZ issues and concerns are dealt with in an effective manner. This is particularly evident when it comes to exercising both fiscal and non-fiscal incentives to investors whereby some agency staff are clearly not aware or do not understand the legal and regulatory framework governing the programs. This is a shortfall in as far as implementation of the initiatives is concerned as pointed out by all the operating firms that were interviewed.

Eligibility for the incentives seems to have been shaped by the motives of the ruling coalition in the initiative. Much emphasis is on new establishments and foreign direct investments. The debates and arguments particularly on issues to do with foreign versus local investments focus on larger investors as opposed to SMEs, and fairness of the incentive packages and implications on revenue collection; explain part of the issue. Issues of predictability of the effects of incentives to the investors’ political power and their and how it translates into to political support, consolidation of legitimacy and strengthening of the ruling coalition is important.

The EPZ program also requires adequate funding to properly develop, implement, manage, facilitate and promote the initiatives. Access to competitive, modern and reliable services available within the zones is one of the key non fiscal incentives provided to investors. Although the EPZA has been given the mandate to develop zones in the country, they have not yet been able to erect enough facilities due to financial constraints. The idea of entering into agreements with private sector developers who can finance, design and build facilities at their own cost and operate them is also not proving to be successful. Inadequate funding was reported as a problem facing these initiatives

particularly in the initial years of implementation⁷. According to the EPZA, the Ministry of Finance (MoFEA) has always been reluctant to approve budgets for developing the Zones⁸. From the interviews conducted at MoFEA, it seems not everybody is convinced that EPZ is the way to go⁹. The argument presented by critics of the initiative was that much as the concept is good and has been successful in many other countries particularly in East Asia, it is very costly to implement in Tanzania. Provision of adequate infrastructure in a limited area [which is one of the main reasons for having EPZs/SEZs], proves to be very expensive¹⁰ when it is still not possible to provide basic infrastructure on an economy-wide basis.

In October 2009, members of the parliamentary committee for Industry and Trade urged the Government to borrow money from external financiers to finish the EPZ projects which [according to the parliamentarians] are being implemented at a snail pace due to shortage of resources. The Director General of the EPZA, is quoted as telling the committee members that about 14 projects were earmarked for implementation in periphery regions of the country. The main challenge, however, was lack of financial resources for compensation to land owners, which affected the pace of implementing the projects. He said the authority suffers a deficit of Sh19.6 billion for compensating land at Mara, Ruvuma and Bagamoyo EPZ and SZE sites.¹¹

The chairman of the committee said the Government could borrow money from foreign trustees or other appropriate sources such as the World Bank through the guarantee of the central bank. Another member of the Committee decried the slow pace of implementing EPZ projects and said if the problem was lack of funds, then the only solution was to borrow. There are also strong counter arguments from some government officials who were interviewed particularly within MOFEA on what EPZs can achieve in terms of employment creation, again in the context of Tanzania. While employment is stated as one of the success criteria for EPZs, there are serious doubts that the market in Tanzania is able to supply labour with the required skills to operate in the investing firms. It's not only about skills, but also productivity whereby the potential comparative advantage of low wages in Tanzania can be nullified by low productivity making it difficult to attract FDIs.

⁷ Note that the budget has been growing, from TSHS 1,5 billion in 07/08 (when it was just for coordination, not for development) to TSHS 14,6 billion in 08/09.

⁸ Interview with Dr. Merru conducted on 30th September 2008.

⁹ Interview conducted with the then Commissioners for Policy in MOFEA – Mr. Mugisha Kamugisha

¹⁰ “The bird and nest theory is excellent, but how do you make a nest when you have no branches on the tree? You need to have basic infrastructure like power, water and roads in close proximity to be able to establish an EPZ at a cost which is economically viable. While an EPZ in Thailand costs 5 Million USD, the same sized EPZ in Tanzania would cost 30 Million USD. You would have to install a generator for reliable power supply, build a road of significant length, dig a well and at the end of the day, the Government will be heavily subsidizing the Zone. How can we do that when the resource envelope is small and we have many other priorities including in the sectors of education, health and water? This is what the EPZ proponents fail to understand. The context in South East Asia differs from that of Tanzania. You also need an efficient port to handle export. Do we have one?” (Mr. Mugisha Kamugisha - Commissioner of for Policy and Planning-MOFEA).

¹¹ See the Citizen Newspaper of 13th October 2009.

Clearly this analysis shows that there is little commitment by the government to promoting EPZ. Slowly the government seems to be losing interest in it. Since Benjamin Mkapa left office in 2005 after his second term, the thrust that was behind EPZ cooled down rapidly. The ongoing funding problem as underscored by Mr. Meru, the Chief Executive Officer of the EPZA when addressing a closed meeting with development partners, researchers and a few stakeholders at the Movenpick Hotel in November 2010. Existence of inconsistent or conflicting legislation e.g. EPZ Act and tax law creates doubt in the seriousness and commitment of the legislature itself in the program. The continued setbacks experienced by operators in realizing the designated incentives, especially with respect to clearly stipulated fiscal arrangements although not a major concern is evidence of this contradiction.

The lack of coordinated effort among the institutions responsible for investment promotion (EPZ/TPA/TIC/TRA) is also an indication of lack of commitment. It gives the impression that some of the key decision makers at the top have not yet recognized the importance of creating a favorable operating environment for the project. There is a well known, long standing cultural problem within the government. The bureaucratic machinery is yet to fully adjust itself in terms of mind set to cope with the requirement of dynamic business environment. Coupled with the lack of strong organized private sector the problems inherent in the EPZ implementation can not be easily resolved.

3.3.2 Compliance with EPZ requirements

The point that EPZ was a deal between the ruling coalition and investors has already been mentioned. It is important to emphasize that the government has its own expectation and so the investors and it is these expectations which drive the whole process. The investors were expected to export 20% and generate employment. The ruling coalition promised conducive environment. An assessment was made to evaluate how the two parties have complied to their commitments.

Most participating investors interviewed had a good feeling of the program, especially with respect to the fiscal incentives, but also with the clusters which provided security and a sense of protection from arbitrary harassments by law enforcement officials that was perceived by some participants to be a common experience outside the zones. The security comfort was reported specifically by Global Vehicles Tanzania as well as DARDAM. The main interest of investors is largely the presence of a certain minimum of investment profitability determinants. These determinants give firms the confidence and interest to invest their massive and expensive capital in a foreign country. Among the determinants that firms (particularly foreign) look for are the presence of economic, political, and social stability; and rules regulating the entry and operations of businesses. Others are the standard treatment of foreign affiliates business facilitation (including inter-alia investment incentives, raw materials, low cost but efficient labour force, and physical infrastructure in the form of ports, roads, power and telecommunication).

An understanding of the status of these determinants in Tanzania is very critical as we attempt to assess the success or failure of the EPZ initiatives. This study has shown that, in respect of power, in spite of frequent disruptions, participants were satisfied with the arrangement of a special power line and a specific official dedicated to the zones. However, the arrangement of sharing one electricity meter for all industries in the park was of critical concern by investors at the BWM EPZ. The operators also experienced setbacks in realizing the designated incentives, especially with respect to certain fiscal arrangements. For instance, according to them TRA imposes VAT on wharfage charges contrary to EPZ Act, which provides for exemption of VAT on wharfage charges to EPZ investors. Moreover, TRA insists on cumbersome procedures to EPZ operators in clearing goods instead of treating them as transit goods as per EPZ Act.

The country still compares poorly to other countries, including neighboring Kenya and Uganda, in terms of doing business, and is ranked 127 out of 181 economies covered by the World Bank's Doing Business 2009 Report. Factors that continue to undermine investments include non-tariff barriers - customs and administrative procedures, regulations and licenses, and lack of adequate physical infrastructure. No industry can run smoothly in an environment where the whole range of basic infrastructure (including ports, roads, airways, railways, and communication) and infrastructural inputs (water and power) leaves a lot to be desired. Infrastructure becomes even more important to exporting firms (as is the case with EPZ operators) since a firm that cannot meet production and delivery deadlines would soon find itself a non-player in the global market.

EPZ initiative is meant to provide specific incentives which were expected to partly address some of these constraints. However, interviews conducted with firms currently operating in the zones revealed that the situation on the ground is far from satisfactory. When asked if there are any infrastructure benefits derived from operating within the zones, the majority of the firms interviewed said there was non worth mentioning. They still faced problems particularly with the reliability of electricity and delays at the port. To them, the only important incentive was tax exemption which to a large extent was actually being implemented although sometimes they faced unnecessary bureaucratic hurdles from relevant authorities.

The Dar es Salaam port which is key to manufacturing exports deserves special mention. This port is by far the largest, handling more than three quarters of Tanzania's external trade, and is used by a large number of shipping lines which places competitive pressure on the efficiency of its operations. Yet, there has been a lot of criticism about the congestion at the port. Among bureaucratic hurdles, the time taken to clear customs is an unambiguous deterrence to export growth. Most of the criticism has been directed to the Tanzania International Container Terminal (TICS) for failure to ease this congestion. However, TICS is only one link in a long chain, meaning that congestion at the port could not be apportioned to a single entity. Other key players include the port operator (Tanzania Port Authority), shipping agents, freight forwarders and clearing agents,

Tanzania Revenue Authority, goods inspection services (TISCAN) and the road and rail transporters who remove containers from the port.

3.4. Outcomes of the EPZ Implementation

One needs to be very careful when assessing the outcomes of the EPZ implementation. Especially the yardstick to use in measuring success/failure, either one can stick to official criteria for success of EPZ in Tanzania or also use the criteria taken from literature i.e. technology transfer, spillovers, forward linkage, etc. This paper uses a mix of both official and global yardsticks in assessing the outcomes of EPZ implementation. Let us start by emphasizing that data pertaining to EPZs is also extremely scant. Accurate and timely data even for figures such as EPZ investment levels, employment, exports etc. is not easily accessible even from the relevant authorities. Where some data is provided, these sometimes diverge considerably incomplete.

3.4.1 FDI investment and technology transfer

The available official reports show that six Industrial Parks have been established which include Factory Spaces namely Millennium Business Park (23 Acres) and Hifadhi EPZ (20 Acres); and Service Lands namely BWM – SEZ – (65 Acres), Kisongo EPZ – (70 Acres), Kamal Industrial Estate EPZ (300 Acres), Global Industrial Park (50 Acres). It is important to note that BWM – SEZ is the only Government owned park.

EPZA reports that the authority has issued a total of 76 EPZ licenses, of which 37 were to EPZ developers (mainly for single factory zones) while 39 are to EPZ operators. However, only 16 are in operation while the license of one firm has been withdrawn; the others are still under construction. The lack of ready-made EPZ facilities has also resulted in the mushrooming of single factory EPZs. As a late entrant to the EPZ scene, Tanzania has largely missed out on the expansion of the textile and apparel industry in Africa as unlike many other EPZs in Africa which are dominated by textile and apparel firms. The EPZ investments in Tanzania are mixed, ranging from investments in agro-processing to refurbishing/ assembly of vehicles for the regional market.

According to EPZA the total capital invested through the EPZ program to date is US\$ 210 million. This is equivalent to around 10% of total FDI in the country during the period 2006 through 2008¹². However, a substantial share of the EPZ investment actually came from locally-based companies, so the contribution of the EPZ program to FDI is considerably less than 10% over this period.

3.4.2 Export promotion

Total exports generated by the EPZ program to date are estimated at US\$120 million¹³. In 2007, exports from EPZ firms amounted to only US\$35m. This works out to approximately 2% of total exports and 11% of total manufactured exports. For 2008, the

¹² Source: calculated based on FDI flow data from UNCTAD

¹³ Source: ICRA, Baker-Tilly & NORPLAN (2009)

total value of exported goods by EPZ firms rose to approximately US\$120m. However it must be noted that the success in terms of capital investments, job creation and exports are largely attributed to the Kisongo EPZ (the exports of mosquito nets estimated at around US\$100 million in 2008 while jobs created through the project was around 7,000). Outside of this one company, the EPZs contribute only about US\$ 20m in exports (little more than 1% of the national total), and have created only about 500 jobs.

An industrialization strategy based on “migrant birds” theorem i.e. foreign investors alone can also come to suffer from its very design, and experience an exodus of those flocks from its ponds. Therefore it is important to have a clear strategy of strongly rooting the program locally. However, our study did not corroborate such a strategy, and instead, there was a glaring lack of interest among the indigenous business community. Profiles of participants indicate that out of the 39 investments, nearly 90% are foreign, and only 4 of them are indigenously owned and operated. This number excludes local Asian community whose business characteristics are very different from the indigenous community.

Various reasons were given for this poor show from the indigenous business community including lack of exposure and connection to lucrative foreign markets. Even the program incentives did not seem sufficient to motivate indigenous investors, even those with a big potential to join and make big gains in the program. When approached by EPZA officials, some businessmen, for instance Tropical Electronics limited and MCL, both located in Kariakoo, Dar es Salaam expressed complete lack of interest when asked to join. In the opinion of some EPZA officials, there is little industrial entrepreneurial motivation among the indigenous business community for whom even trading is a problem, as compared with the local Asian business community.

3.4.3 Employment generation

The EPZs have not yet made any significant contribution to employment in Tanzania. The current estimation of employment in the EPZ companies is approximately 10,500, with the majority of this accounted for by just a few of the EPZ firms. This represents less than 2.5% of manufacturing employment and less than one-tenth of one percent of all employment in the country. Companies in Tanzania’s zones are substantially larger on average than exporters outside the zones, but they are still operating on a small scale. Like other African countries, the Tanzania EPZs make substantial use of temporary labor, which accounts for 14% of all employees in zone companies. Twenty percent of managers in Tanzanian EPZs are foreign, a lower share than in most African countries; note that the reported share of foreign managers is almost the same in foreign-controlled (20.2%) and domestic-controlled (19.2%) EPZ firms.

Females represent 56% of workers in the surveyed firms, a level which is about average for the countries surveyed. Women account for about 20% of management positions in EPZ companies. This ratio of management to total employment is lower than in all other African countries—only Bangladesh and Honduras have lower relative female participation in management. This is somewhat surprising given the high female

participation at all levels in Tanzania's overall economy. Given the small scale of companies in Tanzania's zones, it is not surprising there is a relatively low rate (25%) of unionization. Base wages in Tanzania's zones are lower than all other zones in Africa (although they are substantially above those in Bangladesh and Vietnam). However, reported benefits lift the average labor bill in Tanzania above that of both Kenya and Ghana. Average weekly wages reported by zone companies are about 14% below the new nationally-stipulated minimum wage for manufacturing (Tsh 150,000); however, they are some 60% above the special dispensation rate (Tsh 80,000) available to large exporters.

3.4.4 Spillover and backward linkages

Given the early stage of the EPZ program, it is not surprising that there are no examples of reforms undertaken in the zones that have been rolled out economy-wide. Yet, like many other EPZ programs, there is also no evidence that the Government has gone into the program looking to use it as a platform for wider reforms, and there is no evidence that the program is being used in any way as a "laboratory" or testing ground for reform, with the possible exception of the efforts to promote private sector participation through private development and PPPs.

Tanzania's economy is heavily reliant on agricultural and minerals resources, with historically limited value addition to these primary products. However, to date there has been little value-added activities to the primary products in the country. One of the primary objectives of the EPZ program in Tanzania was to foster linkages of the local economy with the international market. As in the case of many countries that have adopted the EPZ approach to economic development, there is still little evidence of strong linkages with the domestic economy (other than through labor and utilities) in activities like textile and apparel, light consumer goods and electrical appliances. However, the EPZ program has also been targeting activities like leather processing, food processing, wood processing and lapidary, activities. These activities may offer greater opportunities of backward linkages in the future. Indeed, evidence from the EPZ firm survey conducted as part of this research suggests a relatively high level of inputs reported to be sourced from local markets, particularly from agriprocessing activities (e.g. oilseed, honey, etc.). To the degree that the program focuses more strongly on natural resources based processing activities, the domestic linkages – and the potential for a greater pro-poor impact – may be substantially greater than has been experienced in other countries.

Indeed, recent expressions of interest in the EPZs have included several interests in agriprocessing and mineral processing. To cater for these interests, EPZA has been identifying suitable locations e.g. in Bagamoyo, Tanga, Arusha and Mtwara, to be developed as EPZs. These locations will target the horticultural and wider agricultural sectors and can be a springboard for developing linkages with the local economy. However, it is still too early to make any real assessment of how this program will benefit the domestic economy.

3.4.5 Promote growth and poverty reduction

The EPZ targets labour intensive employment. An additional objective is to identify and raise economic potentials of the disadvantaged districts and supporting exploitation of these potentials through productivity increases (MKUKUTA (p30)). The TMTP itself is more focused on the *geographical* targeting of SEZs than on targeting the poor. Indeed, there is little (almost no) discussion and analyses in the TMTP document of the types of employment that will be generated and who will benefit from it. The TMTP targets are *very* ambitious: to accelerate economic growth from the current 5-6% to 8-10% per year; to create 3 million new jobs by 2020 (some 450,000 by 2010); to raise the share of industry in GDP from about 7 percent to between 15 and 25 percent by 2020; and to boost export income earnings from \$ 1.2 billion in 2005 to \$ 20 billion in 2020 (URT, 2004, xii and 90-93).

At a very general level, GDP growth appears to have increased steadily since 1998, with an average annual growth rate of 6.75 percent during the period between 2000 and 2007. This rate is high compared to historical performance. However, Tanzania is undeniably off track in achieving both the MKUKUTA and MDG poverty reduction targets¹⁴. The Household Budget Surveys of 2000/01 and 2007 show limited declines in income poverty levels over the period. Some 33.4 percent of Tanzanians fall below the basic needs poverty line and 16.5 percent below the food poverty line in 2007, only a slight decline from the 2000/01 levels (which were 35.6 percent and 19 percent for basic needs and food poverty lines respectively). Increased public spending and investment accounted for much of the distribution of growth of GDP from 2001 to 2007, and thus only a slight growth in household consumption and associated reduction in household income poverty (PHDR, 2009).

At a sector level, manufacturing, as a whole has grown at an average of 7.8 percent per year since 2000, and manufacturing exports have increased steadily although the share to total exports has remained below 15 percent. Overall growth in exports has accelerated more as a result of the very fast growth in gold production and other non-traditional exports such as fish and flowers. as opposed to traditional and manufacturing exports.

To what extent have the EPZ schemes contributed to the general sector performance and poverty reduction efforts? There are many problems in undertaking a rigorous evaluation of the impact of such schemes as EPZs (see Gibbons et al 2008). It is often not clear what the appropriate and quantifiable outcome indicators should be. For example, the measurement of skills transfers or backward linkages is not captured by standardized macroeconomic or national accounts statistics. This is to say nothing of the relevant time period over which measurement should be made. Identifying a credible counterfactual is also problematic. Meaningful impact analysis is not equivalent to measuring, for example, how rapidly exports or foreign investment grow after establishing an EPZ. Rather, one needs to establish how these variables would have evolved in the absence of the schemes. It may well be the case that investors locate to an EPZ due to preferential

¹⁴ MKUKUTA targets a reduction in basic needs poverty levels to the levels of 24% and 12.9 % in Rural and Urban areas respectively by 2010, while the MDGs aims to reduce the incidence of poverty between 1990 and 2015 by 50%. In 1991/92, poverty estimate was at 39%, so the objective is to reduce it to 19% by 2015.

tax treatment but would have undertaken a similar investment without the zone under a different incentive regime.

Though the initiatives are considered important in terms of creating jobs and alleviating poverty, so far, their actual share of total formal employment is rather low. Also important to consider is that fact that so far, there is no evidence of any significant positive spillovers (technology transfer, human resource training, production linkages, and local business development) coming from these schemes.

These specific results on the ground reflect minimal achievements of the initiatives although it could be argued that they are still in their infancy stages and it is perhaps too early to properly conclude on their success or failure.

4.0 EMERGING CONCLUSION AND POLICY IMPLICATIONS

Achieving growth and poverty reduction is a key target guiding the national planning framework in Tanzania, as articulated in the National Strategy for Growth and Reduction of poverty (NSGRP). One of the major challenges is to create poverty reducing employment particularly given the country's high population growth and a fast growing labour force. Industrial investment has, in principal, great potential in the long term for employment absorption and poverty reduction via manufacturing value-added. However this depends on the pattern and rate of growth of such investments and output. The EPZs and SEZs have been identified as productive sector initiatives central to realizing the targets for growth and poverty reduction through export promotion, and employment generation. This paper has attempted an initial analysis of the formulation and implementation of these initiatives and the results achieved on the ground.

Problems surrounding implementation relate back to the formulation process in some respects. Government bureaucrats who subscribed to the idea of EPZs and SEZs as effective policy instruments for export promotion, and employment generation apparently drafted the respective Acts, but did not consult widely. It is only a few entities within government cycles that have been both the initiators and prime movers of the schemes with minimum and uncoordinated participation of non-state actors and many other key state institutions. In fact, some interested parties such as the private sector were allegedly sidelined. After the schemes were adopted, they were not effectively communicated to various stakeholders and are therefore not very popular within Tanzania.

Capacity has been a critical constraint impacting on the implementation of these initiatives. Capacity is conceptualized here in general "systems" thinking terms as the structural, functional and cultural ability to implement the objectives of the initiatives (i.e. the ability to deliver effectively as planned over time in a durable way). It obviously refers to the availability of and access to concrete or tangible resources (human, financial, material, logistical, etc). Capacity also includes the intangible requirements of leadership, motivation, commitment, willingness, guts, endurance, and other intangible attributes needed to transform rhetoric into action.

While the government has taken some measures to improve co-ordination by setting up institutional arrangements such as the EPZ Authority and its Board involving various key ministries and departments, their capacity and efficacy are still weak. The required human resource including incentives, to ensure their willing participation and co-operation in implementing the schemes is lacking. Also many EPZ projects have been earmarked for implementation in the periphery regions of the country, but the cost implications have not been adequately assessed.

As a result, implementation on the ground has been slow and marked with a number of constraints. So far, results reflect minimal achievements of the initiatives not only in terms of the value of exports, but also in creating jobs. The overall picture emerging is that the pattern and rate of investments in EPZ and SEz schemes have not managed to create many gainful employment opportunities and reduce poverty despite the various opportunities and potentials, which exist in Tanzania. There is also no evidence of any significant positive spillovers including technology transfer, human resource training, production linkages, and local business development emanating from these schemes.

It could be concluded therefore that the manner in which these productive sector initiatives are being implemented reflects a general lack of *public sector commitment* that entails having a *vision* of what is to be achieved and how, and *building consensus* with relevant private and public sector stakeholders. The governments may have the most logical policy imaginable, the policy may pass cost/benefit analyses with honors, and it may have an ideal bureaucratic structure, but if those responsible for carrying it out are unwilling or unable to do so, little will happen.

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