



**EAST AFRICAN COMMUNITY**

## **EAC SPECIAL ECONOMIC ZONE (SEZ) POLICY**

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## Acronyms

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



## **INTERPRETATIONS**

For purposes of this policy:

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

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

**Authorized SEZ Activity** means any economic or social activity authorized by the Competent Authority to be undertaken in the SEZs by way of a license or a permit.

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

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

**Competent Authority** means an authority designated by a Partner State to oversee all matters related to Special Economic Zones within the Partner State.

**Convention and Conference zone** means an SEZ area that is devoted to facilitate for meetings, incentives, conferences, exhibitions and tourism & recreation sector, its services and associated activities.

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

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

**Customs Controlled Area**, which in some Partner States is referred to as an SEZ duty free area means a geographically delimited, fenced-in, physically-secured, and restricted access area comprising SEZ land, appointed by the Commissioner by notice in writing by his or her hand, where customs duties are exempted and subject to the control and supervision of the Customs Authority in accordance with Customs Laws.

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

**Custom Laws** Includes EACCMA and Acts of the Partner States and of the Community relating to Customs, relevant provisions of the Treaty, the Protocol, regulations and directives made by the Council and relevant principles of international law.

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

**Developer** means an SEZ body corporate issued with an SEZ Developer License by the Competent Authority, to develop an SEZ area, including provision of SEZ infrastructure.

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

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

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

**Enterprise** which in some Partner States is referred to as User, means an SEZ business entity issued with an SEZ Enterprise License by the Competent Authority, to engage in one or more core business activities.

**Enterprise License** which in some Partner States is referred to as SEZ User license means the administrative grant of authority issued by the Competent Authority that provides an SEZ Enterprise with entitled rights.

**Export** means to take or cause goods and services to be taken out of the Customs Territory into an SEZ customs-controlled area **or** to provide goods or services from one SEZ customs-controlled Area to another.

**Export Processing Zone** means a designated part of Customs territory, established predominantly for export-oriented manufacturing, processing and related services, where any goods introduced are generally regarded, in so far as import duties and taxes are concerned, as being outside Customs Territory but are restricted by controlled access.

**Financial Services Zone** means an SEZ area where financial services, including but not limited to commercial and investment banking, insurance, stock brokerage, financial consulting, are attracted and facilitated.

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

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

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

**Freeport Zone** means an SEZ Area where goods introduced therein are generally regarded, in so far as customs duties are concerned, as being outside the customs territory; excluding manufacturing and processing.

**Goods** means all kinds of wares, articles, merchandise, livestock, matter, baggage, stores, materials, currency.

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

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

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

**Information Communication Technology Park** means an SEZ area where information and communication technology related knowledge and service industries including software and digital industries are attracted and facilitated.

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

**Livestock zone** means a SEZ are where the following activities are carried out: livestock marshalling and inspection; livestock feeding or fattening, abattoir and refrigeration; deboning; value addition; manufacture of veterinary products, and other related activities;

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

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

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

**Operator also referred to as manager** means the SEZ body corporate issued with an SEZ Operator License by the Competent Authority to administer an SEZ area and to operate SEZ infrastructure.

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

**Partner State** means any one of the following: Republic of Burundi, Republic of Kenya, Republic of Rwanda, Republic of South Sudan, Republic of Uganda, United Republic of Tanzania, Democratic Republic of Congo (DRC) or any other country granted membership to the East African Community under Article 3 of the Treaty.

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

**Processing** means any activity involving a change in condition of merchandise. Processing may include value addition to a product.

**Protocol** means the Protocol on the Establishment of the East African Community Customs Union and any annexes thereto.

**Regional Headquarter Zone** means an SEZ area where enterprises are located for the purpose of directing, supervising and coordinating the commercial, marketing, financial, administrative, production and human resources policies and operations of their related companies, where such companies are located in one or more foreign countries.

**Science and Technology Park** means an SEZ area devoted to scientific and technological research and development (R&D) including educational and research institutions focusing on the development of innovation-based industries.

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

**Special Economic Zone (SEZ)** means a designated part of a Partner State territory which may include both Customs Controlled Area and non-Customs Controlled Area with liberal fiscal regimes; provided with on-site administrative and regulatory management; and where goods introduced in customs controlled area are exempted customs duties in accordance with customs laws

**Tourist and Recreational Zone** means an SEZ devoted to tourism and recreational related facilities which may include: hotel accommodation, convention, meetings, exhibition, specialized medical care, recreational facilities and long-term residences.

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



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## 1.0 Introduction

### 1.1 Background

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

The EAC Protocol on Customs Union, Part G, provides for the Council to establish other Special Economic arrangements, in addition to Freeports, for purposes of the development of the economies of the Partner States. Consequently in 2012, the Council directed the EAC Secretariat to develop the EAC Special Economic Zones Policy. This policy will guide the establishment of SEZs in the EAC and ensure that Partner States embrace the global evolution of economic zones in a structured and harmonized manner.

The policy is expected to enhance regional cooperation by encouraging synergies, expanding market access, and establishing necessary linkages required for sustainable development. In this respect, the EAC SEZ Policy will play a critical role particularly in developing a diversified and sustainable regional economy through development of intra-regional trade and integration of regional value chains. Furthermore, this Policy will help EAC raise investment levels in various SEZ schemes, build new backward and forward linkages across the region, upgrade technological capacity and promote a more competitive integration into the world economy for sustainable development.

### 1.2 Definition and Concept of SEZs in the Global Context

#### 1.2.1 Definition of SEZ

- **Special Economic Zones (SEZs):** “Special economic zones (SEZs) are spatially delimited areas within an economy that function with administrative, regulatory, and often fiscal regimes that are different (typically more liberal) than those of the domestic economy. SEZs aim to overcome barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure, and problematic access to land.”<sup>1</sup>

While UNCTAD in *World Investment Report 2019: Special Economic Zones* defines SEZ as “Special economic zones (SEZs) as geographically delimited areas within which governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support.”

Farore T a leading SEZ scholar in the report *Special Economic Zones in Africa*, defines SEZ as spatially delimited areas within an economy that function with

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<sup>1</sup> World Bank Report: Special Economic Zones: Comparing Performance and Learning from Global Experience

administrative, regulatory, and often fiscal regimes that are different (typically more liberal) than those of the domestic economy.

For purpose of this Policy SEZ is thus, defined as Special Economic Zone (SEZ) means any designated part of a Partner State territory which includes Customs Controlled Area and non-Customs Controlled Area that has economic and other laws that are more free-market-oriented than a country's typical or national laws.

These differential rules mainly deal with investment conditions, international trade and customs, taxation, and the regulatory environment. Imperatively SEZ is a policy tool for economic development that aims at rapid economic growth through incentives both fiscal and non-fiscal incentives to attract Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI).

### 1.2.2 SEZ Schemes

There are different schemes under SEZs including the following:

- **Multipurpose SEZs:** This means an SEZ where various types of investment can be invited: such as, manufacturing, trade and distribution, tourism, entertainment, and finance. It is possible to divide it into sub-zones that have different functions and to establish development concept for each sub-zone in accordance with its function.
- **Free Trade Zone:** This means an SEZ Customs Controlled Area where goods are off-loaded for transshipment, storage and may include bulk breaking, repacking, sorting, mixing, trading or other forms of handling excluding manufacturing and processing.
- **Freeport Zone:** This means an SEZ Customs Controlled Area located in or adjacent to a port of entry (lake port, river port, seaport or airport) where goods may be unloaded for transshipment, storage, bulk breaking, repacking, sorting, mixing, trading or other forms of handling excluding manufacturing and processing.
- **Industrial Park:** This means an SEZ area with integrated infrastructure specific to the needs of manufacturing and processing industries and may or may not be an SEZ Customs Controlled Area.
- **Information Communication Technology Park:** This means an SEZ area which may or may not be an SEZ Customs Controlled Area where information and communication technology related knowledge and service industries including software, film and media industries are attracted and facilitated.
- **Free Enterprises:** This means individual enterprises which are provided with SEZ status and allowed to locate anywhere on the national territory.

### 1.2.3 Impact of SEZs in the Global Context

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

innovations, and provide high-end services. Countries that have implemented SEZs include Vietnam, Philippines, UAE, Mauritius, Turkey, Malaysia, China, India, Bangladesh, Jordan, Ireland, Costa Rica, South Korea, Nigeria, Ethiopia, Egypt and Dominican Republic. Examples of economies that have registered remarkable economic growth through the SEZ scheme include China, India and Mauritius. The Table below shows the impact of SEZ in some of the countries aforementioned.

**Table 1-1: Impact of SEZ in the Global Context**

Country	Impacts of SEZ
<b>China</b>	<p>(a) In China SEZs have contributed significantly to <i>national GDP, employment, exports, and attraction of foreign investment and new technologies</i>, as well as adoption of modern management practices, among others.</p> <p>(b) It was estimated those in recent years, SEZs (including all types of industrial parks and zones) at national levels accounted for <i>about 22% of national GDP, about 46% of FDI, and about 60% of exports and generated in excess of 30 million jobs</i> (Zeng 2010).</p> <p>(c) 321 prefecture-level cities between 1978 &amp; 2008 shows:            i) on average, a SEZ program increases the level of per capita FDI by 21.7% and the growth rate of FDI by 6.9 percentage points;            ii) the SEZ program generates significant agglomeration economies - it increases the technological progress of the earlier treated municipalities by 1.6 percentage points compared to the later ones .(Wang 2013)<sup>2</sup></p>
<b>India</b>	<p>(a) India established EPZ, at Kandla, in the Asia Pacific region in 1966. After benchmarking in China, India introduced the concept of SEZ in the Export -Import Policy 2000. The SEZs were conceived as a much larger and more efficient form and since all existing FTZ/ EPZ have been converted into SEZ.</p> <p>(b) By 2017 423 SEZ were operational</p> <p>(c) Between 2000-2001 and 2010-2011, India's economy surged in the number of exporting units</p> <p>(d) The Sector-wise distribution of approved SEZs shows that 64.76% shares are in formally approved SEZs from IT/ITES/Electronic Hardware/Telecom equipments sector. Other major sectors are biotechnology, Multi-product, Pharmaceuticals /chemicals and Engineering are having 17.02% shares in formally approved SEZs. 58.22% of Exporting SEZs, 129 are within IT/ITES Sector.</p> <p>(e) The exports growth has been volatile from 51.55% in 2006-2007 to 121.40% in 2009-2010 to 12.05% in the year 2016-2017.</p> <p>(f) Employment grew at the rate of 49.61% in 2007-2008. Declined in 2008-2009 to 25.41% while it increased to</p>

<sup>2</sup> Zeng, D. Z. (2015). Global experiences with special economic zones: Focus on China and Africa. *Policy Research Working Papers*. <https://doi.org/10.1596/1813-9450-7240>

Country	Impacts of SEZ
	<p>46.89% in 2010- 2011. Thus SEZs have generated employment of 18, 23,451 employees in 2017-2018.</p> <p>(g) After establishment of SEZ Act in 2005 Investments in the SEZs increased from USD 489,910,914 in February 2006 to USD 54,488,257,002. in 2017-2018.<sup>3</sup></p>
<b>Philippines</b>	<p>(a) The Philippines hosts well over 300 economic zones administered by the 18 different investment promotion agencies which have contributed significantly both to FDI inflows and to exports.</p> <p>(b) The Philippines Economic Zone Authority (PEZA) alone owns three ecozones and administers the incentives for over 300 privately-managed zones which includes 21 agro-industrial economic zones, 216 IT parks and centres, 64 manufacturing economic zones, 19 tourism economic zones, and two medical tourism zones (as of May 2015).</p> <p>(c) PEZA is one-stop, non-stop service.<sup>4</sup></p> <p>In summary “the Philippines, for example, has had major success (300-plus zones, 3 million employed, 85% of exports from the SEZs) with a completely private program.” <i>World Bank Report: Special Economic Zones: Comparing Performance and Learning from Global Experience</i></p>
<b>Bangladesh</b>	<p>(a) Before the SEZ regime Bangladesh had only 50 garment factories but after establishment of SEZ, Bangladesh has over 4,500 garment manufacturing units, employing almost 2 million workers (50 percent of the industrial workforce in the country), and contributing 75 percent of the country’s total export earnings.</p> <p>(b) In 2009, the EPZs accounted for 15 percent of FDI in-flows while Exports were at US\$2.5 billion by 2008.<sup>5</sup></p>
<b>Morocco</b>	<p>(a) Morocco first enacted its SEZ law in 1995 which provided for legal framework to establish Tangier Med Special Agency (TMSA), as its first dedicated SEZ authority in 2002. The SEZ law provides for various incentives to foreign investors.</p> <p>(b) The first SEZ zone was primarily focused on the automotive industry and engage the Moroccan Industry Association for Automotive Producers (AMICA) to focus on training and vocational development.</p> <p>(c) By 2018, the six SEZs in the Tangiers area (which are all managed by TMSA) were hosting over 470 firms, having created 70,000 jobs with a total private industrial investment of USD 3.5billion.</p> <p>(d) In 2016, Morocco amended the previous 1995 legislation and committed to creating new SEZs in all 12 regions. This new legislation aimed to create sector-oriented zones that</p>

<sup>3</sup> Pimple, V. (2019). A STUDY OF PERFORMANCE OF SPECIAL ECONOMIC ZONES (SEZS) IN INDIA. *Chronicle of the Neville Wadia Institute of Management Studies & Research*.

<sup>4</sup> Mugano, G. (2021). Guidelines for Special Economic Zones Development and collaboration: Evidence from Asia. *Special Economic Zones*, 79–96. [https://doi.org/10.1007/978-3-030-82311-5\\_4](https://doi.org/10.1007/978-3-030-82311-5_4)

<sup>5</sup> World Bank Report: Special Economic Zones: Progress, Emerging Challenges, and Future Directions

Country	Impacts of SEZ
	<p>interconnectedness between different firms operating the same zone. The new law is part of Morocco's strategy to strengthen its manufacturing capabilities and is part of the Industrial Acceleration Plan launched in 2014.</p> <p>(e) The impact of SEZs on Morocco's industrial sector is noted by SEZ contribution to GDP and in 2017 it contributed 25% of Morocco GDP.<sup>6</sup></p>

Source: JICA Study Team data sourced from secondary data sources.

The World Bank Report "*Special Economic Zones Progress Emerging Challenges and Future Directions in Development in 2019*" points out the following:

- Currently SEZs are well developed across Africa and are present in 47 of the 54 countries and in 2019, it was estimated that there were 189 operating SEZs in Africa. It is noted that Morocco, Egypt, Nigeria and South Africa developed strong SEZs programmes. While Eastern Africa accounts for the largest share of the total SEZs in the continent (29% of the total), followed by Northern Africa (28%) and Western Africa (19%). Southern Africa and Central Africa have a smaller number of SEZs, accounting for 15% and 8% of the total respectively.
- In regard to policy makers, institutional investors and international financing institutions it is crucial that zones performance data is clear, more readily available and comparable. It is desirable that the impact of Economic Zones on trade, jobs creation and FDI be outlined and evaluated.

The UNCTAD Report "*World Investment Report in 2019: Special Economic Zones*" reports as follows:

- The SEZ boom is part of a new wave of industrial policies and a response to increasing competition for internationally mobile investment.<sup>7</sup> This has resulted to growth in foreign direct investment (FDI), exports, and employment. SEZs have given a significant boost to FDI flows to Africa which increased by 11% in 2018 to \$46 Billion. In many African countries, SEZs account for significant share of country FDI, for example, it is 21% and 10% in South Africa and Kenya respectively.<sup>8</sup> SEZs can influence the type of foreign investment especially in high-technology and professional sectors. Sectors located in SEZs can be linked with high economic growth rates and investment return.
- SEZs have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 5 years, more than 60 million jobs have been created, the majority in Agro processing instead of traditional farming. Zones have created direct jobs and indirectly through supply chains in construction, manufacturing, mining and utilities and in highly skilled sectors such as telecommunications and

<sup>6</sup> Rifaoui, A. (2021, May 11). Special economic zones in Africa (SEZs): *Impact, efforts, and recommendations*. Infomineo. Retrieved October 14, 2022, from <https://infomineo.com/special-economic-zones-in-africa-impact-efforts-and-recommendations/>

<sup>7</sup> UNCTAD/WIR/2019 World Investment Report 2019: Special Economic Zones

<sup>8</sup> Africa Free Zones Organization (2020) Africa Economic Zones Outlook Report

digital products. SEZs can be linked with increased labour productivity and skills improvement.<sup>9</sup>

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

#### 1.2.4 Salient features of SEZ

Countries that have implemented SEZ schemes successfully, applied the following salient features:

- (a) Gradualism with an experimental approach.
- (b) Strong commitment by Government and Private Sector.
- (c) Active, pragmatic facilitation by public institutions.
- (d) Effective public-private partnerships.
- (e) Clear preferential policies and broad institutional autonomy.
- (f) Increased attraction of both foreign and domestic direct investment including the participation of Diaspora.
- (g) Clear goals, vigorous benchmarking and monitoring.
- (h) Fostered competition.
- (i) Integrated business value chains and social networks.
- (j) Continuous technology learning and upgrading.<sup>10</sup>

## **2.0 Situational Analysis**

### 2.1 General Socio-Economic Challenges in EAC

The EAC region had been noted as among the 20 fastest growing economies in the world from 2006 to 2010.<sup>11</sup> In 2019, East Africa was still the fastest growing region<sup>12</sup> with Burundi, posting a 3.3% growth in real GDP; Real GDP of Kenya was at 5.5%; Real GDP of Rwanda was at 8.7%; Real GDP growth of South Sudan was 5.8% ; Real GDP growth of Tanzania was at 6.8% and Real GDP growth for Uganda economy reported strong growth in 2019, estimated at 6.3%. According to EAC Facts and Figures report (2020), the EAC region had an estimated population of 180 million with an average real per capita GDP of US\$ 278.1 billion in 2020. Other facts are as follows:

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<sup>9</sup> Africa Free Zones Organization (2020) Africa Economic Zones Outlook Report

<sup>10</sup> World Bank Working paper, (Douglas Zihua Zeng No.5583, March 2011)

<sup>11</sup> IMF report on Regional Economic Outlook for Sub Saharan Africa; "Recovery and New Risks", April 2011

<sup>12</sup> UNECA and TMEA, Creating a unified Regional Market: Towards the Implementation of the African Continental Free Trade Area in East Africa

- a) *The total trade for EAC declined by 6.08 percent to US\$51,915 million in 2020 from US\$55,278.2 million in 2019. Total exports from the region in the same period increased by 3.15 percent to US\$16,257 million from US\$15,760.8 million in 2019... While total intra-EAC Exports decreased by 7.37 percent in 2020. This decline in exports was due to the COVID-19 pandemic which reduced manufacturing output and slowed down economic activities. On the other hand, total EAC imports decreased by 9.77 percent to US\$35,658 million in 2020 from US\$39,517.50 million in 2019. The relative decline in EAC imports between 2019 and 2020 was a result of the COVID-19 pandemic which reduced trading activities with import partners, mainly China, India and the EU. In addition, the intra-EAC total imports declined by 3.71 percent during the year under review.<sup>13</sup>*
- b) *In addition, disruptions in supply chains affected food production and trade distribution in the region. Inflation rose from 4.0 per cent in 2019 to 4.5 per cent in 2020; partly due to currency depreciation and increase in prices of imported food products. Current account deficit widened to 5.7 per cent in 2020 from 5.2 per cent recorded in 2019, partly attributed to low demand for exports and decline in remittances.”<sup>14</sup>*

The table below is a computation on trade (export and imports) of EAC Partner States.

**Table 1-2: EAC Partner States' Trade Status**

Country Partner State	Export (in Million US\$)		Import (in Million US\$)		EAC Intra-trade (Export in Million US\$)		EAC Intra-trade (Import in Million US\$)	
	2019	2020	2019	2020	2019	2020	2019	2020
Burundi	203.40	153.42	934.00	909.81	14.60	16.91	140.80	172.23
Kenya	5,838	6,021	17,646	15,406	1,370.2	1,476.6	607.9	506.2
Rwanda	1,166.7	958.4	2,574.2	2,632.82	140.2	54.42	586.6	905.1
South Sudan	8.82	7.39	777.09	35.84	6.8	6.76	225.9	4.44
Tanzania	9,054.67	8,516.52	5,003.76	6,066.07	674.4	812.5	329.2	324.3
Uganda	4,095.66	4,147.82	7,753.79	8,250.51	956.2	822.7	1,270.1	1,641.0

Source: JICA Study Team data sourced from Draft EAC Trade and Investment Report 2020

However, even as the EAC Partner States are making significant economic progress, Partner States still face some socio-economic challenges because of low levels of development in key sectors such as Agriculture, Industry and Services. This is due to:

- i. low levels of technology,
- ii. lack of a successful modern entrepreneurial cadre,
- iii. inadequate fixed capital formation,
- iv. inadequate industrial base,
- v. inefficient industrial production,
- vi. poor infrastructure,
- vii. low level of value addition,
- viii. cumbersome and costly licensing procedures and bureaucracy,
- ix. difficulties in accessing land, and
- x. limited scope of activities allowed in existing investment promotion schemes.

<sup>13</sup> Draft EAC Trade and Investment Report 2020

<sup>14</sup> Kenya National Bureau of Statistic, "Economic Survey 2021" 2021

The above challenges have caused the following effects to the economy:

- I. High trade imbalance,
- II. Low forex earnings,
- III. High dependence on imports,
- IV. Dependence on low value exports,
- V. Low productivity, and
- VI. High cost of doing business

In addition, where investment incentives are provided in the EAC Partner States, those incentives are not harmonized. As a result, the region has not been able to attract sufficient investment, and also, export earnings have remained low. Africa Trade Report 2020 notes:

Intra-regional trade accounted for 14.4% (\$147.8bn) of total African trade in 2019. Though slightly down from 15% (\$156bn) in 2018, this represents an increase of seven percentage points over the last three decades, when intra-African trade accounted for just 7.5% of total African trade (\$11.9bn). Manufactured goods – such as machinery and mechanical appliances, vehicles, electrical equipment, and plastics remain key components of intra-African trade, accounting for around 20%. South-Africa continues to be the largest intra-African trading nation and the most significant nation in the promotion of cross-border trade, accounting for 23.1% of the total in 2019. The Democratic Republic of Congo, which accounted for 7.7% last year, emerged as the second largest intra-African trading nation, overtaking Nigeria.<sup>15</sup>

UNECA and TMEA, Creating a unified Regional Market: Towards the Implementation of the African Continental Free Trade Area in East Africa Trade Report 2020 notes:

In East Africa, the rise of China and India as a source of imports may be good news for consumers, who now pay lower prices for many consumption goods coming from Asia, and for producers importing cheaper capital goods. However, it also implies greater competition in domestic markets, especially for local manufacturers. Around 45 percent of manufactured goods imports into the region were from China and India in 2017 (UNCTADStat, 2019). Between 2013 and 2017, East Africa sustained an average trade deficit of around USD 11 billion with China and USD 6 billion with India (i.e., almost a half of the region's total trade deficit over that period). By contrast, regional trade within Africa has tended to boost both exports and diversification (ECA, 2018d) ... East Africa still suffers from multiple vulnerabilities that could compromise longterm economic growth and imperil developmental prospects. Growth in most regional economies is excessively dependent on domestic demand. While investment levels have improved, they are still insufficient to attain the ambitious growth targets set in national development plans.<sup>15</sup>

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<sup>15</sup> Africa Trade Report 2020



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Moreover, regional economies exhibit a lack of structural transformation (Martins, 2017) and sustain large trade deficits that act as impediments to sustained economic growth and development (Thirlwall, 2011; Hussain, 1999). Crucially, the regional economy is still highly fragmented, with low levels of intra-regional trade and investment (ECA, AUC and AfDB, 2017).<sup>16</sup>

In addition, the analysis highlights several issues: that EAC Partner States trade more on goods with the rest of the world than between themselves. It is thus observed that:

- a) EAC Partner States trade more with non-African countries than with African countries;
- b) there is unbalanced intra-EAC merchandise exports in the region;
- c) intra-EAC merchandise imports is very small, and the Partner States do not import much from the African continent including the regional trading blocs (COMESA and SADC) to which the seven Partner States belong.

UNECA and TMEA Report 2020 states “East African countries the share of imports sourced from elsewhere on the continent has actually been declining over the past decade, especially in the cases of Uganda and Tanzania, where it has practically halved since the early 2000s. These trends are partly explicable by the sharp rise in competing imports from developing countries in Asia... For instance, the unbalanced growth of East African trade with China and India resulted in deficits of around USD 16 billion in 2017, which is almost half of the region’s overall trade deficit”<sup>17</sup>

Special Economic Zones are expected to be effective tools to substantially address economic and social challenges facing EAC Partner States through enhanced investments and manufacturing.

## 2.2 Special Economic Zones Initiatives in Partner States

The EAC Partner States have introduced SEZ program in the recent past and are currently at varying levels of implementation. Recent study on *Assessment of EAC Partner States’ SEZ Policy Frameworks* established the following status:

### **1) Burundi**

Burundi is in the process of enacting the SEZ law. SEZ is yet to be operationalized but once operational it will offer very attractive fiscal and non-fiscal incentives. The Free Zone law, No. 1/3 of 31 August 1992 was legislated in 1992, and subsequently amended in 2001 vide Law No. 1/015 of 31 July 2001, establishing the Free Zone Regime.

Notably, the development of Special Economic Zones has been recommended by the National Development Plan (PND 2018 -2027) and the National Industrialization Policy.

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<sup>16</sup> UNECA and TMEA, Creating a unified Regional Market: Towards the Implementation of the African Continental Free Trade Area in East Africa

<sup>17</sup> UNECA and TMEA, Creating a unified Regional Market: Towards the Implementation of the African Continental Free Trade Area in East Africa

A Special Economic Zone was established in 2017 in Warubondo by decree n°1001/29 of February 16, 2017, but it is yet to be operationalized. A law governing the SEZ sector is currently being drafted and it is targeted to be operationalized at the end of 2022.

The location of the SEZ is in the province of Bujumbura, Mutimbuzi district in the Gatumba locality.

The Warubondo site which will host the Special Economic Zone covers an area of 5.43 km square on a territory of 536 hectares.

To the north and west, it is bordered by the Rukoko reserve. The roads in the location are not tarmacked and the area is affected by flooding.

Also, an identification study of industrial attraction areas in the country is planned, which can be finished before the end of 2022.

**a) Trade**

In Tree Zone More than 80% of the export value is dominated by 5 products namely tea, wheat flour, cigarettes, coffee and beer.

**b) Investment**

Statistical data on investments in the free zone are not readily available. However, Investment continues to increase in this area.

**c) Employment**

According to the report of the study on the revision of the law on the Free Zone in Burundi, in 2015, 280 jobs were estimated to have been created.

**2) Kenya**

There is an SEZ policy and legal framework namely: SEZ Policy 2010, Special Economic Zones Act, No. 16. of 2015, SEZ Regulations 2016. Under these legal frameworks Special Economic Zone Authority (SEZA) was established as the Competent Authority that grants licenses to operate in SEZ either as a Developer, Operator or Enterprise.

The SEZ legal framework provides general and specific incentives (fiscal and non-fiscal) to the SEZ Developers, Operators and Enterprises. The following SEZ impacts were noted:

**a) Trade**

Export: In Kenya, there has been a rapid growth of exports from SEZ in the last five years. For example, in 2021, exports were estimated at USD 43.3 million compared to 2020 which was at USD 22.9 million. The implementation of SEZ program is at infancy stage and therefore the data provided was just for the two years of operation.

The EPZ has recorded substantial exports which has been increasing since 2010 (sales stood at \$ 366.1M)) whereas in 2017 estimated sales was 587.3millions while in 2020 sales were estimated at \$696M.

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## **b) Investment**

Notably data also showed that most of the SEZs were still under construction and therefore the data on investment was not readily available.

EPZ on the other hand records shows that Foreign Direct Investment (FDI) has also been increasing in the last 10years. Records from EPZ show that in 2010 FDI was estimated at \$366.3M whereas in 2020 it stood at \$453.9M. While Domestic Direct Investment (DDI) is also recorded to be improving for example DDI in 2021 was \$1.2M, in 2020 it was \$1.7M, in 2019 it was \$3.1M whereas in 2018 it stood at \$1.4M.

## **c) Employment**

Employment: The SEZs employed 142 persons both local and expatriate compared to 67 persons employed in 2017. Data revealed that most SEZ firms were at the onset of operationalization and the persons employed by the SEZs received cumulative salary of USD 3.7 million compared to USD 2 million in 2017.

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

## **3) Rwanda**

There is an SEZ policy and legal framework in Rwanda namely: Special Economic Zone Policy 2011 (amended in 2018) and Law Regulating Special Economic Zones in Rwanda, No.05/2011 of 21/03/2011.

The SEZ legal framework established Rwanda Special Economic Zones Authority (SEZAR) which operates under Rwanda Development Board (RDA). SEZAR is tasked with management of SEZ in Rwanda and this includes licensing of the SEZ Developer, Operator and Enterprises.

Currently, Rwanda has 2 SEZs and 8 Industrial Parks with over 120 enterprises operational. The two SEZs are: Kigali SEZ: operated as a public-private partnership in cooperation with Prime Economic Zones (PEZ) a Rwandan firm is the operator and Bugesera Special Economic Zone which is under construction. This zone has attracted attention of at least 20 investors.

The SEZ legal framework provides general and specific incentives (fiscal and non-fiscal) to the SEZ Developers, Operators and Enterprises. The following SEZ impacts were noted:

### **a) Trade**

Export: The Kigali Special Economic Zone (KSEZ) is made up between 4.5-10% of all national exports and appears to have successfully catalyzed Rwanda's export promotion. KSEZ is an important source of non-traditional export products and has expanded the scope of product types exported.

### **b) Investment**

FDI and DDI: According to JICA Study Team Survey Report the two SEZ in Rwanda for the year 2021 were able to attract FDI and DDI of approximately USD 3 billion.

Notably from 2015 to 2019, the KSEZ attracted USD 665.8 million in investments generating USD 349.2 million in export revenues.

### **c) Employment**

Employment: SEZ in Rwanda play significant role in job creation. According to JICA Study Team Survey Report 2021, reports that in the year 2021 SEZ employed 13,394 persons and notably majority of this employees were women.

## **4) South Sudan**

The Ministry of Trade and Industry, as the lead agency in the implementation of the SEZ program has incorporated the SEZ concept in its strategic plan. Currently there is no SEZ policy nor legal framework has been established. The strategic plan provides for both foreign and domestic firms to operate the envisaged SEZs. Currently no SEZ is operational in the country.

Presently the Southern Sudan Investment Authority is responsible for the setting up of export processing zones and special economic zones. The government of South Sudan in 2013 officially launched the establishment of the Juba SEZ, which is an industrial area for business and investments activities it sits on a 625 square km land and is located about 30km from the South Sudan capital. JUBA SEZ is characterized by limited physical infrastructure (Roads, Railways) to facilitate movement of goods and services for production and productivity.

## **5) United Republic of Tanzania**

Tanzania mainland

There is a legal framework for establishment of SEZ under the Special Economic Zones Act, Chapter 420. This Act was revised in 2021. Currently, SEZs are under the management of the Export Processing Zone Authority (EPZA) which is responsible for steering and implementing government policy on promotion of Special Economic Zones (SEZ)..

EPZA also take the lead in the development of SEZ infrastructure, provision of business services to SEZ investors, and issuing of SEZ licenses. Currently there are both public and private SEZ in Tanzania.

Public SEZ: Benjamin William Mkapa (BWM) SEZ established in 2006 and thereafter MITI established Tungi SEZ. The others areas that are planned: Coast, Morogoro, Iringa, Njombe, Mbeya and Songwe Regions, Bagamoyo, Mtwara, Kigoma, Tanga, Ruvuma, Dodoma and Manyoni, and the Kurasini Logistic Centre, Bunda, Geita, Nyashimbi, Manyara, Simiyu & Hifadhi.

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Private SEZ: Star City SEZ located in Morogoro region which is a JV between Dominion Plantation Ltd from Tanzania and Hyflux Limited from Singapore; Vigor SEZ Project in Kisarawe Coast region being developed by Turkey Group of Companies; and Bagamoyo SEZ which is being developed by JV of China Merchants Ports Holding Company of China and the State General Reserve Fund (SGRF) of Oman.

The SEZ legal framework provides general and specific incentives (fiscal and non-fiscal) to the SEZ Developers, Operators and Enterprises under EPZ and Free Port Scheme. The following SEZ impacts were noted:

**a) Trade**

Export: According to JICA Study Team Report, trade in terms of export has improved significantly in Tanzania in the last 10 years. In 2010 exports from SEZ were estimated at USD 300 million and increased to USD 2,219 million in 2019 and further increased to USD 2,286 million in 2020.

**b) Investment**

Foreign Direct Investment (FDI) as a result of SEZs has also been increasing, in 2010 it was recorded at USD 560 million and it increased to USD 794 million in 2014 and again it increased to USD 2,242 million in 2019 and it further increased to USD 2,316 million in 2020.

**c) Employment**

The rate of employment has increased to over 82% since the establishment of SEZs. In 2014 SEZs recorded employment of 21,493 persons and this increased to 56,312 persons in 2019.

**Zanzibar**

The legal framework for establishment of Free Economic Zones (FEZ) under Zanzibar Investment Promotion and Protection Act No. 14 of 2018 which is currently under amendment. The Zanzibar investment Promotion Authority (ZIPA) as a custodian of the free economic zones readily offers plots for lease for potential investors.

Currently, Zanzibar has five (5) free economic zones which are Amani Industrial Park, Maruhubi Free Port, Airport Free Port (Abeid Amani Karume), Fumba Zone, Micheweni-Pemba Zone as per the presidential Orders No. 5 and No. 29 of 1993, No. 61 of 2000 and No. 14 of 2004. ZIPA has a power to administer both EPZ and SEZ.

FEZ which sometimes known as Special Economic zones (SEZ) have been established purposely to attract investment especially FDI, specifically targeting labour intensive project and to increase exports. Same for Zanzibar, the SEZ legal framework provides general and specific incentives (fiscal and non-fiscal) to the SEZ Developers, Operators and Enterprises under EPZ and Free Port Scheme

## 6) Uganda

The Free Zones Act, 2014, provides for Free Zones which include Export Processing Zones (EPZs), Free Ports (SEZs) and other related Zones. Due to the limitation on the number, and type of Schemes, in the current legal and regulatory framework, the Free Zones Act, 2014, is under review to provide for a wide range of schemes to be provided under the SEZs.

The Uganda Free Zone Authority (UFZA) is the regulatory body established in 2014 to oversee the establishment, development, management, marketing, maintenance, supervision and control of free zones, and to provide for other related matters. UFZA is under the supervision of the Ministry of Finance Planning and Economic Development (MoFPED).

The legal framework for Free Zones provides general and specific incentives to the Zones Developers, Operators and Enterprises.

Uganda operates the different types of SEZs in accordance with Article 29, and Article 31 of the Protocol on the establishment of the EAC Customs Union on Free Ports and EPZs. The Free Zones scheme in Uganda is majorly dominated by Private Free Zones operated in accordance to the Free Zones Act, 2014 and by the end of the FY2021/22, Uganda had gazetted twenty nine (29) private free zones. Under funding by the Government of Uganda, one public free zone is currently under construction at the Entebbe International Airport and is scheduled to be completed in the FY2023/24. Plans are also underway to develop public free zones across the 4 regions of Uganda.

With the private free zones Uganda has registered the following impact:

### a) Trade

Total exports of goods in Free Zones stood at US\$1.25 billion during the FY2020/21, an increase from US\$154 million registered in FY2019/20. In FY2021/22, export earnings stood at US\$67.83 million. The decline was due to a decrease in export of high value processed mineral products.

### b) Investment

The investment levels in Free Zones grew by 9 per cent to US\$644.76 million in FY2021/22 from US\$586.28million in the FY2020/21. The cumulative capital investment in Free Zones stood at US\$1.54 billion by end of the FY2021/22.

### c) Employment

Total employment in Free Zones by the end of FY2021/22 stood at 9,861 jobs, a growth by 7.5 per cent from 8,389 jobs, generated in FY2020/21.

### d) Local Purchases and Subcontracting

The expenditure on local purchases in FY2021/22 was US\$7.47 million compared to US\$6.09 million in FY2020/21. Specifically, expenditure on subcontracting activities in FY2021/22 was US\$1.05 million compared to US\$522,114 in FY2020/21.

Uganda is also implementing industrial parks/business parks majority of which are owned by Government and a few by the Private sector. These are currently not operating under the EAC framework for SEZs but on national initiatives to promote import substitution. The industrial parks are under development by the Uganda Investment Authority (UIA) which among others provides serviced industrial land. The current national plan is to develop over 22 industrial parks across the country.

### 2.3 Special Economic Zones in EAC

By the end of the year 2021 Partner States had established SEZs at various locations. Notably there are about 23 gazetted SEZs in the EAC across the Partner States as at the end of 2021.

### 2.4 Existing EAC Laws and Regulations on Special Economic Zones

The Protocol on the Establishment of the EAC Customs Union in 2004 mentions Special Economic Zones under Part G. However, implementation details are limited to Free Ports only. The Protocol further provides for establishment of 'other Special Economic Arrangements' by Partner States. The following table summarizes the relevant sections of the EAC legal framework that relate to Special Economic Zones:

**Table 2-3: Legal Framework for SEZ within various EAC Laws**

Existing Legal Framework	Relevant Sections	Summary of the Section
The Protocol on the Establishment of the EAC Custom Union.	<ul style="list-style-type: none"> <li>- Article 25(3) on principles of Export Promotion Schemes</li> <li>- Article 29 on Export Processing Zones</li> <li>- Part G: - Special Economic Zones</li> <li>- Article 31 on Freeport and</li> <li>- Article 32 on other special economic arrangements</li> </ul>	<p>Limit of sale from EPZs into customs territory of 20% of annual production of a company</p> <p>Partners states may provide for the establishment of export processing zones, freeports and other special economic arrangements</p>
	<ul style="list-style-type: none"> <li>- Annexes to the Protocol on the Establishment of the EAC Customs Union.</li> <li>- Annex VII to the EAC Protocol on the EAC Customs Union (EPZ) Regulations</li> <li>- Annex VIII to the EAC Protocol the EAC Customs union Freeports operations regulations</li> </ul>	<p>Uniformity among Partner States in the implementation of EPZ and Freeport operations in ensuring transparency, accountability and consistency with the provisions of the protocol</p>
The EAC Customs Management Act 2004	Part XIV, Section 167-170 on Export Processing Zones and Freeports	Customs treatment of goods within Export Processing Zones and Freeports including the exemption of duty in accordance with the Protocol

Existing Legal Framework	Relevant Sections	Summary of the Section
	<ul style="list-style-type: none"> <li>- The EAC Customs Management Act Regulations, 2006</li> <li>- Part XIV, Section 169-178 on Export Processing zones,</li> <li>- Part XV, Section 179-184 on Freeports.</li> </ul>	Explains the control of goods within an Export Processing Zone. Explains permitted activities in Freeports and removal of goods in a Freeport.

Source: JICA Study Team

## 2.5 Current regional Limitations to the development of the SEZ Frameworks

EAC Partner States have embraced the SEZ programs in order to attract investment to address socio-economic challenges. However, the full benefit is yet to be realized due to overall limitations resulting from lack of harmonized policy, legal and institutional frameworks. These include policy related, Legal and Institutional limitations in EAC Partner States:

- (a) limited types of Special Economic Zones Schemes.
- (b) differing SEZ schemes and incentives
- (c) differing eligibility and licensing criteria
- (d) limitation on access to domestic market in existing schemes
- (e) lack of streamlined financing mechanism and inadequate participation of financial markets in supporting SEZ development
- (f) inadequate institutional framework for SEZ infrastructure development in the Partner States
- (g) Limited access to strategic land
- (h) Conformity with global environmental Standards
- (i) ineffective mechanism for engaging private sector in the development of SEZ.
- (j) unintegrated value chain with limited backward and forward linkages
- (k) Bureaucracy and inadequate coordination mechanism.

In view of the above limitations, the EAC Partner States should aim at addressing all the above challenges so that SEZs can fully contribute to socio-economic development. The strategy adopted in this policy is to have a harmonized EAC SEZ policy and appropriate legal provisions in EAC Customs Laws.

### **3.0 Benefits Associated with the SEZ Policy**

This policy is intended to establish a clear and collectively shared strategy for review of the scope, and harmonization of the SEZ program in the EAC.

A range of benefits are associated with this policy, with the major one being to guide the formulation of strategies and legal frameworks for implementation of SEZ schemes at Partner States level. This policy provides for:

- (a) Expanded range of special economic zones schemes.
- (b) Harmonized SEZ incentives and eligibility criteria across EAC Partner States.



- 
- (c) Access to domestic market subject to fulfilment of the harmonized conditions applicable under SEZs.
  - (d) Structure for integrating value chains
  - (e) Solutions to environmental challenges associated with SEZ development.

The envisaged benefits from the implementation of the SEZ policy include: -

- (a) Increased Foreign Direct Investments (FDI)
- (b) Industrialization through value addition of local resources
- (c) Integrated economic development through sector value chains and spatial concentration of infrastructure development activities within each SEZ
- (d) Promotion of industrial cluster development
- (e) Increased use of local infrastructure such as ports, airports, broadband telecommunications, roads, and rail
- (f) Development of new enterprises through increased investment in productive assets
- (g) Creation of direct and indirect employment
- (h) Increased foreign exchange earnings
- (i) Expanded forward and backward linkages with local and regional economy
- (j) Expansion of export market and diversification of export of goods and services
- (k) Increased technology transfer and innovation
- (l) Technological, managerial and entrepreneurial skills development
- (m) Promotion of growth of SMEs

## **4.0 Vision and Mission Statement**

### *4.1 Vision*

EAC to be the most attractive investment destination, through establishment of SEZs with liberal economic laws, high quality infrastructure, fiscal and non-fiscal incentives, contributing to the attainment of the development goals of the Partner States.

### *4.2 Mission Statement*

To promote a conducive business environment, that facilitates diverse SEZ related investments for sustainable economic growth and development in the EAC Partner States.

## **5.0 SEZ Policy Objectives**

The overall Policy objective is to provide for establishment and development of competitive SEZs.

Specific objectives are to:

- (a) provide guidance to Partner States on development and harmonization of legal, regulatory, and institutional frameworks for SEZs in EAC;
- (b) provide a common SEZ concept with standardized definitions and terms across EAC to enable Partner States to implement broad-based and flexible SEZ programs for economic development;

- (c) provide guidance on establishment of harmonized fiscal incentives provided under each SEZ Scheme within EAC Partner States;
- (d) To promote domestic and foreign direct investment;
- (e) To provide guidance on conditions for domestic market access for SEZ goods.

## **6.0 Guiding Principles**

The following are the core principles that will guide the implementation of the EAC SEZ Program. Partner States shall:

- (a) adopt harmonization of SEZ programs within EAC Partner States.
- (b) allow access to the domestic market subject to fulfilment of the harmonized conditions.
- (c) promote participation of the private sector including SMEs in SEZs.
- (d) promote innovation and transfer of technology within SEZs.
- (e) promote backward and forward economic linkages with SEZs.
- (f) uphold Environmental conservation laws and regulations to SEZs.
- (g) prescribe incentives to strategic investments to SEZs.

## **7.0 Priorities in SEZ Policy**

### 7.1 Harmonization of SEZ Concept

The SEZ concept shall provide an integrated package of features for attraction of beneficial investment into SEZs within Partner States. These features shall include the following:

- (a) Legally designated geographical areas.
- (b) Well-developed infrastructure suited for economic activities taking place therein.
- (c) Various special economic zones schemes which promote and facilitate investment in specific economic sectors.
- (d) Economic and other laws that are more free-market-oriented.
- (e) Streamlined investment and administrative procedures.
- (f) Allowing either or both Customs Controlled Areas and Non-Customs Controlled Areas.
- (g) Fiscal and non-fiscal incentives to licensed SEZ firms.
- (h) Access to domestic markets subject to fulfilment of the harmonized conditions applicable under each SEZ scheme including payment of duties and other applicable taxes and charges to provide for effective safeguard to firms operating within the EAC Customs Territory.

The EAC SEZ concept in this policy provides for a wide variety of economic zones schemes from which a Partner State can determine what to prioritize and implement. The size and scope of these zones vary greatly as do the specific economic activities that take place in them. The eligible schemes in SEZs include but not limited to the following:

- 
- (a) Export Processing Zones<sup>18</sup>
  - (b) Free Zones
  - (c) Free Trade Zone (FTZ)
  - (d) Freeport
  - (e) Industrial Park
  - (f) Agricultural Zone
  - (g) Educational Zone
  - (h) Financial Services Zone
  - (i) ICT Park
  - (j) Regional Headquarters Zone
  - (k) Science and Technology Zone
  - (l) Tourism and Recreational Zone
  - (m) Business Service Park
  - (n) Convention and Conference Zone
  - (o) Livestock Zones

EAC Partner States may review the above list to accommodate additional zones.

### 7.2 Development of EAC Governing Instruments

Relevant policies within the EAC should enhance synergies and complementarity in order to entrench SEZs in the region. In pursuance to this, the existing governing instruments require amendments and enhancement as follows:

- a) Amendment of EAC Protocol on the Establishment of the East African Customs Union to address the principles of SEZ programme
- b) Development of EAC SEZ Regulations, to guide the operationalization of provisions of EAC Customs Union Protocol and to ensure that there is uniformity among Partner States in the implementation of provisions of SEZs
- c) Amendment of EACCMA to fully operationalize SEZ programme
- d) Development of the EAC Customs Union SEZ operations manual to guide the implementation of SEZs programmes
- e) Any other action agreed by Partner States.

### 7.3 Institutional Framework for SEZs at Partner States

Respective Partner States shall establish or designate Competent Authorities to coordinate and manage the implementation of SEZ programme in line with their own legal framework. The Partner States shall adequately fund the respective

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<sup>18</sup> Globally, Export Processing Zones (EPZ) are considered as a type of SEZ. For purposes of this SEZ Policy in EAC, EPZ scheme shall be included with specific provisions as per the existing EAC Customs Union Protocol under Article 29. In addition, EPZ legal and policy framework in the EAC are clearly stipulated in the EAC Customs Laws.

institutional framework and structure towards SEZ development, operation and management.

#### 7.4 SEZ Eligibility Criteria

Respective Partner States shall define in their national legislation clear criteria and procedures for identification and designation of a geographical area as an SEZ. Such criteria shall include the items as follows:

- (a) Minimum land size and tenure,
- (b) Environmental standards,
- (c) Investment thresholds,
- (d) Location and physical planning requirements,
- (e) Minimum infrastructure development standards suited for the economic activities planned for the area.

#### 7.5 Harmonization of Fiscal and Non-Fiscal Incentives

The SEZ programme will provide for both general and specific incentives covering fiscal and non-fiscal for investments in the SEZ schemes as follows:

- (a) Fiscal Incentives:

These are designed to reduce investment costs and operational costs to new investment and reinvestments through tax exemptions or reduction of taxes and permit fees payable by enterprises and developers.

Goods entering an SEZ shall be granted total relief from payment of duty and any other import levies.

Import duties and levies for imports into an SEZ shall be harmonized.

Other fiscal incentives shall be as determined by the respective Partner States

- (b) Non-fiscal incentives:

In addition to fiscal incentives respective Partner States shall prescribe the non-fiscal incentives.

#### 7.6 Enhancement of regional value chains and domestic market access for SEZ goods

In order to maximize the use of local resources in value addition, consideration of local content in SEZ goods shall be made in determination of taxation on entering the domestic market.

With exception of goods from EPZs, goods from SEZs shall have 100 percent market access to the domestic market subject to payment of applicable import duties, on value of foreign content.

The robust forward and backward linkages shall be developed between the SEZs and local and regional economy to maximize the benefits of SEZs for EAC regional integration.

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### 7.7 Regional Competitiveness to promote domestic and foreign direct investment;

Improved regional competitiveness is expected to attract further investments to the SEZs by having attractive packages that entice foreign and domestic investment in the SEZ. Notably an effective cooperation between different levels of government agencies and private sector shall be key elements to attract significant investments. It is imperative that SEZ that for funding of the establishment of SEZ, the business model for SEZ shall be properly clarified whether it is a Government funded, Public Private Partnership (PPP) funded or Private Sector funded. In addition, before SEZ development is undertaken, it is advisable that a feasibility studies that evaluate the viability of SEZ should be conducted. Moreover, monitoring and evaluation tools shall be developed to monitor and evaluate key economic performance indicators of SEZ periodically.

## **8.0 Specific Policy Interventions**

To attain the goals, objectives and principles of this Policy, Partner States shall implement necessary interventions as prescribed below.

### 8.1 Overall SEZ Policy Action

SEZ programmes in the Partner States shall be compatible with this policy framework. The following policy actions shall guide this compatibility.

#### **Policy Actions:**

- a) Develop legal, regulatory and institutional framework for the establishment of an SEZ Competent Authority.
- b) Develop the EAC Customs Union SEZ regulations and operations Manual
- c) Develop a customs management structure that will monitor customs operations within SEZs.
- d) Develop structure for fiscal and non-fiscal incentives that encourage the use of local content in SEZs especially in the manufacturing and processing sectors.
- e) Develop market linkages both backward and forward.
- f) Develop strategy for technological transfer and skills to the local market.

## **9.0 Cross-Cutting Priorities**

### 9.1 Market Access for SEZ Goods

Although SEZ allows 100% offload of finished products to the domestic market, full taxation on these products affects competitiveness in this market thereby discouraging investment in value addition of local resources. Given that SEZ goods from COMESA countries are already accessing local market under preferential treatment, then investors prefer investing in other Regional Trading Blocs and accessing the EAC market without payment of CET.

To address this challenge and in order to facilitate adequate market access the following policy actions are recommended:

**Policy Action.**

- a) Customs taxation of finished goods from SEZ, accessing domestic market to be computed to the value of goods net of local content.
- b) Amend part G of the EAC Customs Union Protocol and the EACCMA to include the additional schemes spelt out in this Policy.
- c) Enhance transparency in the declaration of the products' local content through streamlining digitalization and monitoring the products that are offloaded from SEZ.
- d) Enhance cooperation of the revenue authorities in the region through establishing common and shared platform for customs monitoring and checks.

**9.2 Regional Trading Blocs**

Trading blocs including the Tripartite (SADC, COMESA and EAC), and Africa Continental Free Trade Area have the potential of expanded preferential markets.

These trading blocs are expected to have preferential treatment of products from Partner States, thereby making SEZ goods uncompetitive in the domestic market.

**Policy Action.**

- (a) Speed up harmonization of the EAC legal frameworks
- (b) Expedite and agree on the treatment of SEZ goods sold to the domestic market and take common position in regional trading blocs negotiations.

**9.3 Mainstreaming Environmental and Social Measures**

Environmental safeguard measures that enhance environmental sustainability for economic development shall be recognized and complied with in the SEZ legal framework for respective Partner States.

**9.4 Gender Mainstreaming and Social Inclusion**

Deliberate efforts for mainstreaming gender equality and social inclusion including consideration of the women and youth employment in SEZ in the Partner States.

**Policy Action.**

- (a) Sensitization of SEZ stakeholders on gender mainstreaming and social inclusion that enhances equal opportunities for women, youth and socially excluded groups including positions in the top management jobs.
- (b) Promote women's economic and social rights, including access to employment, appropriate working conditions and equal wage bracket

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### 9.5 Enhancing Technological and Skills Transfer:

The SEZs are expected to attract globally competitive investors. The EAC Partner States should seek to improve the quality of the labor force and invest in skills development which represents a key success factor in SEZs.

#### **Policy Action.**

- (a) Technological and skills transfer shall be enhanced through employment, training centres, training programmes and engagement with MSMEs.
- (b) Encourage establishment of an SEZ Research and Development Facility at Partner State level, to develop and nurture expertise in SEZ development.

## **10.0 Implementation of EAC SEZ Policy**

### 10.1 Requirements for implementation

To achieve the vision and policy objectives of the EAC SEZ Policy, the Partner States shall:

- (a) Spell out a set of responsibilities and modalities for implementing the EAC SEZ Policy.
- (b) Facilitate funding to support the implementation of the EAC SEZ Policy by EAC Secretariat.
- (c) Design and implement an outreach programme for raising awareness amongst regional stakeholders on the importance of a common EAC SEZ policy.
- (d) Develop and employ a monitoring and evaluation mechanism to ensure coherence between planning and implementation of the EAC SEZ Policy.

### 10.2 Institutional Framework

The implementation of this policy is the responsibility of the Partner States. For effective implementation of the EAC SEZ Policy an appropriate institutional coordination mechanism should be established incorporating Regional Focal Point and National Focal Points without violating the key provisions and spirit of EAC treaty. Among others these will include development of the implementation strategy as well as institutional, legal and regulatory framework.

#### 10.2.1 Regional Level Responsibility:

- (a) The Council shall provide policy direction and strategic guidance to the Partner States in implementing SEZ programmes in accordance with this policy.
- (b) The EAC shall establish a standing committee on SEZs to steer the implementation of the policy in the region. The standing committee shall develop its own TORs.

- (c) The membership of the standing committee shall include representatives from Ministries responsible for Trade and Industry, Finance, Private Sector Apex bodies, Customs and SEZs implementing agencies, MEACA's
- (d) Coordinate and implement EAC SEZ Policy regional outreach programme activities.
- (e) Monitor and report on the progress of the implementation of the Policy.

#### 10.2.2 National Level Responsibility:

- a) Designate the appropriate Ministry to be in charge of all policy matters related to the development of SEZs and shall coordinate with all other relevant Ministries.
- b) Designate or establish a competent authority(s) to manage the SEZ program.
- c) Nominate members to the SEZ Standing Committee.
- d) Coordinate participation of national stakeholders in the SEZ program including departments and authorities such as Customs, Immigration, Environmental management, transport, labour, Private Sector etc., to prioritize support for the SEZ program and to the competent authority.

### **11.0 Monitoring and Evaluation**

Necessary measures shall be put in place to monitor and evaluate the performance of SEZ programs, and report accordingly the results against established baseline from the situational analysis, that examines the outcomes and impact of SEZ programs.

Monitoring and Evaluation (M&E) of the implementation of this policy will be an integral part of the implementation of this policy that aims to:

- Provide requisite feedback that will be useful in guiding policy direction and to track progress.
- Provide the Sectoral Council on Trade, Industry and Investment (SCTIFI) with periodic progress reports on the implementation.
- Evaluate the implementation of this policy in accordance with the EAC Secretariat monitoring and evaluation framework.

### **12.0 Conclusion**

The SEZ policy has been developed with the purpose of providing a policy framework for the implementation of SEZ program in the EAC region. It is expected that once the policy is properly implemented, it will spur accelerated economic growth and industrialization. Therefore, substantial financial and human resources and high level of commitment will be required to mitigate the anticipated threats and challenges for the greater benefit of the EAC region.

This EAC SEZ policy is an outcome of widely consultative process involving a wide range of stakeholders and therefore captures the aspirations of the Partner States including other key stakeholders in the SEZ programs in the Partner States of EAC.



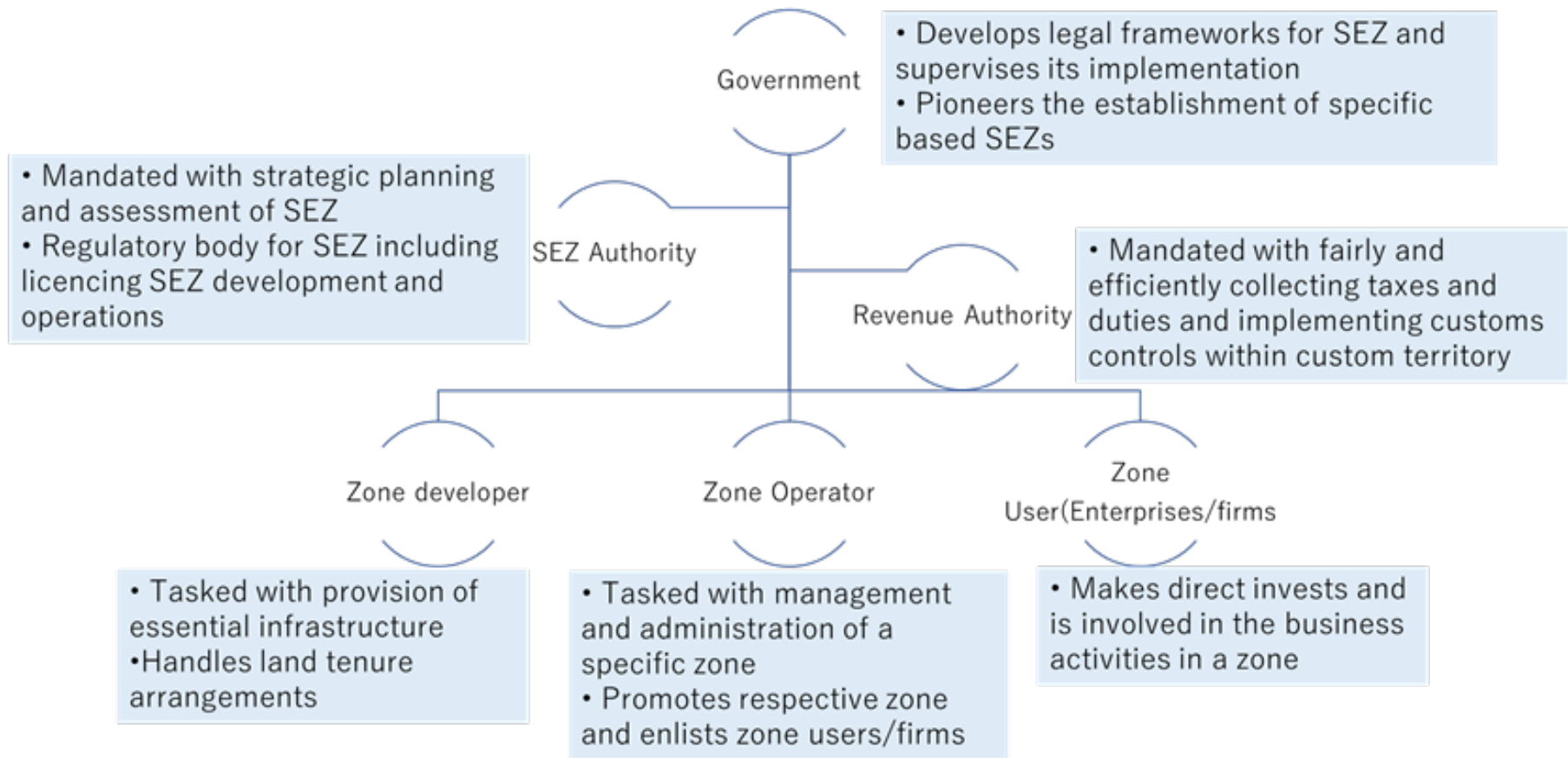
Problem Statement	Intervention Measures	Specific Actions	Timeframe	Budget (USD)	Responsible Institution
<b>Task 1: Provide for Implementation of EAC SEZ Policy</b>					
EAC SEZ Policy has been a draft since 2011	Spell out requirements for implementing the EAC SEZ Policy	a) Finalisation of the EAC SEZ Policy	2023-2024	10,000	EAC Secretariat National Focal Points (Ministry responsible of Trade Industrialization) , National T any other
		b) Develop a resource mobilization strategy for the implementation of the EAC SEZ Policy by EAC Secretariat	2023-2024	100,000	
		c) Design and implement a sensitization programme for raising awareness amongst regional stakeholders on the salient features of EAC SEZ policy.	2023-2024	100,000	
		d) Finalisation of the EAC SEZ Policy	2023-2024	50,000	
		e) Expedite and agree on the treatment of SEZ goods sold to the domestic market and take common position in regional trading blocs negotiations.	2023-2024	10,000	
<b>Task 2: Provide guidance to Partner States on development and harmonization of legal, regulatory, and institutional frameworks for SEZs in EAC.</b>					
	Development of EAC Governing Instruments	a) Development of EAC SEZ Regulations, to guide the operationalization of provisions of EAC Customs Union Protocol and to ensure that there is uniformity among Partner States in the implementation of provisions of SEZs			
		b) Development of the EAC SEZ operational manual to guide the implementation of SEZs programs			
	Legal, regulatory and Institutional Framework for	a) Respective Partner States to establish or designate			EAC Secretariat

		legal and Institutional framework.			Industrialization) , National T any other
<b>Task 3: Mainstreaming Environmental and Social Measures</b>					
SEZ are located in particular geographical locations and with a potential of negatively impacting the environment	Environmental safeguard measures that enhance environmental sustainability for economic development shall be clearly recognized in the SEZ legal framework for respective Partner States	Develop SEZ regulations that comply with environmental standards for SEZ.	2023-2024	100,000	EAC Secretariat  National Focal Points (Ministry responsible of Trade Industrialization) , National T any other
<b>Task 5: Monitoring and Evaluation</b>					
	Monitor and evaluate the performance of SEZ programs, and examining the outcomes and impact of SEZ programs	Evaluate the implementation of this policy in accordance with the EAC Secretariat monitoring and evaluation framework	2023-2033	2,000,000	EAC Secretariat
	Establish Institutional coordination mechanism for implementation of EAC SEZ Policy	Develop an implementation dashboard for monitoring implementation of the SEZ Policy	2023 -2025	50,000	EAC Secretariat
		Develop a customs management structure that will monitor customs operations within SEZs.	2023-2025	50,000	
		Enhance transparency in the declaration of the products' local content through streamlining digitalization and monitoring the products that are offloaded from SEZ.	2023 – 2027	50,000	
		Enhance cooperation of the revenue authorities in the region through establishing common and shared platform for customs monitoring and checks	2023 - 2027	50,0000	

## ANNEX 2: Sample of Key Stakeholder in an SEZ Regime

Stakeholder	Primary responsibilities
Government	<ul style="list-style-type: none"> <li>• Develops legal frameworks for SEZ and supervises its implementation</li> <li>• Select site(s) and package land / establish land use guidelines</li> <li>• Conduct initial feasibility studies</li> <li>• Pioneers the establishment of specific based SEZs</li> <li>• Select and enter development agreement with developer</li> <li>• Develop offsite infrastructure</li> <li>• Training / workforce development and social services</li> </ul>
Competent Authority	<ul style="list-style-type: none"> <li>• <i>Designate SEZs</i>: Designate public and private land as SEZs and public or private SEZ developers and/or operators.</li> <li>• <i>Mandated with strategic planning and assessment of SEZ</i></li> <li>• <i>Regulatory body for SEZ including licencing SEZ development and operations</i>,</li> <li>• <i>Facilitate government services</i>: Facilitate licensing, registration and permits (environmental, building, work permits etc), regulate services within the SEZs such as utilities, provide for dispute resolution; the regulator may set fees commensurate with the cost-of-service delivery.</li> <li>• <i>Monitor compliance</i>: Monitor compliance with the SEZ legal framework, including SEZ policies, standards and requirements, and enforce compliance through appropriate penalties independently from other public agencies.</li> </ul>
Revenue Authority	<ul style="list-style-type: none"> <li>• Mandated with fairly and efficiently collecting taxes and duties and implementing customs controls within custom territory</li> </ul>
Zone Developer	<ul style="list-style-type: none"> <li>• <i>Land use planning</i>: Create a final land-use master plan, and prepare the land (grading, leveling, other pre-construction activity)</li> <li>• <i>Provision of infrastructure</i>: internal road networks, drainage and sewerage, and infrastructure for provision of utilities.</li> </ul>
Zone Operator	<ul style="list-style-type: none"> <li>• <i>Facility leasing</i>: Managing lease and rental agreements with individual investors and responsibility for main services of the zone (including maintenance, security, etc.)</li> <li>• <i>Transacting utilities</i>: Ensuring provision of on-site utilities (electricity, gas, water, telecommunications) through own provision or via domestic providers.</li> <li>• <i>Provision of other value-added services</i>: May include a wide range of other services including business and training centers, medical and childcare, transport, recruiting, etc.</li> <li>• <i>Marketing</i>: Experienced private developers often have a network of multinational clients across a range of industries to which they can market new SEZ opportunities. Note that the SEZ authority / regulator and other parts of government (such as an investment promotion agency) typically also carry out some marketing activities.</li> </ul>
Firm/Enterprise	<ul style="list-style-type: none"> <li>• Makes direct investments and is involved in the business activities in a zone.</li> </ul>

Adopted from Guidelines for Special Economic Zones Development and collaboration: Evidence from Asia. Special Economic Zones 2019



Source: JICA Study Team but adapted from UNCTAD

**Figure 1: SEZ Stakeholders Framework**