SPECIAL ECONOMIC ZONES

CATALYSTS FOR AFRICAN INDUSTRIALISATION

As demonstrated in Asia, the potential of Special Economic Zones (SEZs) as instruments for development is extraordinary. Yet certain failures have taught us that success is not guaranteed. Drawn from over 20 analyses, this report provides six recommendations for transforming SEZs into powerful catalysts for the continent's industrialisation.

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AFRICA CEO FORUM

OKAN STRATEGY | FINANCE

Foreword

Julien Wagner- AFRICA CEO FORUM
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As every year for the past three years, the AFRICA CEO FORUM, Africa's largest international private sector conference, in partnership with OKAN, an Africa-focused strategy consulting and financial advisory firm, has selected one of the continent's major economic topics for analysis. Further to our reports on African Logistics in 2019 and African Ports in 2020, we are now focusing on Special Economic Zones.

SEZs are geographically designated areas designed to attract foreign investment, create jobs and develop certain sectors of activity through tax and customs incentives. These zones are also intended to offer more streamlined administrative procedures than those in the surrounding national territory. SEZs are an instrument for industrialisation and development in numerous countries across the globe, championed particularly by China and other Asian economies, but such zones have not always been synonymous with success in Africa. Yet the continent offers a favourable landscape for SEZs due to low labour costs, advantageous trade agreements and exceptional wealth in raw materials. For Africa to capitalise on these resources and accelerate its industrialisation, competitive SEZs are a clear way to advance.

Africa offers a favourable landscape for SEZs due to low labour costs, advantageous trade agreements and exceptional wealth in raw materials.

By learning the lessons from past failures and accomplishments, the aim of this report is to provide tomorrow's private and public decision makers with a new SEZ model, designed to catalyse the continent's industrial development.

The 1970s saw SEZs sprouting up across Africa with the promise of reproducing the "Asian miracle". But insufficient sector-specific specialisation (89% were multisector) and delays led, in most cases, to failure. The lacklustre appeal of legal and fiscal frameworks and operational problems caused by weak infrastructure and services (electricity, water, roads, administrative delays, etc.) were largely to blame. Some prospered notwithstanding, providing inspirational lessons that are worth heeding. SEZs in Morocco, Mauritius, Madagascar, Ethiopia and Gabon created over 300,000 jobs and made a considerable contribution towards ramping up exports.

Further to an in-depth analysis of over twenty case studies and major issues arising from the creation of SEZs, OKAN PARTNERS and the AFRICA CEO FORUM present in this report six pragmatic and ambitious recommendations for the future.

1. Choose a strategic site

The choice of location by African States and SEZ developers clearly stands out as the first factor for success. Before investing heavily, it is critical to address three aspects of a site's potential as a location.

The presence of a significant pool of qualified and highly cost-competitive labour is crucial given the labour-intensive requirements of industrial activities. For example, Ethiopia's Hawassa Industrial Park was able to capitalise on a host community of 5 million people and set up training courses for its employees.

Connections to logistics and power networks are also key to success. Ghana's Tema EPZ and Nigeria's Lekki FTZ demonstrate the importance of proximity to major roads, seaport, and even airport facilities, which ensure a constant flow of people and merchandise. A reliable and cheap power supply is also a critical factor without which SEZs are destined to fail. On another continent, Dhaka's SEZ in Bangladesh even planned a power plant of its own with an MW capacity of around one hundred.

Locating the zone near the raw materials used for its processing activities and/or its targeted consumer markets is an effective way to cut transport costs and optimise returns on end products. This was how Tangier's ZES attracted over 1,000 companies, which cover 5,000 ha and employ 80,000 people. Aside from the presence of a large labour pool and Africa's primary hub port, it is also a gateway to the European market, which imports its goods.

2. Align with domestic industrial strategy

SEZs must be devised in line with national strategy as much for their own competitiveness as for the good of the economy in which they operate.

Contrary to past practices, SEZs tend to perform better if they concentrate their industrial activities on only a few sectors. By fuelling efforts into a limited number of sectors, which fit in with the region's comparative advantages, SEZs can respond to specific requirements, build up cooperative relations between the companies located there and benefit from support from local authorities. Morocco's Jorf Lasfar SEZ, which specialises in chemicals, petrochemicals and the steel industry is a case in point. Ethiopia and Madagascar have applied the same approach for textiles while Nigeria's Onne SEZ focuses on the oil sector.

Establishing an appropriate legal and tax framework for local players is also key to attracting a maximum number of firms. As well as the corporate gains acquired through tax credits, such as tax relief and/or temporary exemption from VAT, employer contributions and/or corporate tax, businesses can also benefit from streamlined administrative procedures. Such measures do not imply that fiscal revenue from SEZs will never flow into Africa's state treasuries, but that the regime put in place should provide for gradual increases in tax. South Africa's SEZ Act (2016) has tried to address this issue by requiring firms located in SEZs to meet investment and job creation criteria in order to be eligible for tax credits. The specific tax status in Mauritius has encouraged companies to develop under SEZ schemes on a nationwide scale. They now account for over 70% of the country's GDP, pushing Mauritius up to 13th position in the World Bank's global rankings, Ease of Doing Business.

Lastly, imposing restrictive measures to deter the export of raw materials can attract foreign investment to countries where the necessary processing industries do not exist. A case in point is the Nkok SEZ in Gabon where a national ban on exports of unprocessed timber has fostered local timber processing.

3. Provide a high performing ecosystem

SEZs that prosper are those which provide firms with fully operational facilities and support their value chains both up and downstream. This approach must be developed by drawing on the expertise of experienced players with a thorough understanding of each link in the chain. Such support allows companies to focus on their core business and reduce their initial outlays.

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Developing an efficient value chain involves procuring quality raw materials at competitive prices and all the requisite products and services for a sector to expand. Other critical factors include access to logistics and energy networks and a one-stop shop for administrative procedures (licenses, customs, visas etc.) to clarify each firm's legal rights and obligations and shorten delays. Lastly, support with marketing and distribution for firms in the zone is highly appropriate. Once again, the Nkok SEZ provides an exemplary case of such an approach. With over 120 businesses located there, its commercial success plays a part in the burgeoning growth of Gabon, which now ranks second globally for certain tropical wood products.

4. Invest pragmatically and in phases

To avoid so-called "white elephants", (notorious and wasteful expenditure) politicians and SEZ developers must adhere to certain best practices.

Building in phases enables SEZs to grow progressively and determine the corresponding amounts to invest. This strategy has proven its worth in Qatar's Ras Laffan Industrial City, which covers over 25,000 ha today. As for the Masan FTZ, the powerful engine behind South Korea's industrial development, it originally covered a mere 10 ha and now spreads over nearly 100 ha, currently generating nearly $4bn in exports per year.

Investing in a regional framework so that each nation's industries complement rather than compete against one another can prove an effective means to avert the dispersion of businesses and investment. The triple-frontier SEZ is a CEMAC project currently under development, though only in its preliminary stages. Designed to exploit natural resources in Cameroon, Gabon and Equatorial Guinea, the initiative exemplifies regional cooperation.

Lastly, as a general rule, investments should always serve a particular purpose, not window dressing. The size of a SEZ is not everything. Concentrating on a limited area and operational efficiency is often more worthwhile than investing heavily in large-scale projects that will likely fall short of their projected impact. At the time of this report, the Kribi SEZ in Cameroon appears to be a case in point. As part of the new deep-sea port development, construction has considerably overrun its schedule and the project seems disproportionately large. Delivering connectivity to the zone and recalculating the size of infrastructure should overrule other considerations so that the 30-odd firms currently setting up there can maximise returns on their 150-million-dollar investment.

5. Foster public/private governance

Though several governance structures exist for SEZs, a hybrid public/private partnership (PPP) seems to perform best. PPPs can attract private capital while alleviating strain on state budgets. Accordingly, despite little investment from the government, the GDIZ in Benin, a PPP project, is set to accelerate the country's industrialisation and create several hundred thousand direct and indirect jobs.

Nevertheless, it is crucial that all stakeholder interests are consistent with a common objective, namely to optimise both the project's profitability and its economic spillover on a national scale. Competitiveness can be guaranteed by establishing a public pricing framework for zone operators or by coordinating competition at zone level, with a view to forestalling oligopolistic situations like those seen in a few Nigerian SEZs specialised in the oil sector. In addition, to encourage new firms into the zones and align corporate interests with those of the zone operators, governments can even consider direct investment in production facilities.

Another advantage of this type of governance structure, which applies to over 30% of African SEZs, is that it helps mobilise patient capital held by states, sovereign funds and multilateral donors. The long-term vision of these players leaves SEZs sufficient time to develop gradually. The Tema EPZ, a PPP development, is thus at the core of Ghana's strategy to become an export platform for West Africa.

Lastly, to foster the common good, the development of SEZs must not come at the expense of local players, particularly small and medium-sized businesses (SMEs). States must also ensure that incentives to locate in SEZs, particularly tax incentives, change over time to increase public revenue and guarantee the redistribution of wealth.

6. Design to deliver green and sustainable industrialisation

SEZ projects in Africa must not go ahead without addressing the environmental and social issues required for sustainable development.

Mitigating the impact of industrial activities on the environment must be planned from the start by using clear monitoring indicators, rolling out more eco-friendly production processes and taking steps towards a greener supply chain. Water should be treated with zero liquid discharge (ZLD) systems, as is the case at the Hawassa Industrial Park in Ethiopia, and renewable energy sources must supply the electricity, as at the Adétikopé Industrial Platform in Togo. These are but some of the technologies that reduce SEZs' environmental footprint.

> ***A move towards carbon neutral SEZs can serve to attract greater investment by providing a competitive edge in the global market.***

In addition to these measures, it is possible to steer businesses in the zone towards sectors grounded in sustainable development. Such a move towards carbon neutral SEZs can even serve to attract greater investment by providing a competitive edge in the global market. Soft mobility and renewable energy are just two ways to transform SEZs into breeding grounds for innovative solutions to Africa's environmental and social issues. This was the aim of the National Eco-Industrial Park Programme (EIP) in South Korea. Innovations in these industrial parks were steered towards industrial symbiosis, which reduced carbon emissions by 6 million tonnes over 10 years.

Lastly, optimising social and economic spillover for the host country must be the number one priority for SEZ developers. This can be done by mobilising local capital and manpower as well as fostering technology and knowledge transfers.

Enjoy your read!

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1 Co-locating businesses with common or complementary requirements (e.g. waste from one company as raw material for another) as well as grouping eco-innovations, knowledge and technical processes together within the same EIP.

Preface

Gagan Gupta
CEO d'ARISE

Arise's operations across Africa enabled us at a very early stage to identify the major challenges facing the continent, namely high unemployment among young Africans, growing inequality, poor industrialisation, limited financing for infrastructure and of course, climate change. By developing SEZs, we aim to quicken the pace of industrialisation in Africa.

We built our first industrial zone at Nkok ten years ago. Our aim was to prove that Gabon's raw materials could be processed locally. The gamble paid off as Gabon is now the second producer worldwide of products made from certain categories of exotic wood. This illustrates that it is possible, with the right approach, to create an attractive environment for investment and industrial processing in Africa. This cannot be achieved without adhering to two principles. First, you must work alongside the country's government, which can provide long-term support and implement an appropriate regulatory framework. Second, you must think in terms of a complete ecosystem, in other words ensure that SEZs meet all the requirements for industries to operate smoothly, from the supply of raw materials to marketing support and logistics, even the distribution of the end products.

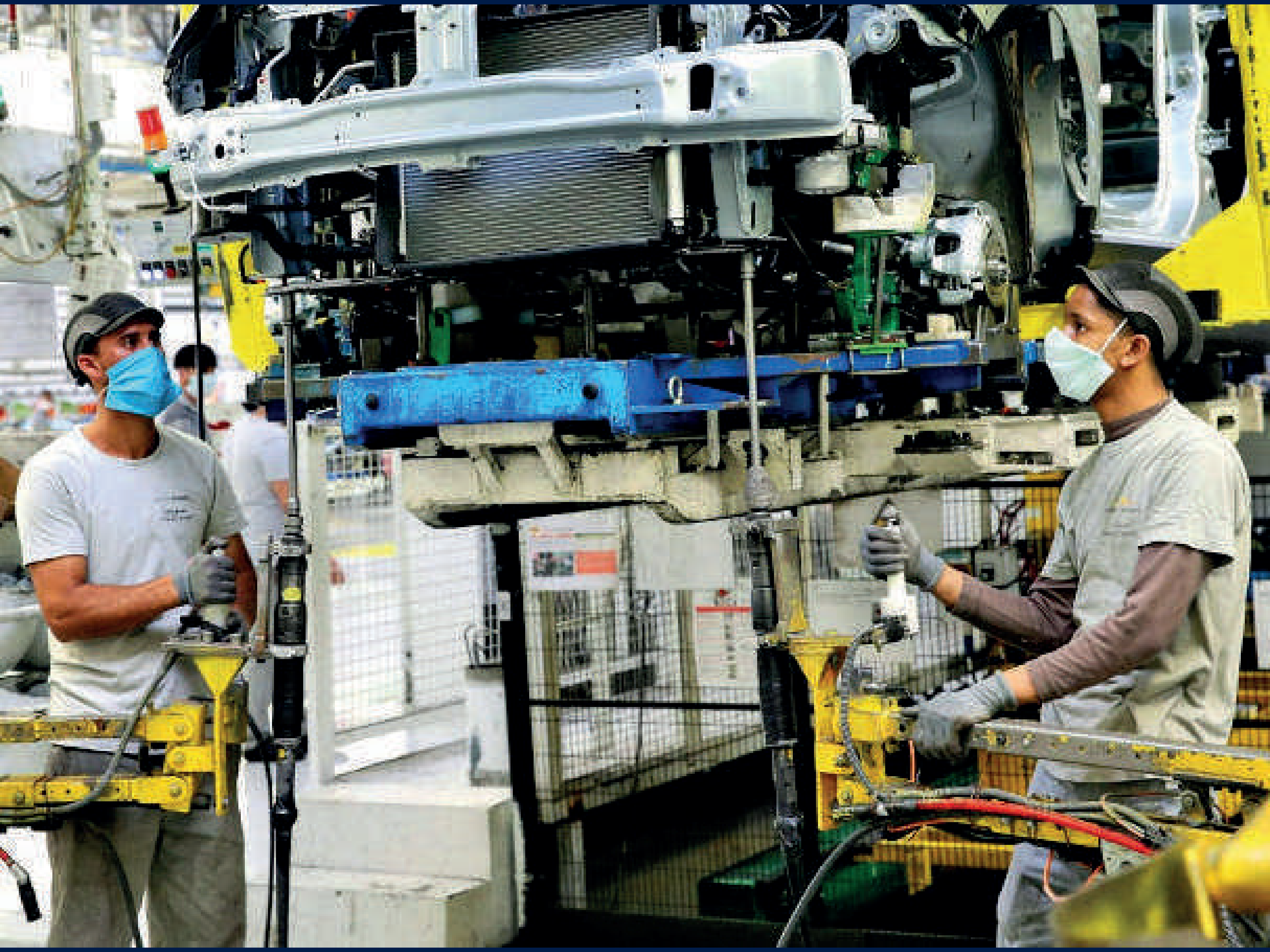
Our aim was to prove that Gabon's raw materials could be processed locally. The gamble paid off as the country is now the second producer worldwide of products made from certain categories of exotic wood.

Having assimilated these lessons, we continue to replicate the same model while always taking care to fit in with regional and national strategies as well as adapting to the host country's comparative advantages. The inauguration of the Adétikopé Industrial Platform in June 2021 reflects our resolve to become the continent's special industrialisation partner, and that in full respect of the most stringent environmental and social standards. It is evident that the sustainable development issues involved in SEZs in Africa cannot go unheeded. Renewable energy, zero liquid discharge systems, and waste treatment are but some of the tools we have at our disposal to make African industrialisation greener. Particular attention must be paid to social protection and training for local employees in order to optimise the social impact of these zones and their long-term positive repercussions for national growth. The AFRICA CEO FORUM therefore provides a golden opportunity to understand and disseminate different responses to the major issues involved in developing SEZs in Africa. This report makes an exhaustive analysis of many cases, enabling us to take an objective look at the big global trends and Africa-specific aspects of SEZs. It outlines six realistic and ambitious recommendations to foster the emergence of SEZs as engines for the continent's development and industrialisation.

About ARISE
Founded in 2010 in response to the infrastructure challenges that curtail Africa's development and industrialisation, the ARISE group develops and oversees top-tier infrastructure. With support from prestigious shareholders, including Olam, A.P. Moller Capital, and the Africa Finance Corporation, ARISE has invested over $2bn in construction projects through its three subsidiaries: ARISE Integrated Industrial Platforms for SEZs, ARISE Ports & Logistics for the port sector, and ARISE Infrastructure Services for other major infrastructure projects (airports, power lines etc.).

Sommaire

PHOTOS: DR



1 KEY FIGURES

SEZs as powerful catalysts for development

KEY FIGURES

1 SEZs as powerful catalysts for development

SEZs: the initiative behind China's economic boom

The first free zones go back to Ancient Greece and the free port on the island of Delos. In 20th century, though South Korea and Taiwan opened industrial export zones in the 1960s, the first genuine large-scale SEZs appeared in China at the end of the 1970s. Their lightning success was a powerful driver behind China's transformation into the world's second economic superpower.

A special economic zone is a free zone the size of a port, city district or town which functions as an economic and tax enclave within a national territory. One of its most distinctive uses was to facilitate capitalist business operations in countries with planned economies, more specifically in the coastal cities in China. They are extraterritorial enclaves – land (available), tax (reduced), infrastructure (upgraded) – which come in all sizes and cater for one or several industrial sectors[1]. Their purpose and activities vary depending on the legislation of the host country.

Different types of SEZs according to the World Bank

TYPES	OBJECTIVE	PHYSICAL CONFIGURATION	MAIN LOCATION	ELIGIBLE ACTIVITIES	MARKETS	EXAMPLES
Free Trade Zone (FTZ)	Support trade	Size < 50 ha	Ports of entry	Warehouse and trade-related activities	Domestic, re-export	Colon Free Zone, Panama
Traditional Export Processing Zone (EPZs)	Export manufacturing	Size < 100 ha; total area is designated as an EPZ	Various	Manufacturing, other processing	Mostly export	Karachi EPZ, Pakistan
Hybrid Export Processing Zone (EPZ)	Export manufacturing	Size < 100 ha; only part of the area is designated as an EPZ	Various	Manufacturing, other processing	Export and domestic market	Lat Krabang Industrial Estate, Thailand
Freeport	Integrated economic development	Size > 100 km2	Various	Multi-use	Domestic, internal and export markets	Aqaba Special Economic Zone, Jordan
Urban Free Zone	Urban revitalisation	Size < 50 ha	Distressed urban areas	Multi-use	Domestic	Empowerment Zone, Chicago
Single Factory EPZ	Export manufacturing	Designation for individual enterprises	Countrywide	Manufacturing, other processing	Export market	Maurice, Mexico, Madagascar

SOURCE: SPECIAL ECONOMIC ZONES. PERFORMANCE, LESSONS LEARNED AND IMPLICATIONS FOR ZONE DEVELOPMENT, 2008

[1] *Definition Géoconfluences*

KEY FIGURES

1

CHINA'S SEZS ROCKET SKY HIGH

China opened its first four SEZs in 1979 to create a business-friendly environment for foreign investment and pilot market-orientated reforms within their then largely closed communist economy.

397 bil. USD
GDP in 2019

2.2 mil.
Manufacturing jobs

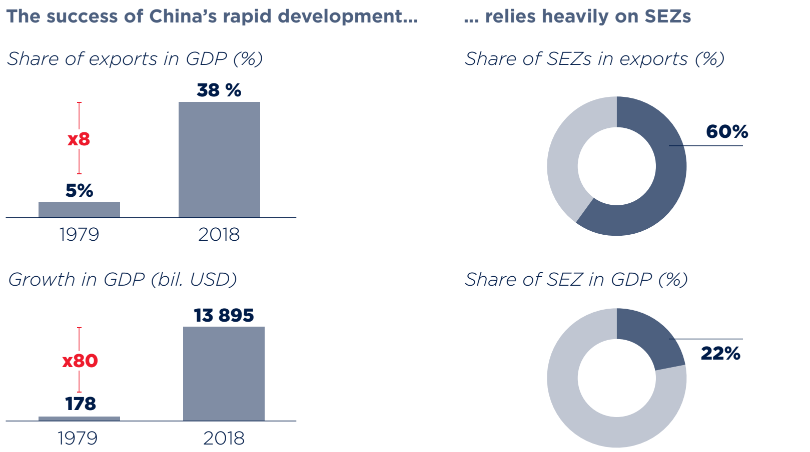
The stellar success of Shenzhen: a global benchmark

SOURCE: SHENZHEN MUNICIPAL STATISTICAL BUREAU

THE POWER ENGINE BEHIND CHINA'S SOARING ECONOMY

Their dazzling success spurred the construction of new SEZs across China, which has more than 2,500 today, nearly half the global tally. Powerful catalysts for development, SEZs have played a major role in making China into the 2nd economic superpower in only 30 years by attracting investment, technology and expertise *en masse*.
China has swung from a closed economy to the world's number 1 exporting nation.
SEZs have been used across the globe to support industrialisation, exports and job creation.

ZESs: they enabled China to rank as the world's second largest economy



Thanks to the establishment of SEZs, China has become an open economy and the 2nd strongest economy in the world in just 30 years

SOURCE: MDPI, CNUCED

KEY FIGURES

1

Many countries followed China's example...

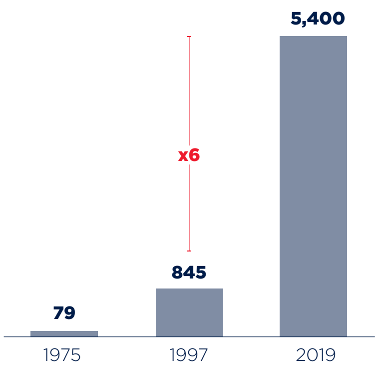
Inspired by the Chinese success story, SEZs proliferated in numerous developing countries across the world, each hoping to emulate the "Asian miracle". These new SEZs boosted exports and created thousands of jobs.

SEZS PROLIFERATE ACROSS THE WORLD

The global tally of SEZs has rocketed since the 1970s to 5,400 in 2019, six times as many as in 1997.

SEZs new weigh heavily in the global economy, accounting for 100 million jobs in total and an average of 20% of developing countries' exports.

Increase in SEZs across the world



Increase in SEZs across the world

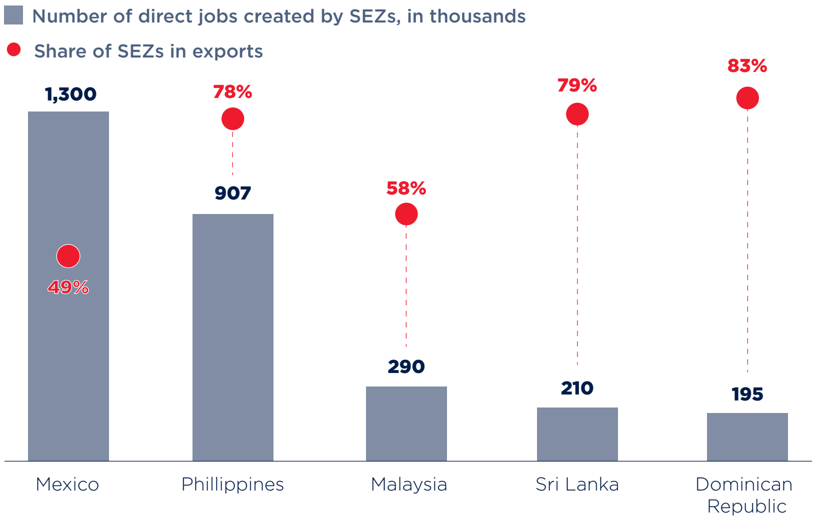
SOURCE: WORLD BANK, PEZA, DREE, OIT

ROBUST DEVELOPMENT ENGINES

Countries use SEZs' investor-friendly frameworks to attract capital and technology, enter world markets and thereby capitalise on globalisation.

Seventy-eight per cent of exports from the Phillipines, for example, come from their SEZs, not to mention the creation of 907,000 jobs. Similarly, SEZs in Mexico employ 1.3 million people.

SEZs have been used across the globe to support industrialisation, exports and job creation



SOURCE: WORLD BANK, PEZA, DREE, OIT

KEY FIGURES

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As for the United Arab Emirates, the Jebel Ali Free Zone in Jafza, located next to one of the Middle East's busiest ports, has played a leading role in Dubai's soaring growth, generating $83bn in trade, over 135,000 jobs and 23.8% of the Emirates' GDP.

In the Middle East, the Jebel Ali Free Zone has played an important role in Dubai's economic development

23.8%
Contribution to the GDP of Dubai

135,000+
Jobs created

83.1 bil. USD
Commercial trade generated

SOURCE: JAFZA

The Free Zone and the Jebel Ali (UAE) port

KEY FIGURES

1

...while adapting it to their local context

SEZs did not develop according to a set model. Different types of SEZs sprung up across the world, each in accordance with its geographical location and the time at which it was built (business sectors, position on the value chain, targeted markets etc.).

DIFFERENT TYPES OF SEZS

Different countries designed different types of SEZs to suit their economic backdrop and their local comparative advantages. Reaping the benefits of their proximity to large markets, Mexico and Morocco hosted businesses in the automotive and aerospace sectors. As a major logistics hub, the Dubai Free Zone in the United Arab Emirates focused on services whereas the Dhaka EPZ in Bangladesh tapped into its huge, low-cost workforce to develop light industries, such as textiles.

THE EVOLUTION OF SEZS

SEZs tend to change over time, adapting to the economies they help transform. As countries developed, national and cross-border SEZs, which previously specialised in secondary and tertiary sector businesses, began to focus on those with higher added value. For example, the Masan EPZ in South Korea concentrated on low added value export activities in the 1980s before focusing on high tech and their domestic market.

Examples of SEZs worldwide

The evolution of SEZs

TYPES	PHASE 1 1980s	PHASE 2 1990s-2000s	PHASE 3 2010s
Free Manufacturing Zones (FMZs) Masan EPZ (South Korea) Kaohsiung EPZ (Taiwan)	TAKE-OFF Enclave-like, labour-intensive, export-oriented, incentive-heavy, experimental, narrower focus	UPGRADING Extra-zone spill-over, capital-intensive, balanced export-import, broader incentives, diversification, spread effect	INNOVATING Within-zone refocus, knowledge-intensive, domestic-oriented, upgraded incentives, clustering effect
Free Service Zones (FSZs)	LIMITED Trade, warehousing, shipping	EXPANDING Finance, back-office, real estate	DOMINANT Finance, logistics, other professional services like engineering design
Sector-Specific Zones (SSZs)	RARE Trade, shipping	GROWING High-tech industry, call centre, offshoring	EMERGING R&D labs, digital media, tourism
Transnational and Extraterritorial Zones (ETZs)	BEGINNING Maquiladoras	GROWING Growth triangles (ASEAN), China–Kazakh border cooperation centre	MULTIPLYING Forest City (China–Malaysia), China-built SEZs in Africa

SOURCE: XIANGMING CHEN

GROWING ATTENTION TO ENVIRONMENTAL AND SOCIAL ISSUES

The lax environmental standards and resulting high levels of pollution generated by SEZs has come under severe criticism. The textile industry in particular is responsible for 10% of global carbon emissions and 20% of water contamination. With greater global awareness of the urgent need for sustainable development, certification has been introduced, such as the LEED[1] by the US Green Building Council (USGBC), with a view to mitigate the environmental impact of the business activities within SEZs.

The Remi Holdings factory in Bangladesh, LEED certification leader

SOURCE: REMI HOLDINGS LTD

[1] The LEED certification (Leadership in Energy and Environmental Design) offers independent third-party verification of the performance of a building's design using metrics such as energy saving, water efficiency, CO2 emissions reduction, improved indoor environmental quality, and stewardship of resources.

2 Advantages of SEZs for Africa

An investor-friendly environment

Though Africa's overall business environment provides lacklustre appeal for investors, SEZs are a means to create industrial pockets offering ideal conditions for business expansion. African SEZs can capitalise on two major comparative advantages: the low cost of labour and advantageous trade agreements.

SEZS FOR IMPROVING THE BUSINESS ENVIRONMENT

The business environment in most African countries, (tax, legal framework, administrative procedures, energy infrastructure, etc.) remains relatively unattractive for firms: 85% of African countries figure in the second and last quartiles of the Ease of Doing Business rankings.

SEZs are useful tools for improving the business environment within a delimited area and for limited cost.

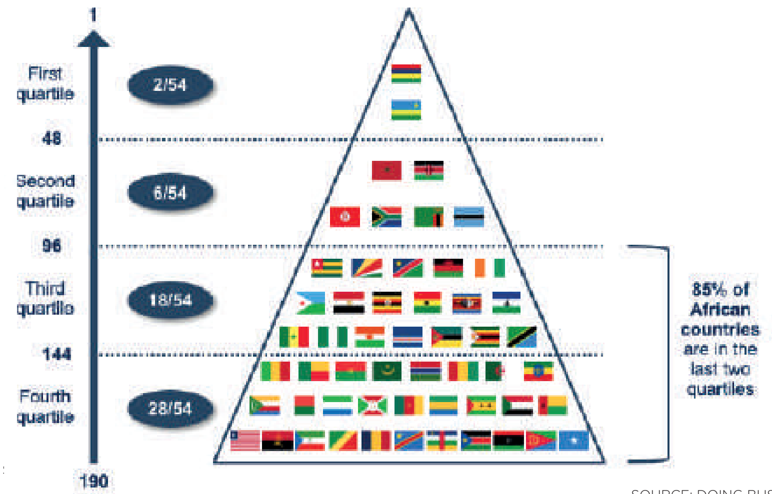
SEZS FOR CAPITALISING ON AFRICA'S ASSETS

Africa can leverage two considerable comparative advantages to secure a position in global markets:

- Strong cost-competitive wages: annual average salaries in sub-Sahara are four times lower than those in China.
- Advantageous trade agreements with major markets (the US and EU)

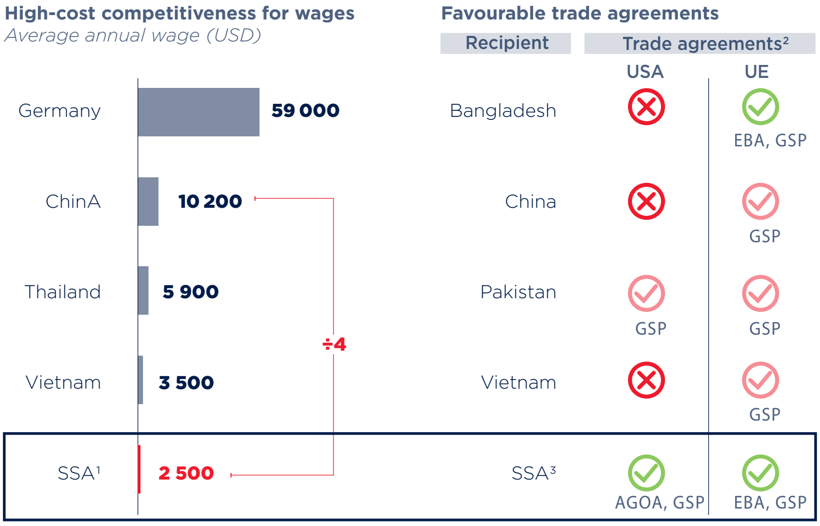
Such assets represent a unique opportunity for the continent's industrialisation and development.

Business environment



SOURCE: DOING BUSINESS

Sub-Saharan Africa is advantageously positioned on the global manufacturing value chain



Sub-Saharan Africa benefits from very cost-competitive wages, while wages are quickly increasing in East Asia, and from favourable trade agreements with the major markets

SOURCE: WORLD BANK, ILO

1 Wage (weighted by population) from a sampling of 12 countries: Botswana, Burkina Faso, Cape Verde, Chad, Ivory Coast, Ghana, Madagascar, Mauritius, Namibia, Rwanda, Togo and Zambia
2. African Growth Opportunity Act; Generalised System of Preferences; Everything but Arms; Generalised Scheme of Preferences
3. Most countries

KEY FIGURES

2

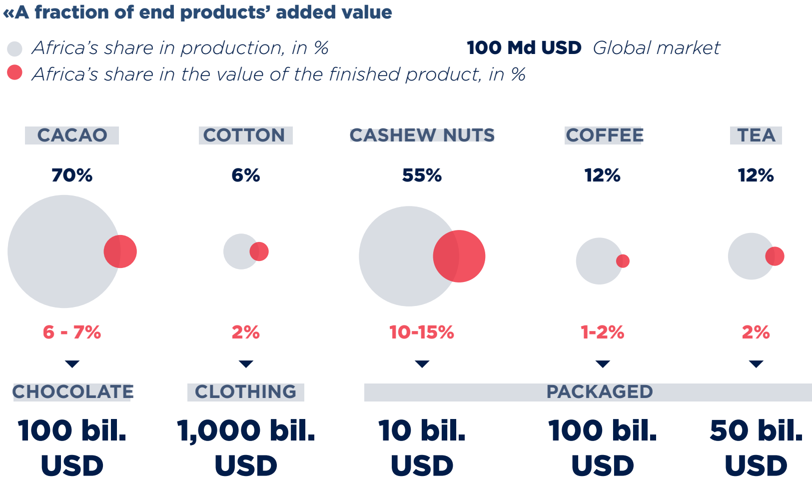
SEZs as drivers of industrial growth

SEZs can accelerate Africa's industrialisation (i) by processing the continent's exceptional wealth locally to boost exports and (ii) by substituting imported products with those produced locally to meet domestic demand.

EXPORTING RAW MATERIALS PROCESSED LOCALLY

Africa only captures a marginal share of the value generated by end products made from its plentiful natural resources. For example, Africa accounts for 70% of the world's cocoa output, but only receives 6 to 7% of the value added by the chocolate industry.

Potentially, by processing its raw materials in situ before export, Africa could see added value through manufacturing rocket sky high.



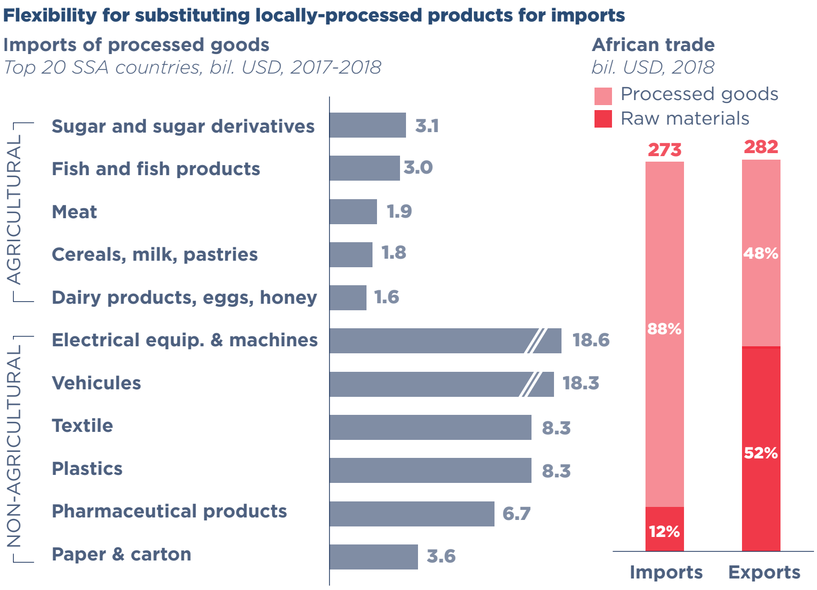
SOURCE: UN COMTRADE, WITS, FAO

SUBSTITUTING IMPORTS WITH LOCAL PRODUCTS

Africa imports tonnes of processed products, 88% of its imports in terms of value, compared to 48% of its exports.

Yet under the right conditions, the goods Africa imports could be produced locally, particularly those made in intensive labour sectors, such as meat, textiles, pharmaceuticals and stationery.

SEZs can therefore foster local production to meet domestic as well as global demand.



SOURCE: UN COMTRADE, WITS

KEY FIGURES

3 The African miracle has yet to take place

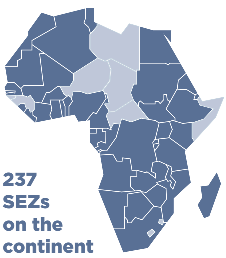
SEZs have proliferated without driving industrialisation

Hundreds of SEZs sprouted up across Africa to drive industrialisation through local processing and job creation for the 10 million Africans who enter the labour market each year. But despite some remarkable achievements, Africa has not, as yet, been transformed into an industrialised continent.

A HOST OF MULTISECTOR SEZS

In order to reap the benefits of globalisation, 237 SEZs were rolled out across the continent, particularly in Kenya (61), Nigeria (38) and Ethiopia (18). Today, there is at least one SEZ in almost every African country.
With the aim of attracting the broadest possible range of businesses, 89% of these opened as multisector zones.

SEZs proliferate across the continent

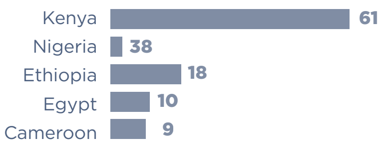


1970 - 1980
Liberia, Senegal, Mauritius, Djibouti , Togo

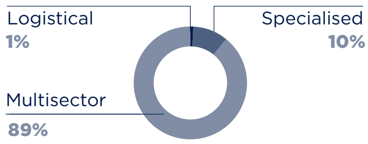
1990
Burundi, Cameroon, Cape Verde, Egypt, Eq. Guinea, Ghana, Kenya, Madagascar, Malawi, Morocco, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Tunisia

2000-2010
Algeria, Angola, Burkina Faso, Gabon, Gambia, Mali, South Africa, Zambia, Eritrea, Mauritania, Tanzania, Sierra Leone

Countries with the most SEZs



Breakdown of African SEZs by type



SOURCE: CNUCED, WORLD BANK

PRESENT-DAY FAILURE TO INDUSTRIALISE THE CONTINENT

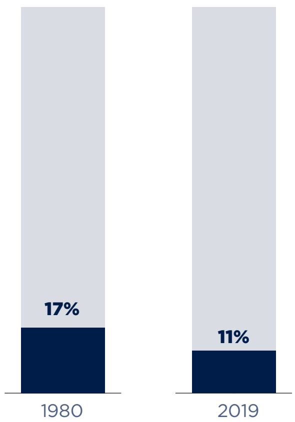
Aside from some exceptions, numerous SEZ projects were aborted, delayed or fell far short of expectations.
These failures correlate with a decline in industry over the last decades: the share of the manufacturing industry in sub-Saharan Africa's GDP has sunk from 17% to 11% since 1980.

Failure of certain SEZs to drive industrialisation

Status of SEZ projects
✓ *Success*
✗ *Delays / Objectives not obtained*

Tanger	✓
Libreville	✓
Antananarivo	✓
Addis-Ababa	✓
Adétikopé	✓
Mbao	✗
Tema	✗
Abidjan	✗
Kano	✗
Olokola	✗
Kribi	✗
Brazzaville	✗
Kinshasa	✗
Banjul	✗

Share of manufacturing in the GDP for SSA



SOURCE: CNUCED, WORLD BANK

KEY FIGURES

3

Shortcomings still prevail

Opening a SEZ does not guarantee its success. Many African SEZs present major shortcomings, which prevent them from attracting investors. Nevertheless, several success stories show that creating a competitive environment and thousands of jobs on the continent is feasible.

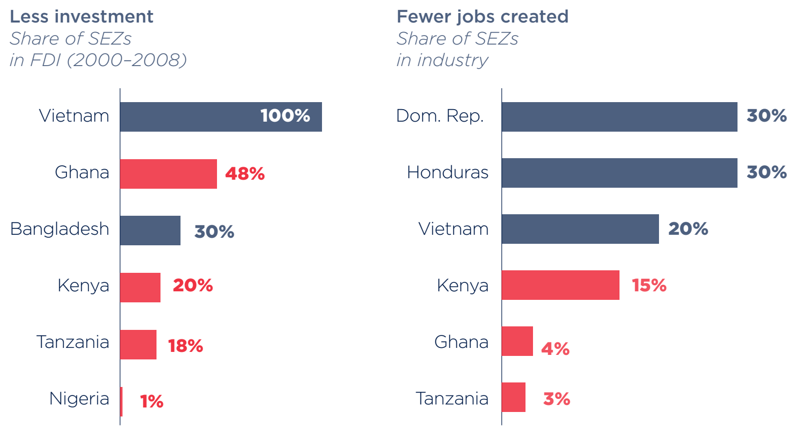
A LACKLUSTRE BUSINESS FRAMEWORK

Most African countries, their SEZs included, struggle to attract capital. Less than 20% of Kenya and Tanzania's foreign direct investment (FDI) flows into their SEZs, compared to 30% in Bangladesh and 100% in Vietnam. Moreover, a smaller share of domestic industry is located in SEZs in Africa than elsewhere: under 4% in Ghana and Tanzania compared to 30% in Honduras, implying that the specific regime under which these SEZs operate is barely more advantageous than the one for the rest of the country.

INFRASTRUCTURE AND ADMINISTRATIVE FAILINGS

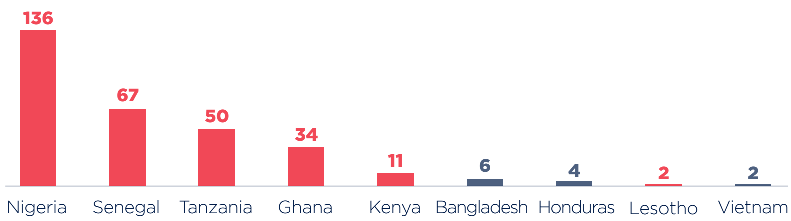
Many firms located in African SEZs are held back by the poor quality of the zones' infrastructure and services. In one month, downtime caused by power cuts amounted to 136 hours in Nigeria compared to only six in Bangladesh. Administrative red tape is also a major drawback. Customs procedures take 19 days in Tanzania's SEZs compared to two in Vietnam. Such failings are barriers to success for both SEZs and the African economy.

So far, African SEZs have not been as successful as those on other continents

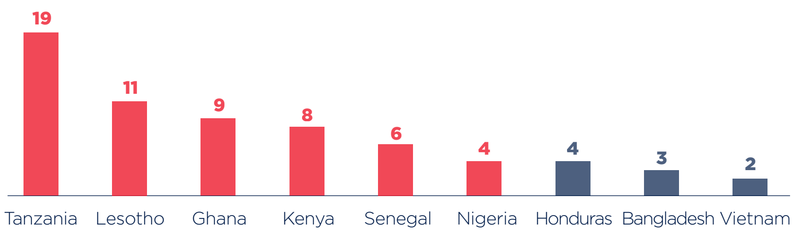


SOURCE: AFRICAN DEVELOPMENT BANK

SEZs in Africa: reasons for failure



Average number of days required to go through customs in SEZs



SOURCE: WORLD BANK, 2011

SEZS SUCCESS STORIES

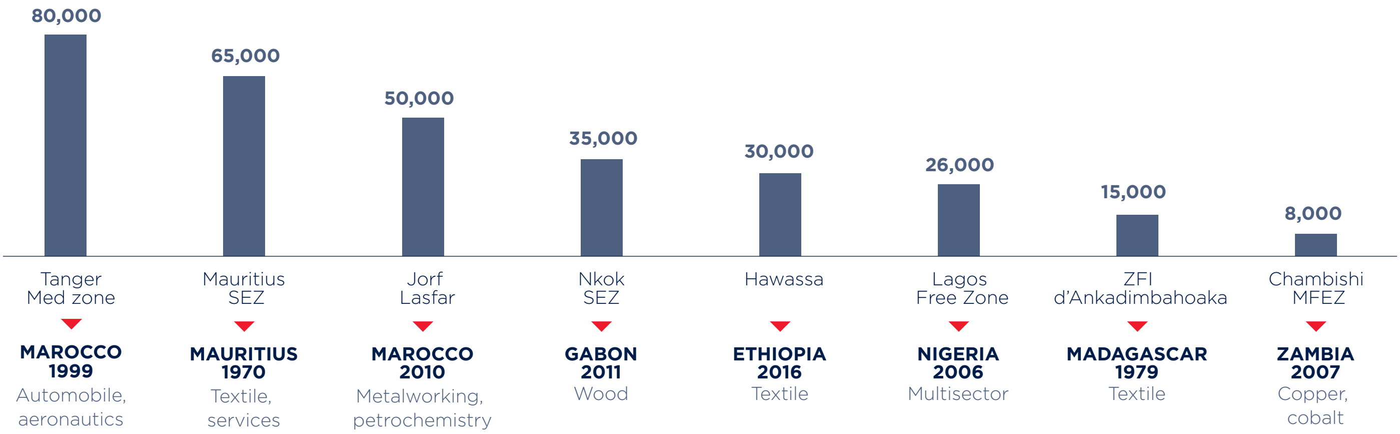
Nevertheless, the successful performance of some African SEZs has driven industrial development and created tens of thousands of jobs. Mauritius, Madagascar, Morocco, Nigeria, Ethiopia, Zambia and Gabon all provide examples of post 1970 zones, which employ over 300,000 people.

Though these zones differ in many respects, the characteristics they share have underpinned the competitiveness of the businesses located there in global markets.

Hawassa Industrial Park (Ethiopia)

Ranking of SEZs in Africa

Number of jobs created by the main SEZs on the continent



SOURCE: WORLD INVESTMENT REPORT, ZFI, TANGER MED ZONES, JORF LASFAR, NKOK SEZ, HAWASSA INDUSTRIAL PARK, ONNE PORT COMPLEX, CHAMBISHI MFEZ

KEY FIGURES

3

CASE STUDY

Shenzhen from fishing village to “China’s Silicon Valley

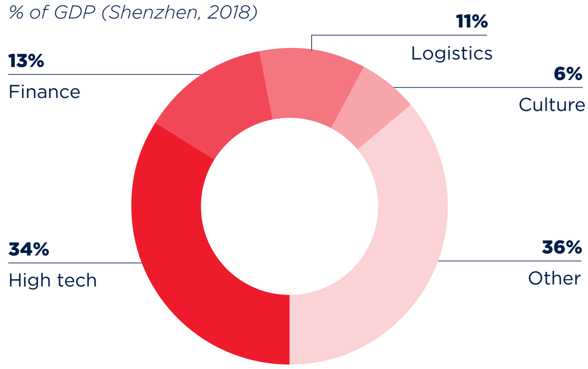
In 1978, Deng Xiaoping decided to open up the Chinese economy and set up a legal regime with a view to attract foreign investment. This gave rise to the first Chinese SEZs, with the one at Shenzhen in the Guangdong province near Hong Kong at the helm. In just 40 years, this former small fishing port has grown into a melting pot for innovation with a population of almost 12.5 million inhabitants.

DEVELOPMENT IN PHASES

- **1980s** Low added value, labour-intensive industries (textiles, apparel, leather goods, etc.), which capitalised on the low cost of labour and large swathes of available land.
- **Late 1990s** Higher value-added industries (electronics, computing, etc.) with a focus on assembly and outsourcing.
- **Post 2008 financial crisis** Very high added value industries (Biotech, Cleantech, Internet, Cloud, etc.) focused on innovation.

Case Study: Shenzhen

% of GDP (Shenzhen, 2018)



SOURCE: SHENZHEN MUNICIPAL STATISTICAL BUREAU

ECONOMIC AND DEMOGRAPHIC BOOM

- **Skyrocketing demographic growth** from 20,000 inhabitants in 1980 to 12.5 million in 2018.
- Over **11,000 Chinese businesses** and 280 global businesses located in the zone.
- Shenzhen companies spent **nearly 4% of the municipal GDP on R&D** and filed **nearly 43% of China’s patent applications** in 2014.
- **The municipality’s GDP stood at $397bn** in 2019, having overtaken Hong Kong’s in 2018.
- More than **2.2 million manufacturing jobs created.**

The impact of the Shenzhen SEZ

4% of GDP	**397 bil**	**11,000+**	**2,2mil**
R&D spending in 2014	GDP in 2019 USD	Active businesses	Manufacturing jobs created

SOURCE: SHENZHEN MUNICIPAL STATISTICAL BUREAU

KEY FIGURES

3

CASE STUDY

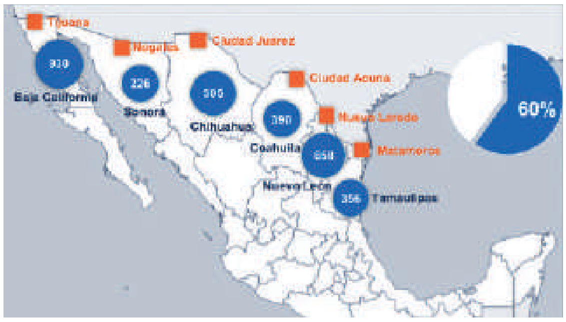
Ciudad Juarez and the maquiladoras

As of the late 1960s, the maquiladoras programme, a tax exemption regime to attract foreign assembly factories for products made for export, triggered the progressive industrialisation of northern Mexico, generating hundreds of thousands of jobs. Ciudad Juarez, home to 6.2% of the Mexico's maquiladoras factories, is an exemplary case.

ADVANTAGES OF THE MAQUILADORAS FACTORIES

- Proximity to the US **consumer market**
- **Cost-competitive labour**
- **Free trade agreements,** including NAFTA (since 1994)
- **An investor-orientated tax and customs framework** (exemption of customs duties and VAT) for foreign exporting companies located in the cross-border zone then extended to the rest of the territory through the IMMEX[1] programme

Maquiladoras concentrated into the northern states



Main border towns (twin cities)

XX Number of maquiladoras by state

Share of Northern states in the total number of maquiladoras nationwide (2018: 5,113)

SOURCE: INEGI

ECONOMIC AND DEMOGRAPHIC BOOM

- **Population growth of nearly one million inhabitants** between 1980 and 2000, making Ciudad Juarez **Mexico's sixth largest city.**
- Mexico's maquiladoras factories account for more than **80% of the country's manufacturing jobs with 215,000 employees.**
- Nearly **416 company factories** located in Ciudad Juarez.
- Industrial zone covering nearly **3,000 ha.**

Impact of the Ciudad Juarez maquiladoras

6.2% Of all Mexican maquiladoras programmes

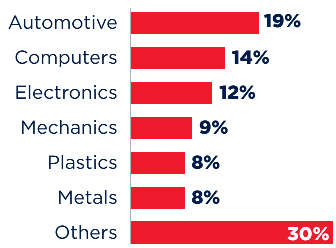
2,948 ha Total industrial surface area

39 Industrial zones and parks

416 Active businesses

215,000+ Jobs created

SOURCE: INDEX JUAREZ, GOBIERNO DEL ESTADO DE CHIHUAHUA



[1] *A programme enacted by decree in 2006 authorising foreign industries across Mexico to import components and raw materials custom and tax free provided that 100% of their production was exported.*

2 RECOMMENDATIONS

Six key recommendations for SEZs to succeed

RECOMMENDATIONS

1 Choose a strategic site

The location of a SEZ is the first key factor for its success. Tangier's SEZs, for example, juxtapose the Tanger MED hub port, thereby reaping the benefits of their proximity not only to one of the world's most competitive ports, but also to a large cost-competitive labour pool and the European consumer market.
Several criteria determine the potential quality of a location and must be addressed when choosing the zone's site. In order of priority, they are:

- Presence of a significant labour pool
- Access to logistics and energy infrastructure
- Proximity to raw materials and consumer markets

"Tanger Med Zones stands out for the quality of its integrated services, the infrastructure, which complies with international standards, and its unique geographical location offering investors an 8.6-mile shipping route to Europe as well as maritime links with 180 ports in 70 countries".

Jaafar Mrhardy
CEO - Tanger Med Zones

RECOMMENDATIONS

1

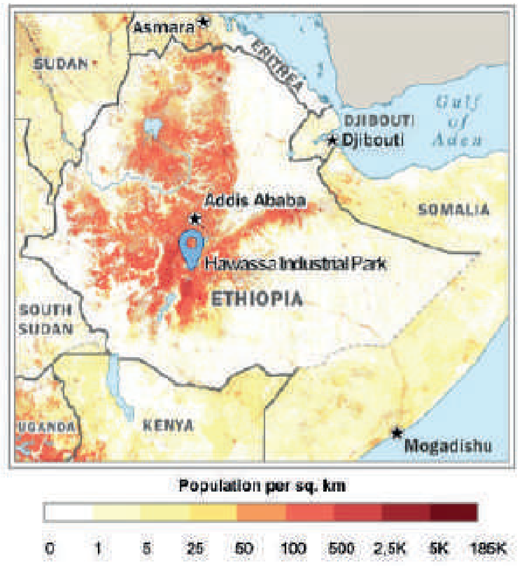
Presence of a significant labour pool

Processing industries cannot develop without easy access to a cost-competitive labour pool. Indeed, their highly labour-intensive requirements are made even greater due to the indirect services they generate.

Furthermore, the cost of labour accounts for a large share of the end product's value. Sealing partnerships with local and foreign universities to provide training schemes for the zone's employees is also an important step towards a successful outcome.

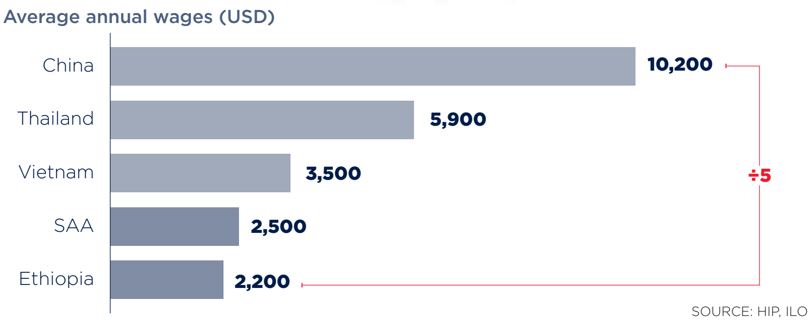
Accordingly, the site of Ethiopia's Hawassa Industrial Park is located in the middle of a densely populated area with five million inhabitants. The abundance and low cost of its workforce means it can export textile products at competitive prices into global markets. It has also helped seal partnerships between Hawassa Polytechnic College and the zone's businesses so that employees can benefit from training.

Hawassa Industrial Park (Ethiopia) at the heart of a significant labour pool



5 millions

people living in a 50-km radius



SOURCE: HIP, ILO

Access to logistics and power networks

For a SEZ to be competitive, it must provide transport solutions for goods, raw materials, finished products and people, as well as water and reliable and cheap electricity. It is therefore important to choose a site near the country's major logistics infrastructures (international airports, ports, railways and road networks).

Certain SEZ developments can even include port, airport or major road infrastructure projects into their design. This is the case for the Lekki Free Trade Zone in Nigeria currently under construction. The project encompasses a port container terminal designed to serve the zone's industries and relieve congestion in the two Lagos terminals. Halted by the oil crisis in 2014, construction resumed in 2018. The terminal, scheduled to open in 2022, will be run by CMA CGM. Beside the port container terminal, the LFTZ is situated at only 6.2 miles from the Lagos international airport.

"Industrial zones must be located in the heart of densely populated areas capable of supplying competitive and qualified labour. Partnerships with technical training centres and universities must be gradually put in place so that managers and foremen can be recruited locally."

Gagan Gupta
CEO - Arise

Choosing a site that limits connection costs to the national power grid is also advisable. The Calabar Free Trade Zone (CFTZ), for example, has faced a host of problems with its electricity supply. Despite heavy investment, the zone has been plagued with daily power cuts due to insufficient infrastructure maintenance, which has forced it to use generators for a daily three-hour average as of its opening.
One solution is to install a local power plant for the zone's exclusive use. Despite the higher cost, this guarantees a constant source of electricity, which is vital for the zone's power-consuming processing activities. To this end, the Dhaka EPZ in Bangladesh entered into a PPP with UPGD[1] to build a power plant with an 86 MW capacity. UPGD sells the electricity at a wholesale rate to the zone's operator, which then redistributes it to the companies located there. This arrangement also enables UPGD to inject surplus electricity directly into the national grid.

Port and airport infrastructure at the core of the Lekki Free Trade Zone (Nigeria) development project

Zones developed in:
Phase 1 Phase 2 Phase 3 Phase 4

Main highways:
Constructed Under construction

Future international airport in Lagos

Future port terminal of LFTZ

SOURCE: LEKKI FTZ

"An industrial and business free zone creates added value and underpins the attractiveness of a port. It brings in foreign direct investment and creates jobs that last."

Simon Sonoo
Vice President - DP World

[1] *United Power Generation & Distribution Co. Ltd*

A power plant to resolve supply problems at the Dakha EPZ (Bangladesh)

1.5 bil.
Investments made in Dhaka EPZ USD

90,000+
Jobs created

28.8 bil.
Exports generated USD

86 MW
Electric power generating capacity

SOURCE: BEPZA

Proximity to raw materials and consumer markets

Though not an absolute priority, proximity to the raw materials used by the zone's industries and to targeted consumer markets cuts transport costs, thereby boosting the competitiveness of end products.

Sitting on the Straits of Gibraltar, the Tanger MED industrial complex, for example, is a gateway to Europe, its main export market. Meanwhile, Gabon's Nkok SEZ, which specialises in the timber manufacturing, benefits from its strategic location near the country's forests, providing easy access to timber.

CASE STUDY

Tanger MED an industrial port at the gateway of Europe

Tanger MED, launched in 2002, has within a few years developed into one of the world's busiest and most competitive ports, as well as an industrial platform covering a range of activities, including those with high added value (e.g. automotive, aerospace and more).

ZONE PRESENTATION

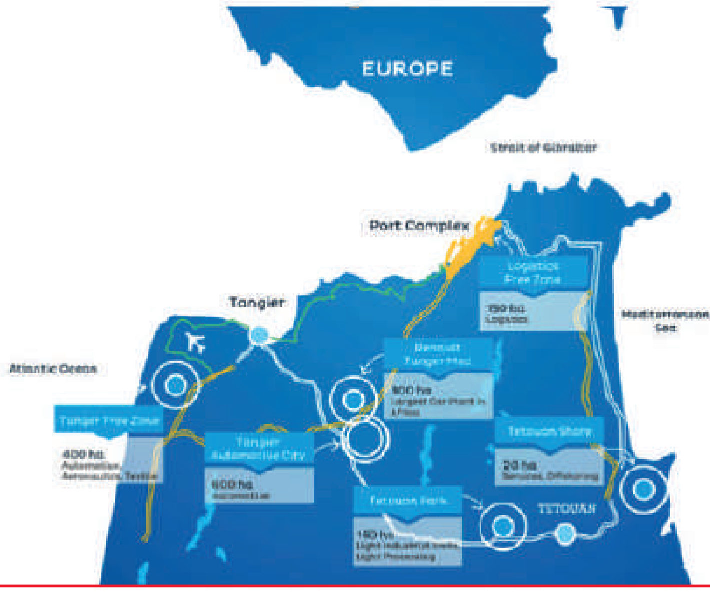
- A major port with an industrial complex comprising six business zones: Logistics Free Zone (logistics), Renault Tanger Med (automotive), Tanger Automotive City (automotive), Tanger Free Zone (general, including aerospace), Tetouan Park (light industry and manufacturing) and Tetouan Shore (tertiary sector)
- Diverse manufacturing activities, including high added value indsutries, such as automotive and aerospace

High added value activities

ADVANTAGES OF THE ZONE

- **Deal location**
  -Proximity to the European market
  -Strategically situated on one of the world's main transit points, the Strait of Gibraltar
- Presence of logistics infrastrucsture with an airport and one of the most competitive global ports:
  - 1st container port in the Mediterranean
  - **1st container port in Africa**
- Located in Tangier urban area with its **vast labour pool** (over one million inhabitants)

An industrial complex at the gateway of Europe



CASE STUDY **TANGER MED**

ACHIEVEMENTS OF THE ZONE

- Significant local economic overspill:
  - More than **1,000 companies attracted to the zone,** generating annual revenue of €8bn
  - **Annual output of 1 million vehicles**
  - **80,000 job created**
- Acknowledged success: Tanger Med awarded **2nd position** in the Financial Times' Foreign Direct Investment Global Free Zone of the Year rankings in 2020.

1,000+	8 bil.	50 mil. sq. m	1 mil.	5.7 bil.	80,000
Businesses	Annual turnover	Business parks	Vehicles produced every year	Private industrial investments EUR	Jobs created

2 Align with domestic industrial strategy

SEZs designed as independent enclaves with no coherent bearing on the national economy are destined to fail. Only as an integral part of an overall growth strategy can they achieve sufficient competitiveness and generate positive economic repercussions for domestic businesses and for the local population.
This implies implementing two measures before giving the go-ahead for a zone's construction:

• Identifying one or several priority industrial sectors
• Establishing an appropriate legal and tax framework for local players

Identifying one or several priority industrial sectors

Eighty-nine per cent of African SEZs are multisector. The underlying policy is to increase the chances of filling the zone by targeting the broadest possible range of companies. But trying to cater for everyone results in a site that attracts no one.
By restricting the number of sectors to one or two can in fact prove more effective as it better equips the zone to meet the specific requirements of its companies and foster cooperation between them.

The choice of sector(s) must be consistent with local comparative advantages, such as labour or raw materials. Accordingly, Ethiopia's Hawassa zone specialised in the textile industry in order to capitalise on the low cost and abundant local workforce, without which the industry cannot function. Morocco's Jorf Lasfar Industrial Park, meanwhile, leveraged the country's natural phosphate resources by focusing on companies in the chemical sector.

The Jorf Lasfar (Morocco): a chemical, petrochemical and steel industry complex with global reach

SOURCE: MEDZ

53 Active businesses

500 ha Business parks

6,700 Jobs created

PRIORITY SECTORS

Chemical

Petrochemical

Steel

LARGE CORPORATIONS PRESENT

OCP

winxo

fertima

SONASID

> *"If one raw material makes up the largest share of all our exports and revenue, there is no point in diversifying by doing something else. On the contrary, we must use that or those raw materials to move up the value chain."*

Carlos Lopes
High Representative - Commission of the African Union

The sector can be chosen from those prioritised in the country's overall development strategy, so the most pertinent sectors benefit from tax incentives and subsidies. This is how the export processing zones in Madagascar became institutionalised in 1994, reaping the benefits of offshoring from Mauritius textile firms. Backed by their particular status and the Madagascar 2019-2023 Emergency Plan, which aims to stimulate industrialisation, as well as the US African Growth and Opportunity Act[1] (AGOA) and Everything but Arms[2] (EBA), textiles have become one of Madagascar's biggest growth sectors. Specialisation in this sector has enabled the creation of 15,000 jobs in the 13-hectare Ankadimbahoaka Industrial Free Zone (FIZ) developed by Filatex near Antananarivo.

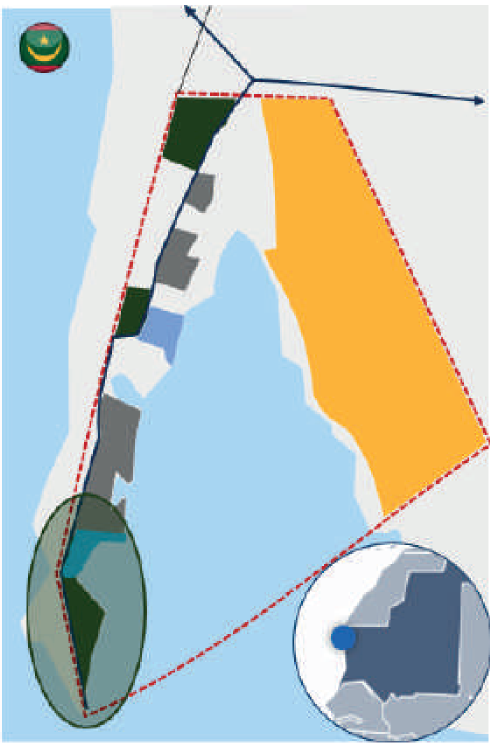
SOURCE: FILATEX

[1] The African Growth and Opportunity Act, a US federal law enacted in 2000 and extended until 2025, facilitates access to the US market for sub-Saharan African countries provided they comply with liberal and market-orientated principles.
[2] Everything but Arms, an EU initiative within the general preference framework and the Cotonou Agreement, which came into effect in 2021, provides duty-free access to the EU market for products produced in the least developed countries.

Drawing up an appropriate legal and tax framework for local players

As demonstrated in China, creating a SEZ is an opportunity to adapt the domestic legal and tax framework to one that attracts businesses.
This can be done through favourable taxation and customs schemes for companies choosing to locate in a business zone, including reduced tax rates for shorter or longer periods, exemption from VAT on imports and exports, etc. Aside from tax savings, companies can also benefit from streamlined administrative procedures which free up time to concentrate on business operations. This was the rationale behind Nigeria's 1996 Oil & Gas Free Zone Act, which authorised total relief from corporate and employee income tax, VAT and import and export duties for oil companies setting up in oil sector-specific SEZs. On the other hand, Gabon and Mauritania chose to increase corporate tax for their zones' companies over time, from 0% to 25%, then to 35% after 15 years of activity.

Nouadhibou Free Zone (Mauritania): a development project to support the fishing industry



Income taxes (basis: ICP)	0 to 7 years: 0% 7 to 16 years: 7% More than 16 years: 25%
Fixed minimum tax (basis: turnover)	0%
Payroll taxes (excl. social security contributions)	15 to 40%
TVA (basis: turnover)	Exempt
Miscellaneous taxes	Exempt (min. 20 years) Administration levy (0 to 2% turnover)
Import taxes	Exempt
Export taxes	Exempt for processed merchandise
Freedom to transfer capital abroad	Yes
Provisions for exchange	Yes

SOURCE: ANZF

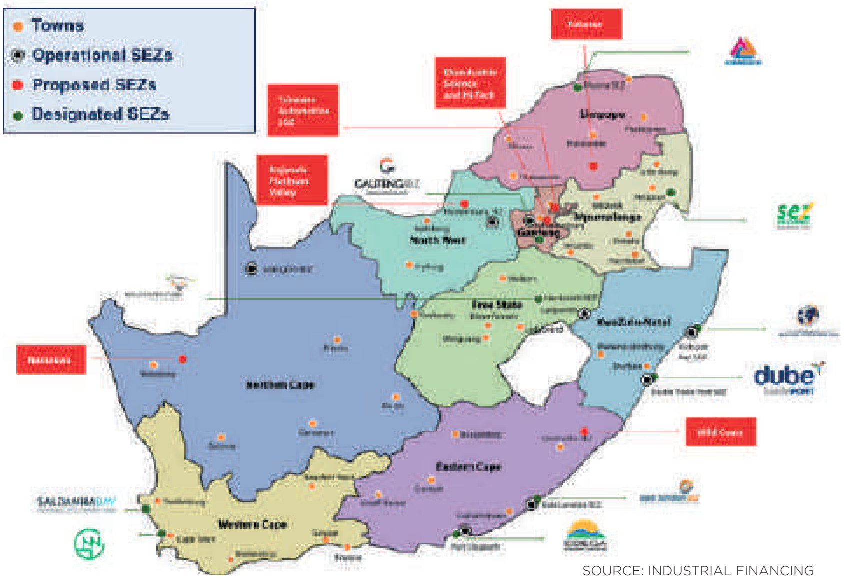
The new Special Economic Zone Programme provided for by South Africa's SEZ Act of February 2016 is an example of an investor-friendly legal and tax framework to which eligibility is subject to certain conditions. The framework became a highly effective driver of South African industrial growth by including tax credits, such as lower VAT and customs duties, reduced employer contributions, authorisation to accelerate amortisations and low levels of corporate tax. The eligibility requirements attempt to strike a balance between attaining high levels of investment, economic growth and job creation, and guaranteeing fairly and effectively calibrated incentives for both the corporations and the tax authorities.

"Installing a large industrial capacity in Gabon was a major challenge which Greenply was able to meet thanks to the stable environment and smooth-running customer-centric ecosystem that we found in Gabon's special economic zone. Our aim now is to extend our industrial operations to other SEZs in the region with a view to expanding our footprint in Africa"

Sudeep Jain
Director - Greenply Middle East & Gabon

Nevertheless, though tax incentives are a plus for businesses, they are not enough in themselves. Trade policy and labour laws must also adapt to help business development. For example, providing support for companies to process domestic raw materials locally can be achieved through restrictive quotas and export tariffs on primary commodities. Such measures were implemented in Gabon to drive the development of the Nkok SEZ. The country changed its legislation and banned export of unprocessed timber with a view to building up activities involved in timber manufacturing on its own soil.
In addition, businesses must be authorised to fill managerial and qualified worker posts with a limited number of foreign personnel - especially for technical jobs for which the local labour market lacks the necessary skills. Lastly, a certain degree of freedom to transfer capital must be provided to encourage firms to invest.

Map of SEZs in South Africa



SOURCE: INDUSTRIAL FINANCING

“Incorporating SEZs into national strategies requires integrated planning. They also necessitate annual monitoring and regular assessments as well as high levels of commitment and coordination from all stakeholders.”

Moubarack Lo
Chief Economist & CEO
Bureau de Prospective économique du Sénégal

CASE STUDY

The Suez Canal SEZs, from waterway to business zone

Egypt's economic zone along the Suez Canal aims to transform this major waterway into a highly productive business zone, enabling the country to capture a greater share of value added trade. This colossal project has mobilised a great many private and public investors.

ADVANTAGES OF THE ZONE

- **Ideal localisation** on the Suez Canal, one of the world's busiest waterways which carries over 10% of global trade.
- A gateway to nearly **1.8 billion customers** in Europe, Asia and Africa.

INCENTIVES FOR INDUSTRY

- An **investor-friendly tax framework:**
  - 0% customs duties on equipment, construction materials and re-exportation
  - 0% VAT on goods imported into the zone.
- **A one-stop shop** for licences and land permits, resolution of disputes and negotiations for exemptions from tax and electricity duty .
- Investment in the extention to **the East Port Said and the development of the Ain Sokhna zone,** particulary the installation of the Tahrir Petrochemicals Complex.

Capitalise on the strategic location to capture business

SOURCE: SIDC (SUEZ INDUSTRIAL DEVELOPMENT COMPANY)

CASE STUDY THE SUEZ CANAL SEZS

ZONE ACHIEVEMENTS

- **$18bn in investments** from US, Russian, Chinese and Egyptian investors and developers
- **250 companies** in operation, particularly in the Sokhna industrial zone
- A target to become one of **the 7 biggest SEZs** globally by 2035

Development of industrial activities

CASE STUDY

Mauritius, one of the continent's richest countries

Further to the implementation of a specific beneficial tax regime for exporting companies, the island of Mauritius has climbed to 13th position globally in the Ease of Doing Business rankings and generated significant economic and employment overspill.

A FINELY TUNED STRATEGY

- A **specific regime** with strong tax incentives as of the 1970s
- **Part of a coherent national development plan:**
  - Liberalisation of the economy
  - Fixed competitive exchange rate
- **Development in phases** from an industrial production centre with low added value to a logistic services hub

Beneficial tax regime attracts companies

ZONE ACHIEVEMENTS

- Companies under the SEZ regime generate **more than 70% of the island's GDP**
- **1st country in Africa and 13th worldwide** in the Ease of Doing Business rankings
- Over **$10,000 GDP** per capita (2nd in Africa after the Seychelles)

Overspill from the Mauritius Island's zone

70%	#1	10,000 USD
Share of businesses under SEZ regimes in the GDP	Ease of Doing Business ranking in Africa	GDP per inhabitant

SOURCE: DOING BUSINESS, CDE

3 Provide a high performing ecosystem

An integrated holistic and customer-centric approach is critical to the design of a SEZ in order to avoid reliance on a service offer that is incomplete, erratic and of poor quality.
The success of an industrial project depends on a competitive offer across the value chain that must be put in place in collaboration with experienced players, with a comprehensive understanding of every link. Disrupted supply upstream or congested logistics infrastructure downstream can quickly result in a project's demise.
It is therefore crucial to provide up and downstream support to companies intending to locate in the zone to avoid bottlenecks. This involves:

- Supply of quality and competitively priced raw materials
- Availability of reliable logistics and power infrastructure
- Support with administrative procedures through a one-stop shop
- Support for marketing and distribution

Such an approach provides a reassuring context for companies, allowing them to run their operations smoothly and limit their initial outlays (thanks to on-site plug-and-play facilities) while focusing on their core business.

An integrated approach for attracting companies

Supply of high quality and competitively priced raw materials and all requisite products and services

The quality and price of raw materials used in industry largely determine the quality and retail price of the end product. To guarantee a supply of high-quality raw materials involves two possible options: building adapted storage sites to keep the materials under suitable conditions or ensuring transport to carry them to the zone.
Aside from the raw materials, the ability to provide a constant supply of the requisite sector-specific products and services used by the industries is vital for their development e.g. glue for a furniture-making company, dyes for the textile industry, etc.

“Aside from rolling out infrastructure and a legal and administrative framework, SEZ developers must make every possible effort to support technical operations, the management of the zone’s facilities and the procedures handled by the one-stop shop.”

Louis Dubois
Partner - ASAFO & Co

Access to reliable logistics and power infrastructure

Industries cannot operate without access to high quality infrastructure, particularly logistics and electricity.
By providing such infrastructure, SEZs enable companies to concentrate on business activities as well as limiting their outlays.
Moreover, pooling arrangements for infrastructure generate economies of scale, which benefit all stakeholders.
On top of logistics and power infrastructure, companies can also share other available facilities, such as storage, offices, housing, etc.

“Delivering economic overspill requires sound logistics infrastructure. SEZs help in this respect by attracting international investors intent on capitalising on economies of scale.”

Dominique LAFONT
Lafont Africa Corporation

“Nowadays, African ports increasingly form part of an integrated logistics and industrial ecosystem involving sea and river ports, dry ports, multimodal transport corridors and industrial estates.”

Patrick LAWSON
Deputy Head of Concessions – PPP, Bolloré Ports

Support with administrative procedures through a one-stop shop

Legal security is fundamental for any company. Firms, particularly foreign firms, must be able to carry out all their administrative procedures swiftly and efficiently without having to resort to hiring legal experts specialised in the host country's tax and regulatory framework. Setting up a one-stop shop within the zone that groups together all the administrative authorities (tax and customs services as well as those delivering licences and visas, etc.) is a highly efficient way to help corporations cut through red tape. Such centralised procedures would help clarify corporate rights and obligations, deal with each company's specific requirements and shorten delays in company registration and the delivery of residence permits, for example.

> *"In the digital age, SEZs must deliver straightforward online administrative procedures to better serve their customers. Without such measures, they can flounder before they've even started".*

Samir Hamrouni
CEO - World Free Zones Organization

Support for marketing and distribution

Other ways in which SEZs can pool infrastructure and support services to help firms concentrate on their processing activities is by investing in the downstream value chain. SEZs can adopt an ambassadorial role for their firms on international markets by:

- Communicating through the press and social media
- Participating in international trade fairs and events
- Establishing partnerships with companies to distribute products made in the zone both locally and globally

"Africa needs warehouses complying with international standards to drive the competitiveness of its companies into global markets. Warehouse compounds supply critical storage, distribution and light assembly and manufacturing infrastructure, facilitating operational efficiency that is vital for economic growth. They attract FDI and underpin the expansion of African companies."

Geoffrey White
CEO - Agility Africa

CASE STUDY

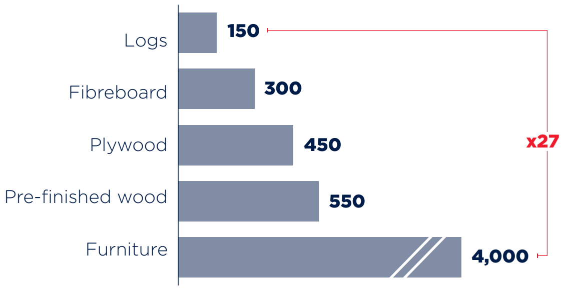
Nkok SEZ, an integrated approach

The opening of the Nkok SEZ in Gabon, which specialises in timber manufacturing, has played a large part in driving the sector's growth and diversifying the Gabonese economy, while creating tens of thousands of jobs.

ZONE PRESENTATION

- Opened in 2011 as a public/private partnership between Gabon's government and Olam, a global agri-food industrial group.
- Designed to encourage local wood manufacturing of Gabonese timber, almost all of which was exported as logs prior to 2011, and as such captured a fraction of the end product's value. Legislation has changed since then and now bans export of unprocessed timber.

Value of Okoume wood (USD / cu. m)



ADVANTAGES OF THE ZONE

- Location near prized and rare raw materials (e.g. Okoume)
- Part of a national development strategy involving a ban on export of unprocessed timber with a view to stimulating local manufacturing activities
- Integrated approach and fully operational facilitiles enabling companies to reduce outlays, concentrate on their core business activities and achieve competitive production:
  - Supply of raw materials
  - Provision of reliable and cheap electricty, water, warehouses, etc.
  - Support with administrative procedures through a one-stop shop
  - Investment in logistics infrastructure (Owendo Port and rail networks)
  - Support with marketing and distribution

Support accross the value chain

SOURCE: ARISE

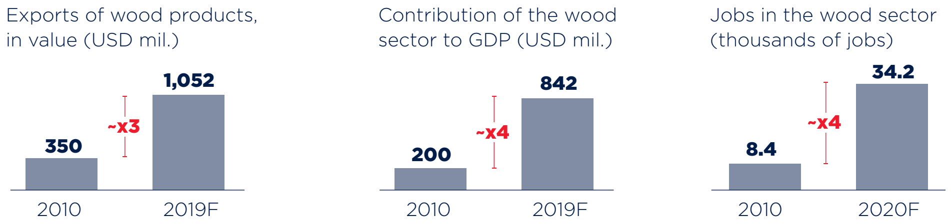
CASE STUDY NKOK SEZ

ZONE ACHIEVEMENTS

- Commercial success...
  - **80% of the phase 1 industrial land either sold or rented**
  - Over **120 firms** located there
- ...with **considerable impact on the Gabonese economy**
  - **35,000 jobs created**
  - A fourfold increase in the timber sector's contribution to GDP within a decade

A country propelled into 2nd position worldwide for the production of certain types of tropical wood products

Impact for Gabon



SOURCE: ARISE

4 Invest pragmatically and in phases

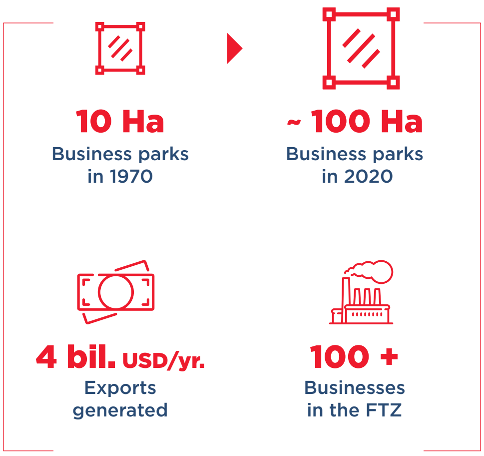
The appeal of large-scale projects can result in excessive investments with little bearing on genuine requirements. Three best practices to avoid so-called "white elephants" are:

• Develop in phases
• Incorporate investments into a regional framework
• Choose to invest small amounts in specific functions rather than "window dressing"

Development in phases

Building a SEZ in phases reduces initial outlays by focusing exclusively on fundamentals for the time it takes the chosen business model to prove its worth.
Qatar applied this approach to its Ras Laffan Industrial City, one of the world's largest SEZs, which now covers 23,900 ha: the "heart" of the zone opened in 1996 and was enlarged in 2009.
Similarly, the Masan Free Trade Zone in South Korea, designed exclusively for developing manufacturing activities, opened in 1970. Covering a mere 10 ha, its small size proved no obstacle for attracting considerable FDI in electronics, thereby facilitating transfers of knowledge.
Between 1971 and 1986, South Korean exports of components assembled in the zone climbed from 4% to 45%. The zone now covers 100 ha and has played a major role in accelerating South Korea's shift to high-value manufacturing.

Masan Free Trade Zone (South Korea) illustrates the benefits of a phased approach



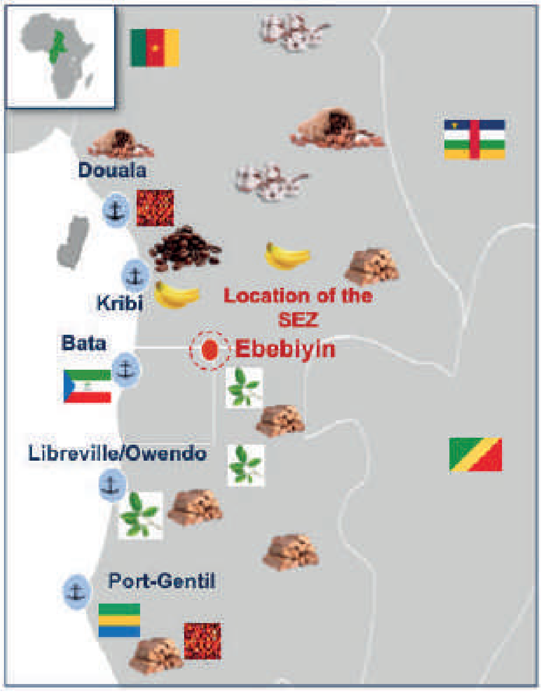
SOURCE: MASAN FTZ

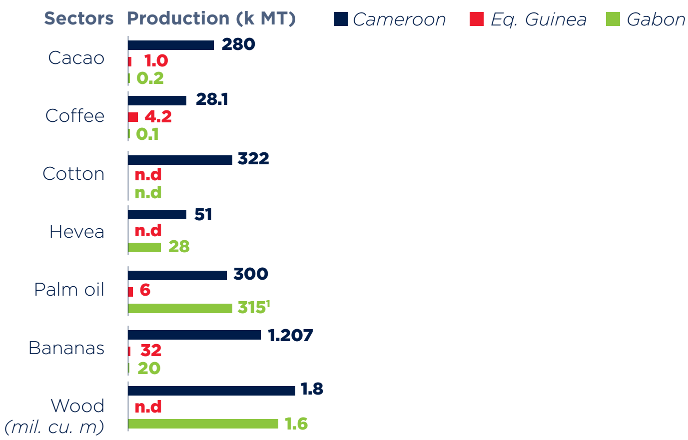
Investment as part of regional planning

Competition between neighbouring countries to encourage investment can lead to sub-optimal situations with superfluous infrastructure on a regional scale. Several SEZs opened in the same vicinity targeting similar industries, will be at pains to attract sufficient companies to make the projects economically viable.

To avoid competition between projects, it is therefore important to analyse the existing regional offer, consult neighbouring countries' governmental authorities and pursue a Blue Ocean Strategy. Another possibility is to cooperate at a regional level with a view to pooling resources from two, three or more countries. This is the rationale behind the CEMAC[1] Commission's call for an expression of interest (EOI) to set up a triple-border SEZ between Cameroon, Gabon and Equatorial Guinea. The project, which includes a shared dry port, would be a means to capitalise on each country's raw materials and workforce while avoiding harmful competition.

The triple-border SEZ: a CEMAC project for capitalising on natural resources





SOURCE: FAO STAT; TIMBER TRADE PORTAL; PRESSE/NOTE: (1) PROJECTIONS HORIZON 2025

[1] *Communauté économique et monétaire de l'Afrique centrale*

Moreover, the upcoming roll out of the African Continental Free Trade Area (AfCFTA) will have a considerable impact on SEZs by accelerating intra-regional trade. The AfCFTA provides an opportunity for SEZs to cooperate bilaterally, shorten administrative delays, boost volumes in trade and facilitate intra-regional investment in the zones.

"The AfCFTA is a game-changer for doing business in Africa and SEZs will play a key role in this development. Cross-border SEZs will have a positive impact on connectivity and the creation of national hubs. SEZs must link up across the continent in order to create the integrated value chains that are key to winning large markets."

Inge Baumgarten
Director - GIZ Office to the African Union

Invest in specific functions rather than "window dressing"

Against a backdrop of limited available capital, each investment should be preceded by a cost-benefit analysis. This provides perspective, averting investment away from elaborate large-scale projects and into specific operational functions. Such practices particularly apply to SEZs. By concentrating investment into a limited area rather than spending massively on large-scale works results in a better outcome. This was why an inter-ministerial assignment, conducted in 2020, recommended reconfiguring the Nouadhibou SEZ in Mauritania, which currently covers over 386 square miles. In the long term, the restructured SEZ should attract more companies and improve economic overspill for the country.

CASE STUDY

The Kribi SEZ, Central Africa’s future industrial port hub?

The development of an industrial port complex right next to the Port of Kribi in Cameroon should underpin the new deep-sea port’s growth in traffic.

PROJECT PRESENTATION

- **Fully-connected area covering 455 ha** with safe and high quality infrastructure
  - **Modern business centre** (shops, offices, exhibition and conference centres, etc.)
  - **Ready-to-rent warehouses**
- Designed to attract top level logistics and industrial companies
- **Favourable taxation and customs schemes** pursuant to the December 2013 law governing economic zones in Cameroon

A zone focused on the oil sector

PROJECT’S PROGRESS

- **Zone’s attractiveness** for companies:
  - **Around 30 companies currently in the process of setting up** in the zone (Tractafric Equipement, Cemtech Industries Cameroon, Bolloré Transport & Logistics, IHS, etc.)
  - Over **€150m invested** to date
- **Delays** to port operations:
  - **124 hectares of the 455 hectare** designated area is under construction (27%)
  - Delays to the infrastructure works **connecting Kribi to inland destinations** (Lolabé, Ebolowa, Akom II, etc.)

Multinationals operating in the zone

124 Ha
Business parks (Phase 1)

~30
Businesses being set up in the zone

27%
Percentage of total surface area currently being developed

150 mil. EUR
Investments made

SOURCE: PORT AUTHORITY OF KRIBI

5 Foster public/private governance

Several different governance models exist for developing and managing a SEZ (public operator, private operator, PPP). However, public-private partnerships stand out so far as the best performing mode of governance.

The advantages of the PPP model, which enables governments and private sector companies to enter into a joint venture, are twofold:

- Aligning stakeholder interests
- Mobilising patient capital

"The need for industrial development is urgent for Africa and its youth. Special economic zones, such as the PIA, can be robust tools for development. They must combine the power of the state with private players to maximise value and job creation."

Shegun Adjadi Bakar
Advisor - Togo Presidency

Aligning stakeholder interests

PPPs foster the success of SEZ projects by aligning private sector demand for returns and governmental objectives for positive economic overspill. The PPP framework ensures that the state and its private partners work together in the interest of the zone, which benefits from private sector know-how and governmental support, particularly via favourable regulations and taxation. In addition, through sovereign wealth funds, for example, states can invest directly into production facilities which encourage new industries to locate and align corporate interests with those of the government.

To guarantee the zone's competitiveness, the PPP contract can include a pricing framework to cover the services provided by the zone operator, or a certain degree of competition can be planned ahead to forestall any monopolistic situation that could detract from the zone's appeal. According to certain zone operators, an oligopolistic situation in Nigeria puts some players at an advantage and leads to high prices for support services in the country's oil-sector SEZs, which will likely harm the competitiveness of the industry.

> *"Crucially, hybrid solutions such as PPPs must be understood and promoted as a better, stronger and greener way towards reconstruction, which uses private capital for infrastructure and reduces government expenditure."*

Solomon Quaynor
Vice-President - African Development Bank

Mobilising patient capital

PPPs encourage investment from states, sovereign wealth funds and international donor funds (e.g. World Bank, African Development Bank and Afreximbank). The long-term vision of these players leaves SEZs sufficient time to develop gradually and adapt their activities to changing economic contexts over time. Though publicly-managed zones are still the most prevalent, according to the Africa Free Zones Organization, 30% are now governed by PPPs.
The Glo-Djigbé Industrial Zone (GDIZ) under development in Benin is a PPP contract with the Beninese state. Forecast to create over several hundred thousand jobs and boost exports and GDP by several billion dollars by 2030, the project is designed to drive industrialisation with limited input from the state budget.

The Glo-Djigbé Industrial Zone at the core of Benin's development programmes

SOURCE: MINISTRY OF ECONOMY AND FINANCE (BENIN)

PRIORITY SECTORS

DEVELOPMENT PROGRAMMES

GDP **Exports** **Jobs**

Lastly, governments should ensure that a SEZ does not develop at the expense of SMEs and local playevrs. This can be done by deploying facilities specifically for their benefit, as is the case in Gabon's Nkok SEZ, or through a multipurpose industrial park for SMEs like the one in Ghana's Tema EPZ.
Governments must reflect on the long-term implications of the model of the SEZ itself. Public finances will be penalised if the most competitive firms within a country's borders never contribute to tax revenue. The regime deployed must evolve and therefore include the gradual introduction of increased tax rates or other fiscal mechanisms to enable the redistribution of wealth.

"Even though many regard 2020 and the subsequent two years as wasted in terms of growth, special economic zones and governments must work together to capture domestic added value and stimulate the economic impetus to come."

Marieme Diop
Project Coordinator - GIETAF SEZ

CASE STUDY

Tema EPZ, ideally located to serve West Africa

Ghana's 1995 Free Zone Act was designed to attract foreign direct investment through infrastructure projects offering tax and financial incentives within designated areas. Accordingly, Tema EPZ is part of the Gateway Project, the objective of which is to transform the country into an export platform for West Africa, Europe and the US. Despite teething difficulties, this PPP project was put back on track in 2005 with support from the World Bank.

IDEAL LOCATION

- Three **major roads**
- **9.3 miles from Tema Port,** among the ten busiest ports in West Africa in terms of traffic.
- **14.9 miles** from Accra **international airport**

MEASURES DEPLOYED TO ATTRACT INDUSTRIES

- **A framework of tax incentives:**
  - 10-year relief from corporate tax before the introduction of an 8% tax rate
  - Exemption from tax and customs duties on imports
  - Measures for movement of capital

Geared towards activities for processing raw materials (cocoa, ore, etc.), the EPZ includes the development of a **multipurpose industrial park** for local SMEs.

ZONE PRESENTATION

- Industrial zone covering **1,200 hectares**
- **Around 60 companies** located in the zone
- Fully functional infrastructure and utilities (electricity, water, waste treatment, etc.)

A zone located near both a port and an airport

— Major roadways ...... Railway project
Port of Tema Accra international airport

Development of industrial activities

SOURCE:GHANA FREE ZONES AUTHORITY, WORLD BANK

CASE STUDY

Onne SEZ, the engine behind Nigeria's oil industry

Operated by Intels, the Onne Free Zone in Nigeria covers 515 ha, making it one of the world's largest zones for the oil sector. Launched in 1996, it was an integral part of a coherent national development plan and underpinned the emergence of the sector in Nigeria.

ZONE PRESENTATION

- Free zone covering **over 515 ha**, 280 ha of which reserved for industrial and logistics activities, with:
  - Two port terminals
  - Three accomodation areas for short and long stays, including restaurants and health and leisure facilities
- Part of a **coherent national plan** for the development of the oil sector operating under an **attractive legal and tax framework** since the enactment of the 1996 Oil & Gas Free Zone Act:
  - Relief from tax and customs duties
  - Free movement of people and capital

Implementation of a special purpose vehicle (SPV) facilitating public-private partnerships on behalf of the Oil & Gas Free Zones Authority.

A zone exclusively for the oil sector

ZONE ACHIEVEMENTS AND SHORTCOMINGS

- **350 to 400 oil and gas companies located in the zone,** including supermajors such as Total, Chevron, ExxonMobil, etc.
- Several companies have reported that Intel's monopoly has led to high prices within the zone which affect operations and weigh on the country's competitiveness, particularly when oil prices fall.

Supermajors operating in the zone

ExxonMobil, Total, Maersk, Kongsberg, TechnipFMC, Chevron

350-400 Businesses	**515 Ha** Business parks	**>1 bil. USD** Investments made

6 Design to deliver green and sustainable industrialisation

The first SEZs were built as export processing zones, which were accorded lax environmental and employment standards in order to cut costs. Today's paradigm shift is due to:
• Corporate and governmental awareness of sustainable development issues
• Global pressure on investors to combine economic performance with a positive social and environmental impact

Developing SEZs in Africa without addressing social and environmental issues is therefore not an option. These issues can be seen as an opportunity for zones and their host countries to steer their SEZs towards green and sustainable growth from the outset.

CNUCED model for developing special economic zones

	POLICIES/STANDARDS	INFRASTRUCTURE ASSISTANCE	DMINISTRATIVE ASSISTANCE
Labour	• Minimum wage • Working hours and benefits • Respecting unions' rights • Gender equality • Incentives for third-party certifications	• Labour inspectors • Conflict resolution specialists • Reporting hotlines • Gender focal points	• Improve labour conditions • Engage in social dialogue
Environment	• GHG emissions • Waste disposal • Energy use • Incentives for third-party certifications • Promoting circular economy	• Centralised effluent treatment • Water reclamation systems • Recycling services • Hazardous waste management services • Alternative energy sources • Reporting hotlines • Enabling circular economy	• Further reduce natural resource use • Reduce waste • Increase recycling • Improve energy efficiency • Adopt renewable energy
Health & Safety	• Employee health and safety protection • Incentives for third-party certifications	• Medical clinic • Fire brigade • Reporting hotlines	• Prevent health and safety emergencies
Corruption	• Anti-corruption standards and policies	• Hotlines • Information on reporting corruption	• Build capacity to detect and avoid corrupt business practices
Economic linkages	• Employer support for staff training and development	• Assistance with local sourcing	• Identify and upgrade local suppliers

SOURCE : UNCTAD WORLD INVESTMENT REPORT – SPECIAL ECONOMIC ZONES

Achieving this objective mainly involves a three-pronged strategy:
- Integrating eco-friendly best practices into the initial design of a SEZ
- Steering the zone's companies towards green sectors
- Maximising the social impact by fostering local content

"Structuring Africa's industrialisation involves a much greater awareness of sustainable development issues, which must not follow the example set by Europe. Industrialisation must be accomplished without damage to the environment, through the promotion of an industrial approach that also creates sustainable employment."

Paulo Gomes
Chairman - New African Capital Partners

Minimising SEZs' environmental footprint from the outset

The environmental impact of SEZs can be minimised by making them vehicles for green growth. This involves three complementary methods:

- Integrating environmental monitoring indicators into the SEZ's design
- Rolling out production processes that mitigate harm to the environment
- Making the supply chain greener

Putting clear monitoring indicators into place, fixing objectives and sticking to them, and implementing remedial initiatives are crucial at the design and planning stages of new-generation SEZs. As part of the contract drawn up between developers and governments, these objectives involve:

- A quota of greenhouse gas emissions (GHG) for the SEZ's construction and operations
- Mandatory or incentivised third-party certification for the companies operating there
- A share of renewable energy supplied by the SEZ
- Waste management

Production methods also play a key role in mitigating the environmental footprint. The Hawassa Industrial Park in Ethiopia is an exemplary case in point. Designed as part of the government's Climate-Resilient Green Economy (CRGE) Strategy, this SEZ, centred on the textile industry, has installed a cutting-edge zero liquid discharge system. By cleaning the industrial effluent and recycling 90% of the park's water, the system mitigates the impact on rivers, soil salinization and groundwater. Such technology is crucial given the industry's billion-tonnes annual water consumption. According to the UN, the textile industry is the second biggest polluter of water.

"One of the Filatex Group's prime objectives is to switch from the production of fossil fuels to renewables. This will mainly involve innovative methods for decarbonising our industrial zones in Madagascar and providing local communities with greater access to renewables."

Hasnaine Yavarhoussen
CEO - Filatex

From the source of electricity to the transport of merchandise, each link in the supply chain must be addressed as part of the drive towards greener SEZs. This could involve the installation and use of renewable energy sources inside the zones or the reduction of their carbon footprint by locating them nearer target markets so as to shorten transport distances for exports. Togo's Adétikopé Industrial Park is a case in point. The solar panels on the production and storage facilities should reduce annual carbon emissions by nearly 240,000 tonnes. Moreover, by locating its textile production near both the raw materials and the European consumer market, it has reduced transport distances by nearly 14,000 miles each year, which will translate into 5,000 tonne less of CO2 every year.

"Rolling out a policy for greener SEZs is crucial. Efficiency in terms of resources and energy can serve as a strong catalyst for sustainable growth, which will mitigate the environmental impact of industrial activity".

Dauda Foday Suma
Senior Industrial Advisor
Global Green Growth Institute

Steer the zone's companies towards sustainable sectors

As a response to the mounting pressure from global demand for more sustainably developed products, both in terms of raw material traceability and the nature of the end product, it is advisable to steer companies operating in SEZs towards priority sectors for Sustainable Development Goals (SDGs). These sectors include health care, food, renewable energies, soft mobility and innovative products offering low-cost solutions to environmental and social issues prevalent in African countries. Such a move towards carbon neutral SEZs could potentially provide African zones with a competitive edge over their international counterparts, which will attract more investors and meet a growing demand from industrial sectors.

South Korea's National Eco-Industrial Park Programme (EIP), launched in 2003 and built in three phases until its completion in 2015, was designed to promote a more environmentally friendly version of industrial development. By steering and subsidising the companies' innovations towards industrial symbiosis[1], the programme saved the equivalent of 1.35 million tonnes in fossil fuels and reduced carbon emissions by 6 million tonnes between 2005 and 2015.

[1] Co-locating businesses with common or complementary requirements (e.g. waste from one company is raw material for another) as well as grouping eco-innovations, knowledge and technical processes together within the same EIP.

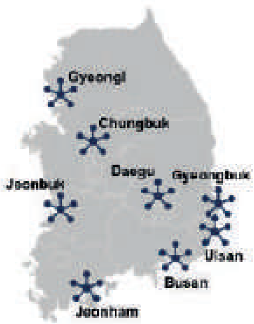
The National EIP Programme (South Korea) and its impact between 2005 and 2015

PHASE 1

Pilot period (2005-2010)
5 industrial complexes

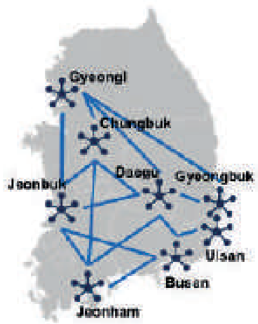
PHASE 2

Distribution period (2010-2014)
Distribution to 38 industrial complexes



PHASE 3

Completion period (2015-2019)
Construction of a national EIP network



624 mil. USD
Investments made

197
Projects of industrial symbiosis in operation

1.35 mil. t
Energy saved

74 mil. t
Water saved

6.38 mil. t
CO2 emissions avoided

SOURCE : GLOBAL GREEN GROWTH INSTITUTE

Maximising SEZs' social impact through local content

Maximum economic overspill for the host country can be delivered by drawing on local content for the SEZ's activities. This mainly involves concentrating on local factors of production, such as capital and manpower, as well as transferring knowledge and technology. Moreover, such an approach helps local communities endorse the project, providing the SEZ with a social licence to operate. Achieving this objective without compromising competitiveness can be done by gradually increasing mandatory local content requirements for companies operating in the zone. For example, the tax credits and exemptions from customs duties they enjoy could be contingent on the recruitment of a minimum quota of local employees, which is increased every five years. Furthermore, SEZ infrastructure and services can benefit local communities through the provision of housing, education and healthcare. Additional initiatives could be implemented to facilitate the employment of women in the zone, to instate anti-discrimination rules, establish a minimum wage and offer training schemes.

> *"In Africa, as elsewhere, building socially and environmentally sustainable industrial zones and logistics networks is crucial. In fact, we have observed that sustainability provides an increasingly strong selling point with respect to investors, manufacturers and logistics coordinators planning to expand into the continent."*

Simon Ardonceau
Head of Business Development - Africa

CASE STUDY

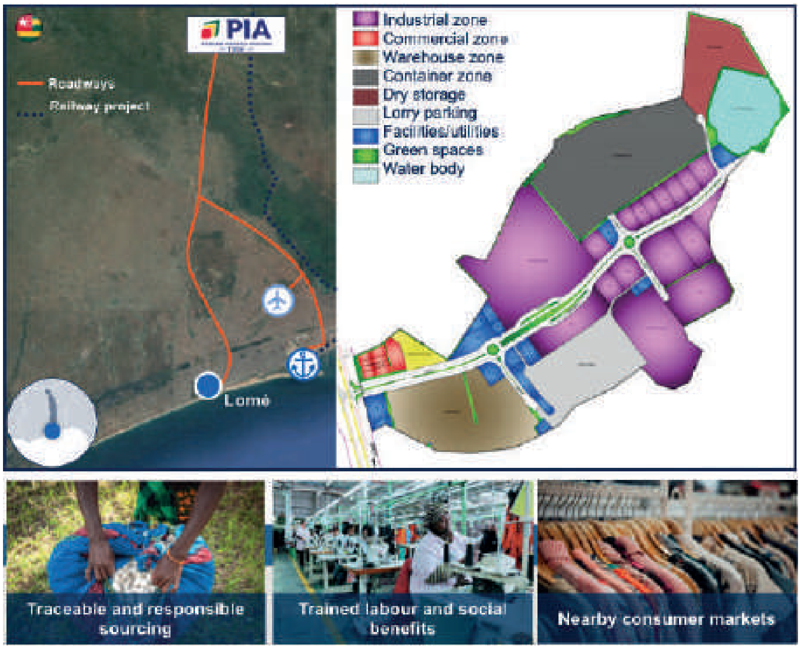
PIA, a new generation integrated industrial zone

The Adetikope Industrial Platform (PIA) in Togo, the product of a PPP between ARISE and the Togolese government, was inaugurated in June 2021. Located 9.3 miles from Lomé, the zone is designed to develop high value added activities, particulary in textiles, and cover the entire value chain from the supply of raw materials to the production and export of the end products.

PROJECT PRESENTATION

- **A serviced area eventually covering 410 ha** with safe and high quality infrastructure:
  - **Logistics park** of nearly 20 ha with capacity for 12,500 containers
  - **Warehouses** for storage and loading and unloading containers
  - **Parking** areas for lorries
  - **Business zones and pooled services**
- Aims to attract **logistics firms and world class companies** mainly in the **textile** industry
- **Tax and customs incentives** as part of the regime governing free processing and export zones

A textile sector and logistics zone



CASE STUDY **PIA**

A STRONG SOCIAL AND ENVIRONMENTAL COMMITMENT

- **Waste water treatment** with a zero liquid discharge (ZLD) **system economising over a billion litres of water per year.**
- **Production and use of renewable energy** through solar panels, reducing CO_2 emissons by **240,000 tonnes**
- **Direct export routing** from the supply and production site to the European consumer market, reducing **5,000 tonnes of CO_2 emissons per year**
- **Digitised traceability of cotton** and non-GMO Made in Africa and Better Cotton Initiative certification
- Consistent with the **Oeko-Tex Standard 100** and the Sustainable Appeal Coalition's **Higg Index**
- Roll out of **training courses and health and pension schemes** for the park's employees

Social and environmentally friendly certifications and technologies

1.1 bil. l/yr.
Water treated via ZLD system

242,000 t
CO_2 emissions avoided through solar energy

5,300 t/yr.
CO_2 emissions avoided by direct routing of exports towards Europe

NON-GMO · BCI · Made in Africa · OEKO-TEX STANDARD 100 · Higg Index

Certification

Training
Training institute in partnership with KFW

PIA

Frédéric Maury, Julien Wagner – AFRICA CEO FORUM
Amaury de Féligonde, Benjamin Romain, Kevan Raffi,
Maha Khalfi, Simon Sibé – OKAN PARTNERS