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# Governing tax incentives for productive investments in Tanzania

## How to improve the EPZ/SEZ regulatory framework and re-align tax incentives to attract the right investments for Tanzania?

### Research Questions

What are the corruption vulnerabilities in the existing EPZ/SEZ tax incentive schemes, and are they attracting the right investments in Tanzania?

### Key Findings

The governance of the EPZ/SEZ is made difficult by regulatory inconsistencies (both at national and EAC levels) and current tax incentives create several avenues for rent-seeking, often attracting the wrong types of companies.

### Implications

Improving the governance of the EPZ/SEZ schemes will mean addressing regulatory inconsistencies, closing procedural loopholes, re-aligning and differentiating incentives for companies, and changing the parameters for granting EPZ/SEZ licences.

## Project Summary

Building on the East Asian model, Export Promotion Zones (EPZ) and Special Economic Zones (SEZ) have received widespread support across Africa. We analyse why the governance of tax incentives is challenging in Tanzania, in the context of the East Africa Community (EAC) custom union. We then look into how, by reviewing processes, conditionalities and criteria for investment licencing, the EPZ Authority can select more productive companies, who are interested in benefiting from the incentives, rather than in rent-seeking opportunities emerging from the EPZ/SEZ schemes.

## Approach

We follow a two-stage research approach. First, we conduct an in-depth rents analysis of the EPZ/SEZ regulatory framework and governance structure – including specific incentives, conditionalities and their enforcement (e.g. production formula) – and potential conflicts arising in their implementation among institutions at the national and regional levels. Second, in close collaboration with the EPZ Authority in Tanzania, we also develop a unique data panel for all the companies receiving an EPZ/SEZ licence over the last decade since the creation of the scheme, and assess how different types of companies have made use of the scheme given their different capabilities.

## Key findings

The rents analysis (phase one of the research) revealed three main issues:

1. Regulatory inconsistencies at the national and EAC custom level have made it difficult to enforce domestic off-loading conditionalities, especially with respect to individual EPZ licences outside EPZ, leading to corruption opportunities, unfair competition and regional conflicts

2. Lack of clarity and certainty around tax incentives and procedural criteria (so called 'production formula') have affected companies' investment planning and the extent to which they have or have not effectively benefitted from the incentives

3. Regulatory inconsistencies and ineffective incentive governance, alongside willingness to receive more investments based on loose licencing criteria, might have attracted companies with the wrong mix of capabilities and incentives (adverse selection), thus making the enforcement of the EPZ/SEZ scheme more challenging.

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## Policy and programming implications

Four areas for interventions are expected:

1. Streamline national regulations within the EAC regulatory framework to reduce unproductive flexibility and opportunities for rent-seeking, including ambiguities associated to the EPZ and SEZ schemes (and the lack of complete legal and licencing framework for the latter);
2. Revision of procedural criteria and processes to take into account sectoral specificities, and avoiding inconsistencies in tax exemptions;
3. Introduction of selection criteria to grant investors EPZ licences only if they have secured international buyers contracts;
4. Revision of the tax and non-tax incentives associated to the SEZ scheme for companies with limited export capability.

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