OXFORD BUSINESS GROUP

Economic Zones in Africa

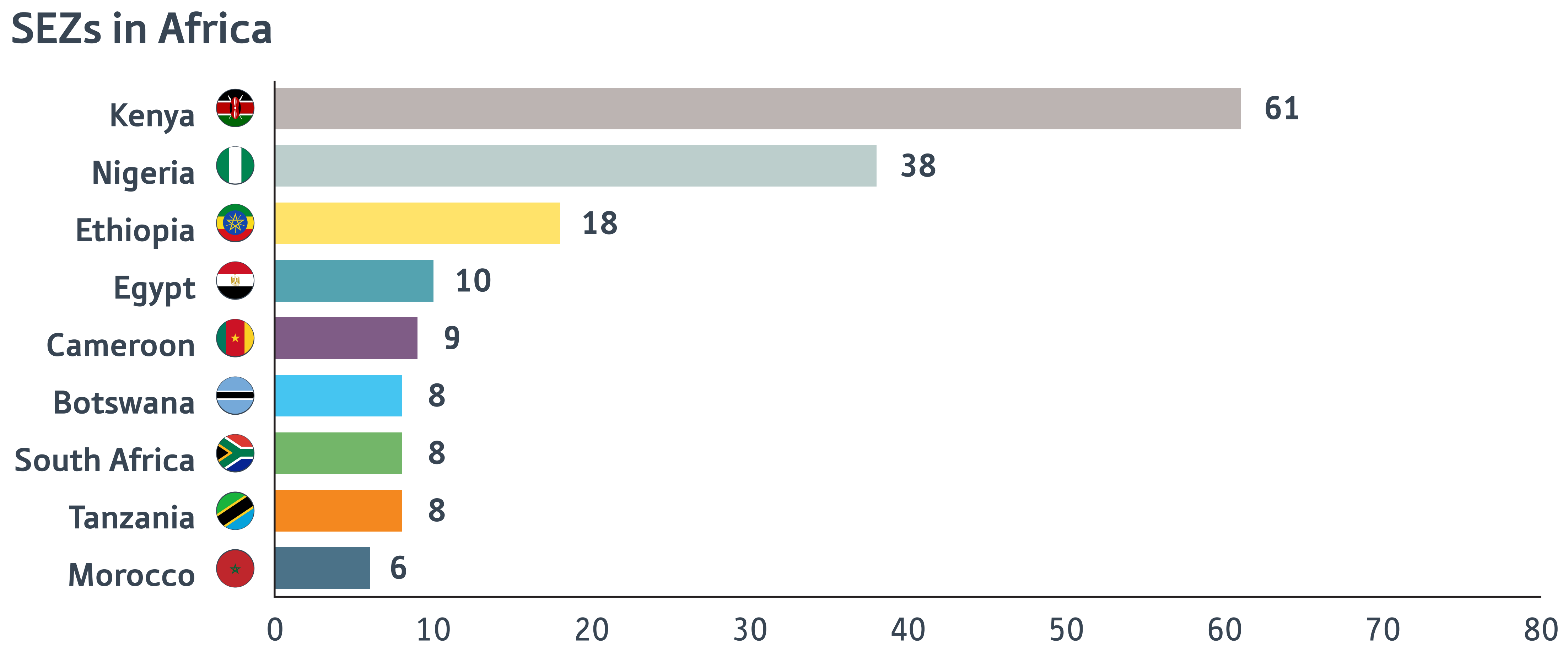
Focus Report

In collaboration with

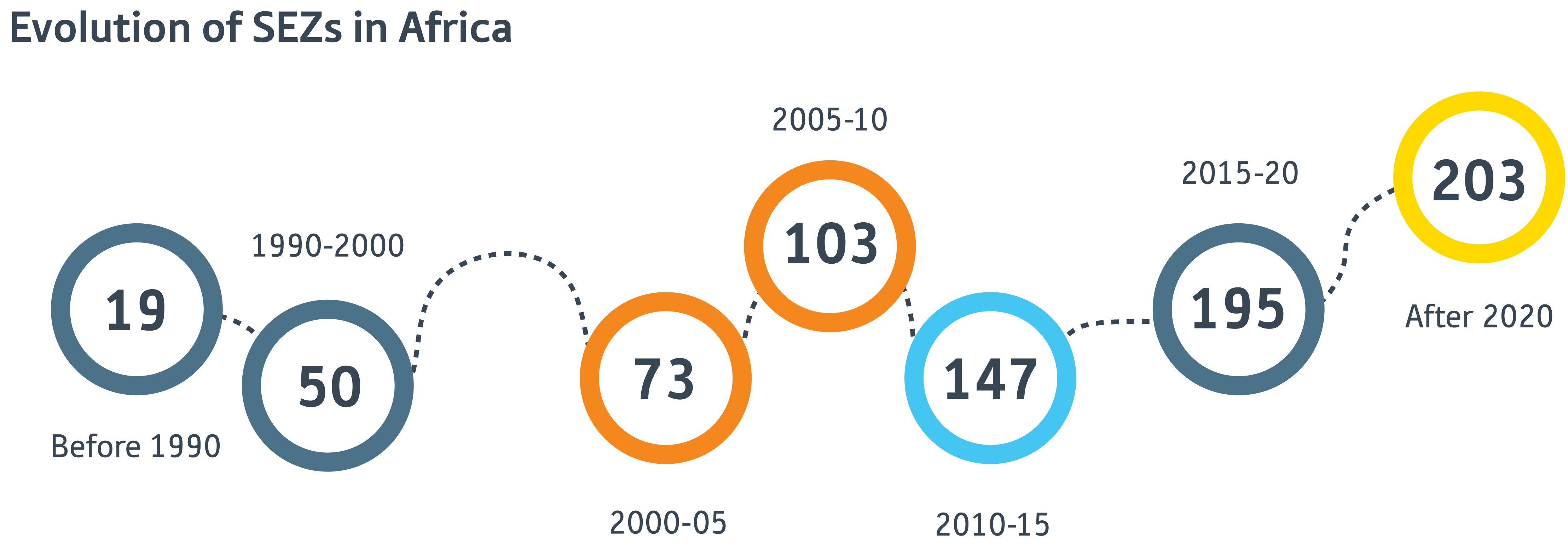
World Association of Investment Promotion Agencies
WAIPA

Content Guide

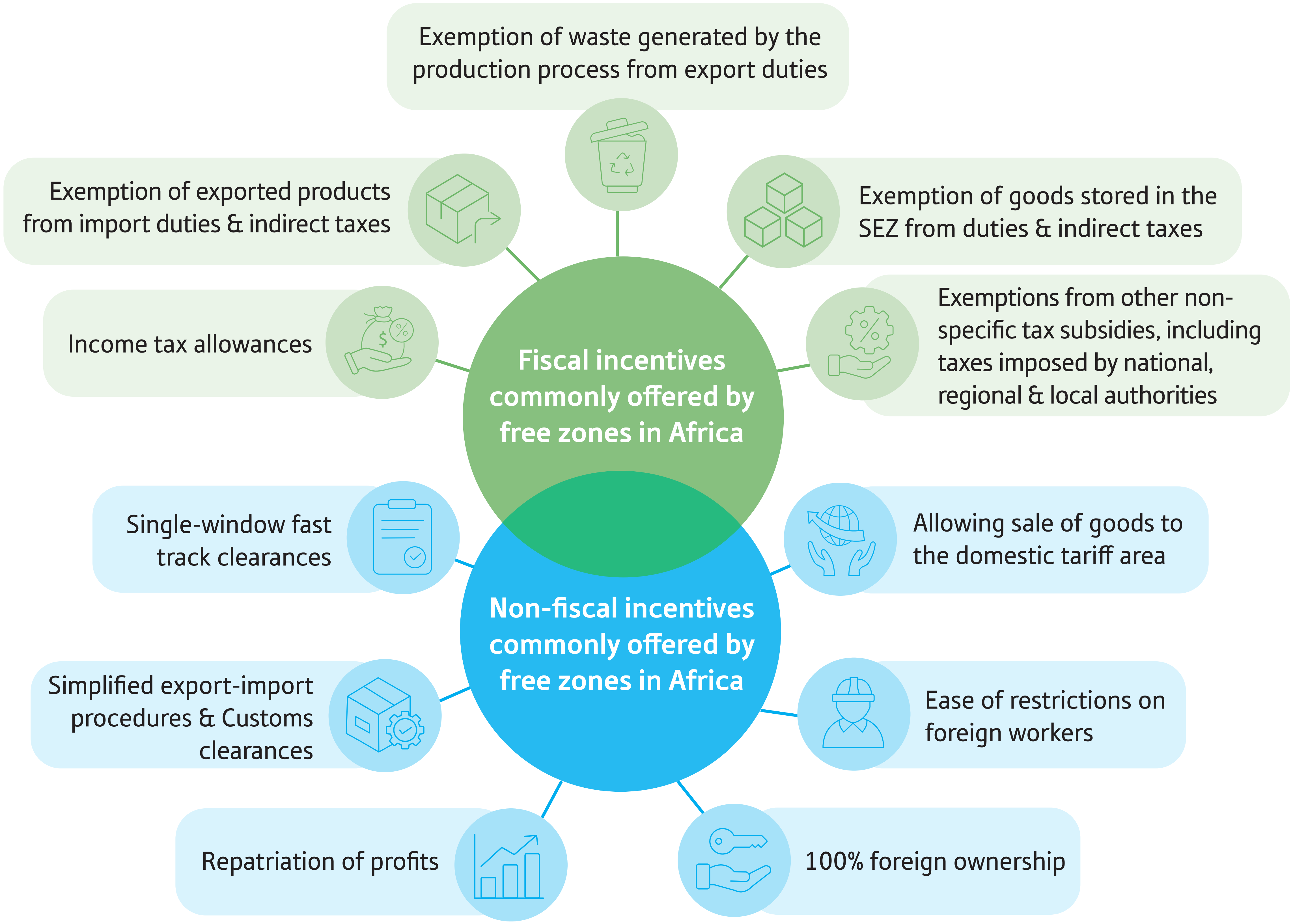
Snapshot



SEZs in Africa
Kenya
61
Nigeria
38
Ethiopia
18
Egypt
10
Cameroon
9
Botswana
8
South Africa
8
Tanzania
8
Morocco
6
0
10
20
30
40
50
60
70
80



Evolution of SEZs in Africa
19
Before 1990
50
1990-2000
73
2000-05
103
2005-10
147
2010-15
195
2015-20
203
After 2020



Fiscal incentives commonly offered by free zones in Africa
Exemption of waste generated by the production process from export duties
Exemption of exported products from import duties & indirect taxes
Exemption of goods stored in the SEZ from duties & indirect taxes
Income tax allowances
Exemptions from other non-specific tax subsidies, including taxes imposed by national, regional & local authorities
Non-fiscal incentives commonly offered by free zones in Africa
Single-window fast track clearances
Allowing sale of goods to the domestic tariff area
Simplified export-import procedures & Customs clearances
Ease of restrictions on foreign workers
Repatriation of profits
100% foreign ownership

Special economic zones in Africa

Special economic zones (SEZs) are geographically delimited areas where governments promote industrial activity through a variety of incentives, including the provision of infrastructure and services. For decades SEZs have been seen as beneficial to a country's economic and industrial development. Governments construct free zones to attract foreign direct investment (FDI), promote trade at the regional and global levels, and enhance economic and social development.

The first wave of SEZ construction occurred in industrialised countries in the 1950s, followed by a second wave in Latin America and Asia. The first SEZ in Africa was launched in Mauritius in 1970, followed by Ghana and Senegal later in the decade. Following notable successes, emerging markets saw the potential for SEZs to provide economic development through a spillover effect.

There are approximately 5400 SEZs worldwide, with 237 – around 4% – located in Africa. Some 56 of these were still under construction as of 2021. Free zones are a relatively new concept in Africa, with roughly 60% of the continent's SEZs having been developed since 2000. As of mid-2021 Kenya was home to the most SEZs, with 61, followed by Nigeria, with 38, Ethiopia, with 18, and Egypt, with 10. The subregion with the highest number of free zones was East Africa, with around 50% of the total, followed by West Africa, with 24%, and North Africa, with 10%. To date, 37 African countries have at least one SEZ, with around half being fully operational. Approximately $2.6bn had been spent on Africa's free zones as of December 2022. These zones cover 150,000 ha of land, with funding coming from both public and private investors.

The late 1990s and early 2000s saw an increase in the development of SEZs throughout Africa, and another wave of development began in the early 2020s with new zones established in Benin, Eswatini and Guinea. SEZs are managed by distinct regulatory regimes aimed at attracting investors and companies to operate within them, with many providing fiscal incentives and additional services. Most of Africa's free zones are multi-activity zones, housing a range of industries rather than specialised production centres. Many SEZs across the continent are located near transport infrastructure, such as railways and ports, which helps to facilitate trade.

Despite an increase in free zone construction, many SEZs remain underdeveloped or underutilised. In addition, the contribution of SEZs to employment across the continent remains marginal, except in countries located on major trade routes, such as Djibouti. According to a 2020 survey conducted by the UN Conference on Trade and Development (UNCTAD) and the Africa Economic Zones Organisation, of 39 SEZs assessed across the continent, more than 40% had filled less than a quarter of their zone capacity, and 75% had less than half of their land occupied by firms. Only 15% of the zones surveyed were operating at full capacity. In response to these results, UNCTAD encouraged the adoption of best practices from existing SEZ projects, adapted to the national context, to successfully develop free zones in new locations.

Potential benefits of successful SEZ programmes

	Direct benefits	Indirect benefits
Employment generation	✓	
Foreign exchange earnings	✓	
Foreign direct investment	✓	
Government revenue	✓	
Export growth		✓
Skills upgrading		✓
Testing field for wider economic reform		✓
Technology transfer		✓
Export diversification		✓
Enhancing trade efficiency of domestic firms		✓
Cluster facilitation		✓
Urban & regional development		✓
Adoption of modern management practices		✓
Green growth		✓

Table source: *PEDL*

OXFORD BUSINESS GROUP

Ismail Ersahin

Executive Director, World Association of Investment Promotion Agencies (WAIPA)

In what ways can special economic zones (SEZs) catalyse development in Africa?
ERSAHIN: SEZs serve to increase exports, create jobs and produce value-added products. Some investment promotion agencies also manage national SEZs. The most successful zones have adopted strategies linked to both the local context and international economic trends via a coordinated institutional approach.

To ensure their competitiveness, SEZs must focus on sustainable development and environmental, social and governmental objectives, with long-term development plans accompanied by knowledge sharing.

How can SEZs benefit from the African Continental Free Trade Area (AfCFTA)?
ERSAHIN: AfCFTA will allow better access to the continent's markets, better workforce mobility, lower costs and higher production standards. According to a July 2020 World Bank report, the first phase of the trade agreement, which went into effect in January 2021, could increase regional income by 7%, equivalent to $450bn, accelerate the growth of women's wages and lift 30m people out of extreme poverty by 2035. In addition, total export volumes would increase by nearly 29% by 2035, while intra-continental exports would increase by over 81%, and exports to non-African countries would increase by 19% in the same period. This implies an increase in foreign direct investment, creating better-paying jobs.

Moreover, investment promotion agencies can play a key role in bridging the financing gap that Africa is facing in the coming years. Greater collaboration between promotion agencies and SEZs should attract investors and help harness the region's full economic potential.

What are the obstacles facing international investors seeking to operate in Africa today?
ERSAHIN: Major challenges in boosting Africa's investment profile are often related to perceptions around political instability and insecurity as well as the lack of skilled labour. As African economies grow, collaboration between public authorities and the private sector can serve to train the workforce. To this end, the challenge for investment promotion agencies and public authorities is to implement programmes that increase the continent's supply of qualified human resources.

Given the appropriate level of infrastructure, SEZs will allow African countries to overcome the hurdles that investors are facing today. Many approaches are producing results that can be shared and used by promotion agencies not only in Africa but also globally.

Addressing the aforementioned concerns will help to attract more economic operators and foreign investors. Creating a portfolio of projects and channelling more funds into those that align with the vision statements of nations are also important to draw investment. Looking ahead, favourable conditions will ultimately help ensure the robust flow of free zone-related trade in the coming years.

Adding value

Methods for bolstering high-value exports from SEZs

- Increasing research & development expenditure
- Strengthening linkages with universities
- Supporting targeted business incubators
- Attracting talent

The recent wave of free zone development in Africa has largely been aimed at adding value to traditional economic activities, such as agriculture and manufacturing, as countries welcome industrial innovation and new technologies. Many African countries still rely on agriculture as their main economic driver, with agro-industrial development presenting significant potential for modernisation. Greater private investment in industry can help add value to agricultural activities in resource-rich countries. The establishment of SEZs can encourage the development of processing facilities, as well as workforce training, as companies take advantage of low labour and production costs to make exports more competitive.

The ways in which SEZs can add value to products and industries vary depending on the country context. For example, South Africa and Ghana have established commodity-focused zones to add value to their raw materials and agriculture sectors. In contrast, Morocco has concentrated on high-tech activities such as automotive manufacturing. Morocco's industrial sector was previously dominated by low-tech exports, such as garments and textiles. However, over the last decade Morocco has attracted more FDI in its higher-value-added technology industries through the development of new SEZs. Between 2010 and 2016 the country's exports increased by $2bn, with automotive exports rising from 2% to 16% of the total. Between 2008 and 2015 the share of medium- to high-tech exports increased from 23% to over 40%. Morocco became the second-largest automobile manufacturer in Africa in 2018, producing 430,000 vehicles annually.

The government has been instrumental in attracting a high level of industrial investment, having launched the National Pact for Industrial Emergence in 2008 and the Industrial Acceleration Plan in 2014, as well as providing a range of fiscal incentives to investors. The government also prioritised specific industries, such as automotive, aerospace, electronics and agro-industrial processing, based on their suitability for investment. The development of SEZs in the country has been supported by political stability, the comparatively low cost of skilled labour and proximity to Europe. In 2020 advisory firm FDI Intelligence ranked Morocco's Tanger Med Zones – a group of eight free zones around the port of Tangier – as the top free zone in Africa and second in the world.

Several emerging economies have tried to follow Morocco's example in high-tech industrial development, but many have been unable to connect local low-tech industries, such as agriculture and manufacturing, with high-tech industrialised solutions. The lack of adequate training for highly skilled workers means there is often a gap between local economic activities and the expectations of international investors. Moving forwards, the implementation of the African Continental Free Trade Area (AfCFTA) is expected to enhance integration across the continent, spurring the structural transformation of African economies from a focus on low-value-added industries to more diversified and knowledge-based economic activities.

Infographic source: *World Bank*

Case Study

Special economic zones (SEZs) are becoming an increasingly important policy tool for attracting foreign investment, creating jobs and accelerating economic growth in emerging markets across sub-Saharan Africa. In fact, according to a UN Conference on Trade and Development report published in 2021 the West African subregion, which hosts 24% of Africa's estimated 237 SEZs, serves as an important example of the growing prominence of SEZs as a means of promoting industrialisation and economic diversification, and facilitating investment.

To ensure SEZ's maximum impact, it is essential to foster public-private partnerships and joint ventures that can leverage government resources, alongside private sector stakeholders such as ARISE Integrated Industrial Platforms.

ARISE designs, finances, conceives and operates industrial ecosystems across Africa. The company has established SEZs in several countries, including the Glo-Djibé Industrial Zone (GDIZ) in Benin, the Plateforme Industrielle d'Adétikopé in Togo, the Akoupé-Zeudji Industrial Zone in Côte d'Ivoire and the Gabon Special Economic Zone. These zones provide the necessary infrastructure to boost competitiveness and create a conducive business environment for sustainable growth in developing economies. SEZs under development managed by ARISE that will tap into West Africa's economic potential include the Remo Economic Industrial Cluster in Ogun State, Nigeria and Laham Tchad in Chad.

Situated on the outskirts of Cotonou and covering an area of 1200 ha, the GDIZ was developed in collaboration with the Benin government to cater to a variety of industries, including agri-business, light manufacturing and logistics. In addition to providing proximity to the main Port of Cotonou and enabling access to global markets, the zone's infrastructure is supported by a power plant, water treatment plant and waste management system. To facilitate business operations in the zone, the GDIZ provides various support services, including legal and financial aid, and streamlined administrative processes. In addition to these benefits, businesses operating within the zone can take advantage of incentives such as exemptions from corporate income tax, value-added tax and Customs duties on imported goods, which can significantly reduce operating costs. The facilities, support services and administrative processes are standardised across the SEZs under ARISE's portfolio.

Furthermore, the zone collaborates with universities and vocational schools to provide training to local workers, ensuring that a skilled labour force is available to operate modern industrial equipment and generate technological spillover. This approach contributes to the overall development of the region by creating employment opportunities and fostering a culture of innovation.

Viewpoint

Gagan Gupta, Founder and CEO, ARISE Industrial Platforms

Africa has witnessed remarkable growth and development in recent years and special economic zones (SEZs) have emerged as powerful catalysts for this trend, spurring economic transformation and attracting foreign investment. These zones are playing a key role in enhancing regional integration, fostering innovation and technology transfer, boosting export capacity, and encouraging local value addition, which is critical to reducing resource dependency.

By facilitating the development of vital infrastructure, such as modern and efficient facilities and transport nodes, and creating a streamlined and efficient process for businesses looking to invest in the region, SEZs are playing a key role in overcoming challenges and boosting wider economic growth.

The role of SEZs in Africa will only continue to grow in importance as governments in the region continue to focus on accelerating industrialisation and promoting sustainable development amid the increasing importance of environmental, social and governance standards. By leveraging the power of the private sector through public-private partnerships to develop, fund and operationalise SEZs, Africa is well positioned to be a significant player on the global stage in the years ahead and achieve its sustainable development goals.

Impact of AfCFTA

In March 2018 a total of 44 African countries signed the AfCFTA agreement, establishing the largest free trade area in the world in terms of country participation. The AfCFTA entered into force in May 2019 after being ratified by 22 African countries, and member states began trading under the regime in 2021; 46 of the 54 signatory countries had deposited their instruments of ratification as of July 2023.

The free trade area was established to promote intra-African trade and accelerate industrial development as part of the African Union's strategy for structural transformation across the continent. It is supported by the Framework for Boosting Intra-African Trade, aimed at growing intra-African trade to 25% of all African trade within the next decade, and the Action Plan for the Accelerated Industrial Development of Africa, which focuses on industrial performance.

The AfCFTA is designed to create economies of scale, provide low-cost intermediate inputs for African companies, which will in turn help to develop regional value chains, and improve access to cheaper local products for African consumers, enabling the structural transformation of African economies and the reduction of risks involved with overlapping trade rules.

In March 2023 the UN Office of the Special Adviser on Africa, the AfCFTA Secretariat and other partners held a webinar under the theme "AfCFTA: Maximising opportunities for inclusive, sustainable development". In the concept note, the organisers stated that effective implementation of the AfCFTA will result in the social and economic transformation of the continent by establishing a unified market of 1.3bn people and a GDP of $3.4trn.

The trade area aims to eliminate tariffs on 90% of goods, lower non-tariff barriers and implement trade-facilitation measures, as well as reform regulatory and policy frameworks. In doing so, the AfCFTA offers opportunities for promoting economies of scale and enhancing investment in manufacturing and value addition, which are expected to boost intra-African trade, accelerate the diversification of economies on the continent and establish regional value chains. Areas of expected improvement under the AfCFTA include an FDI increase in Africa of between 111% and 159%; the creation of higher-paid, better-quality jobs, including wage gains for women of around 11.2% by 2035; and the development and expansion of local companies. Additionally, to reap further benefits, the 2022 World Bank report suggests that governments ensure the agreement covers investment and competition policy, intellectual property rights, and e-commerce; encourage broad support for the AfCFTA; help businesses benefit from its provisions; and develop social safety nets and worker training programmes. If successful, the AfCFTA could help an estimated 50m people escape extreme poverty and increase real income by 9% by 2035. Africa's international exports could increase by 32%, whereas intra-African exports could grow by 109% in this same period.

Impact of AfCFTA implementation

- Capital inflows to Africa to increase by **$450bn**, or **7%**, by 2035
- Simplifying Customs procedures would generate **$292bn** in extra income, facilitating the integration of African firms into global supply chains
- Exports would increase by **$560bn**, mostly in manufacturing
- Women and men would see significant wage gains of **10.5%** and **9.9%**, respectively
- Wages would increase by **10.3%** for unskilled workers, and **9.8%** percent for skilled workers

Infographic source: *World Bank*

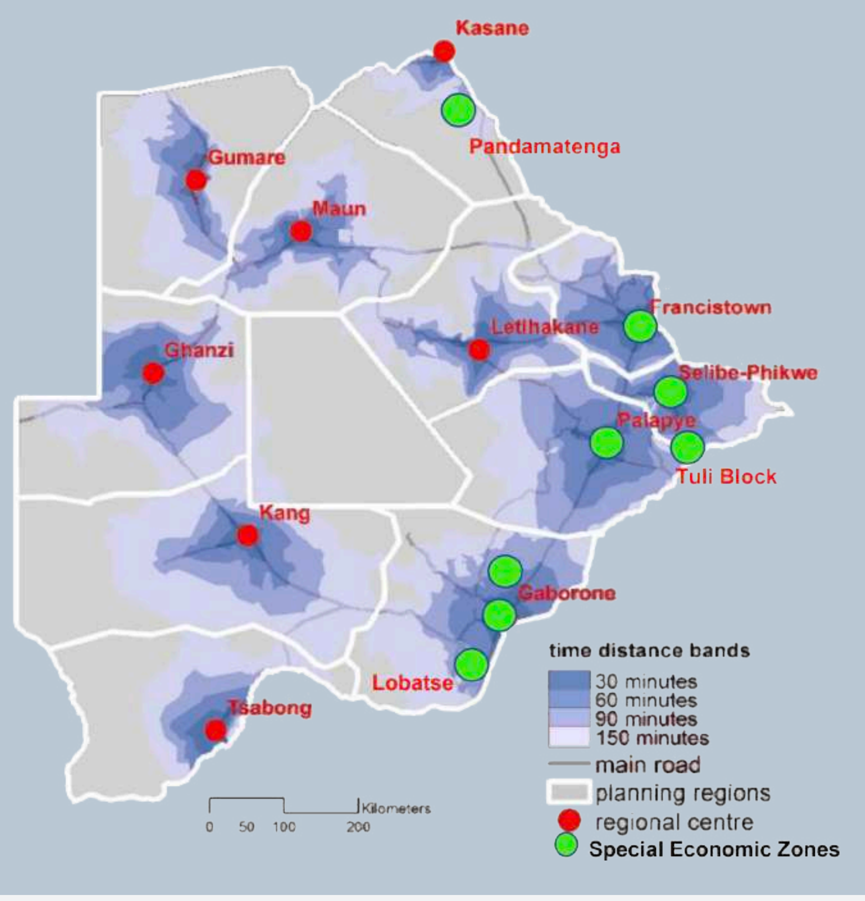
Part 1: Introduction

Case Study

Botswana has several ongoing projects, including the nine special economic zones being constructed across the country under the purview of the Special Economic Zones Authority (SEZA) of Botswana. Additionally, SEZA Botswana is targeting high-impact investors in strategic industries by offering attractive fiscal incentives. For example, companies investing in human capital and skills development are eligible for a 200% reimbursement. Other incentives include a corporate tax rate of 5% for the first 10 years and 10% thereafter, making the incentives among the most attractive in Africa.

Botswana's economy has experienced varying levels of growth; however, expansion has remained robust, with an average annual growth rate of 4% in recent years. Furthermore, GDP growth of 11.4% in 2021 more than offset the previous year's 8.7% contraction as a result of the Covid-19 pandemic.

The African Continental Free Trade Area, which came into effect in 2021, has bolstered Botswana's economic prospects, as the country is poised to benefit from a steady supply of raw materials and increased market access. SEZA Botswana aims to capitalise on these advantages by promoting manufacturing, agri-businesses, warehousing, distribution and logistics across the nine economic zones. These segments will create new business opportunities, foster innovation, facilitate technology transfer and promote entrepreneurship and upskilling. To this end, SEZA Botswana has partnered with local universities and institutions to ensure alignment between industry requirements and the skills offered by the education system.



Viewpoint

Lonely Mogara, CEO, Special Economic Zones Authority (SEZA) of Botswana

Botswana offers a stable and secure environment for investment, as it is the oldest continual democracy in Africa. It prioritises the rule of law, which provides investors a sense of certainty. Furthermore, Botswana's economy was given an investment-grade sovereign credit rating by Standard & Poor's in 2021, indicating a low level of risk for investors.

The country shares borders with South Africa, Namibia, Zambia and Zimbabwe, giving investors access to a large market of approximately 393m people in 15 countries within the Southern African Development Community economic alliance, an intergovernmental organisation established in 1992 with the aim to further regional economic cooperation.

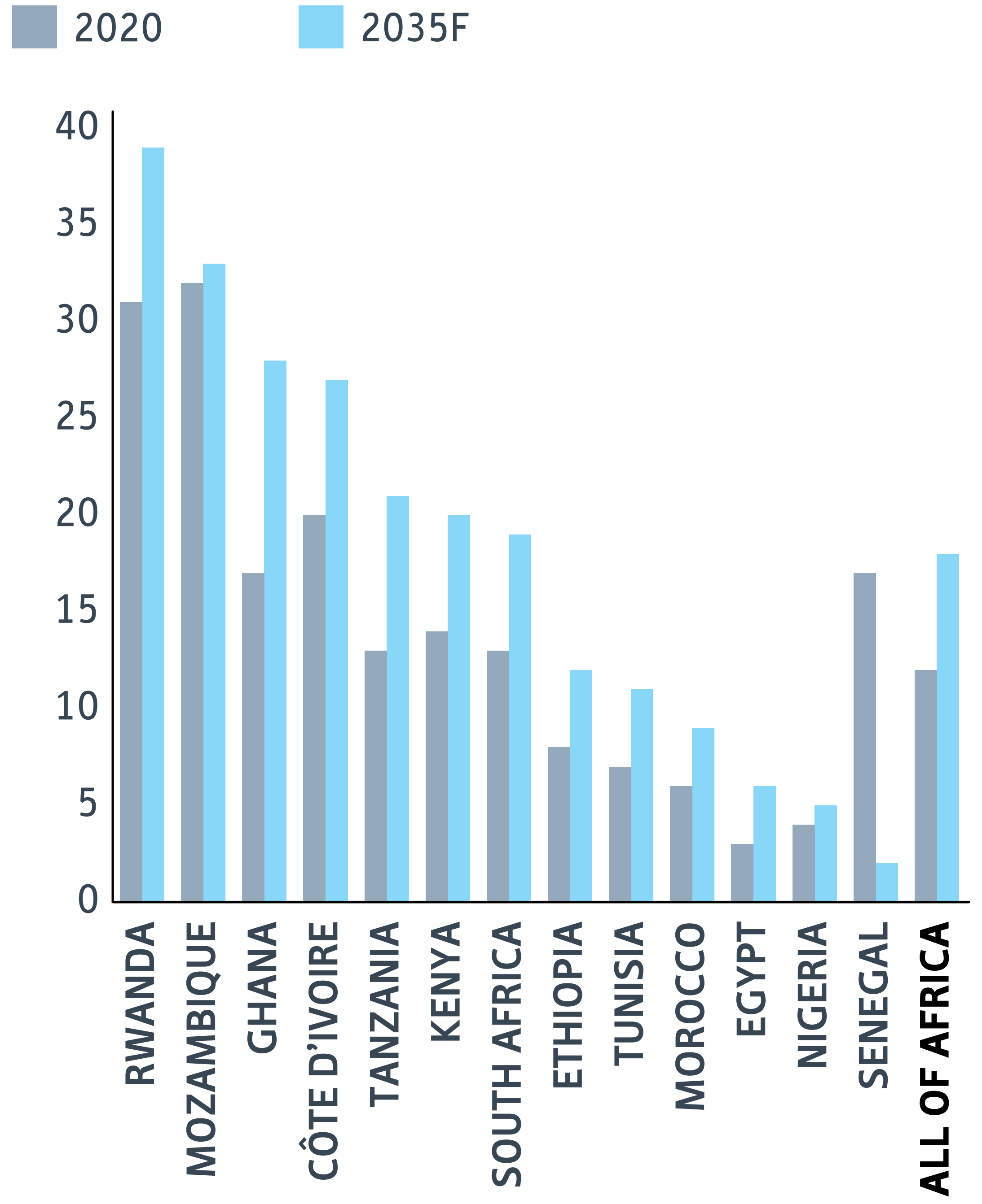
In order to generate employment opportunities, it is imperative to foster inclusive and sustainable industrial growth, along with the necessary infrastructure. Sustained and solid economic growth is key to attaining a suitable living standard for citizens.

The industrial sector plays a crucial role in promoting economies of scale, improving household earnings through secure and skilled employment, and expanding consumption, thereby initiating a continuous cycle of positive growth. Fostering this process is critical for generating employment opportunities, as it absorbs excess labour from traditional activities such as agriculture, fishing and mining.

SEZA Botswana seeks to align with the Ministry of Investment, Trade and Industry's goal of achieving economic diversification and generating employment for future generations. Moving forwards, it is important to target strategic utilisation of these building blocks across our nine special economic zones to attract further investment and create sustainable jobs for future generations.

Unifying trade regulations

Share of intra-AfCFTA imports in total imports, 2020 vs 2025F (%)



At present, SEZs run according to the trade regulations of the individual countries in which they operate. While free zones are managed by independent regulatory regimes, many respond to cultural and industry norms, as well as national laws. Translating this to the regional level, therefore, is highly complex due to the differing cultures, languages, and political and economic models present on the continent.

The AfCFTA seeks to address this situation to support the transition to a free trade system, unifying trade regulations across the continent in order to promote regional economic growth. To ensure the successful rollout of the regulatory regime, the AfCFTA Secretariat will carry out regulatory gap analyses and regulatory transparency assessments across member states, as well as offer regulatory reform recommendations for implementation.

The main challenge identified in the transition to a free trade system is the enactment of non-tariff and trade facilitation measures, which require national-level policy reform across all member states. This is expected to be a slow process, given that wide-scale reform is thought to be necessary for the unification of the continent's trade policies under the AfCFTA.

Other key challenges in Africa include higher commodity prices, headline inflation and the tightening of global financial conditions. Food and energy shortages have also put greater pressure on governments across the region. Trade is expected to increase under the AfCFTA following a slow initial growth rate as the regime is implemented across member states, especially those facing significant geopolitical concerns.

Ultimately, the reforms accompanying AfCFTA implementation could help to boost exports from African SEZs. Between 2016 and 2021 the average annual growth rate of exports from half the SEZs across Africa was reported to be less than 5%, while the remaining half experienced a growth rate of over 10%, with some seeing more than 30% average annual growth.

The World Bank estimates that total export volume from African countries will increase by almost 29% by 2035. This will be driven largely by intracontinental exports, which are expected to rise by more than 81%, with exports to non-African countries increasing by 19%. Intracontinental trade is projected to reach 20% of total exports by 2035.

This rise in trade figures is likely to manifest differently in different parts of the continent, with some countries expected to see faster intra-African trade growth than others. Countries like Cameroon, Egypt, Ghana, Morocco and Tunisia expect a growth rate of 100% to 200%, while countries such as the Democratic Republic of the Congo, Mozambique and Zambia will likely see a growth rate of between 10% and 30%. Overall growth is expected to increase export value from $294bn to $532bn. Based on post-AfCFTA implementation predictions, manufacturing exports will increase the most, by around 62%, followed by agriculture, at 49%. Additionally, services trade could achieve growth of 4%.

Graph source: *World Bank*

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Delivering results

Beyond creating economic growth within a designated special economic zone (SEZ) area, the development of free zones can also have a spillover effect on the economy of surrounding areas. Success stories in other parts of the world have encouraged the accelerated development of free zones throughout the continent in recent years, as African governments aim to improve local and national economic outcomes. Governments look to free zones to provide the country in which they are located with an increase in exports, foreign direct investment inflows and employment, often opting to invest in an SEZ instead of funding another fiscal policy.

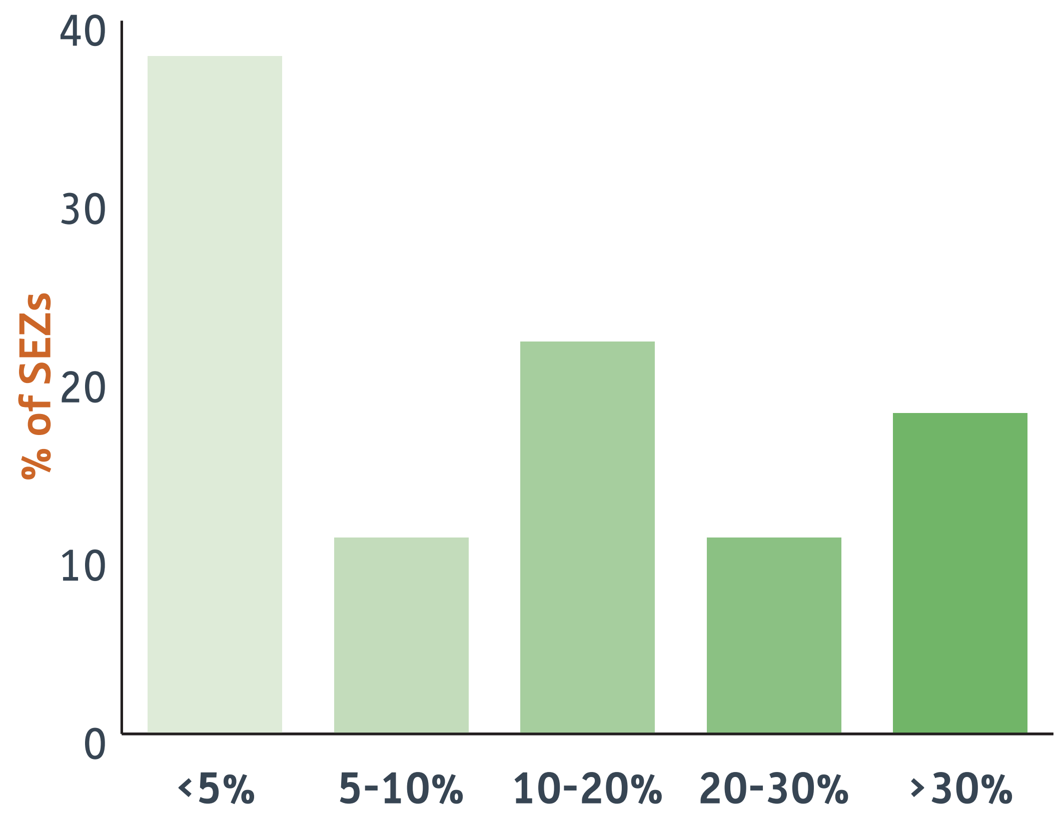
Not all new SEZs have had the intended impact, however. While a number have been successful, the performance of SEZs in Africa has, so far, fallen below expectations. This is not only true of Africa; a 2019 survey showed that of 345 zones assessed across 22 countries, only 19% demonstrated a higher growth rate than the host country as a whole. Several factors have been identified as central to the success of an SEZ, although there has been no tried and tested guarantee for economic growth. Best practices for free zone development include establishing SEZ regulatory policies that align with national economic strategy, developing free zones that are local context-specific, and creating SEZs that reflect the international investment environment and economic situation, such as ensuring high environmental, social and governance (ESG) standards to attract investors.

The UN Conference on Trade and Development 2021 handbook provides a guide for policymakers based on experiences seen in free zones across the continent. In addition, the implementation of the African Continental Free Trade Area (AfCFTA) over the coming years, aimed at greater coordination across the region, will shape national policies and the development of SEZs.

Numerous free zones across Africa have taken into account the contemporary international economic environment and adapted to investor trends to attract funding. This includes inclusions such as green energy facilities or low-cost processing and manufacturing plants, as well as the promotion of high ESG standards. For example, the government of Egypt developed the Robbiki Eco-Leather Park (RELP) in alignment with the national aim to reduce the environmental impact of strategic industries. RELP was designed to help transition leather production away from the unsustainable business practices seen in the tanneries of Old Cairo to a free zone in Badr City. Three waste treatment plants have been constructed to support ESG aims, with the treated water being used to irrigate trees in a nearby 320-ha green area.

All regions of Africa experienced economic growth in 2021. Exports from the region increased to $150.1bn in the first quarter of 2022, exceeding pre-pandemic levels. The AfCFTA is expected to improve African trade performance, with a projected rise of 109% in intra-African exports by 2035 from 2020 levels. At present, intra-African trade accounts for 15% of Africa's total trade. Meanwhile, Africa's share of global trade totals approximately 3%. Nigeria's Ngozi Okonjo-Iweala, the director-general of the World Trade Organisation, stated that she hopes to double or triple Africa's share of global trade through improvements to infrastructure and more widespread digitalisation.

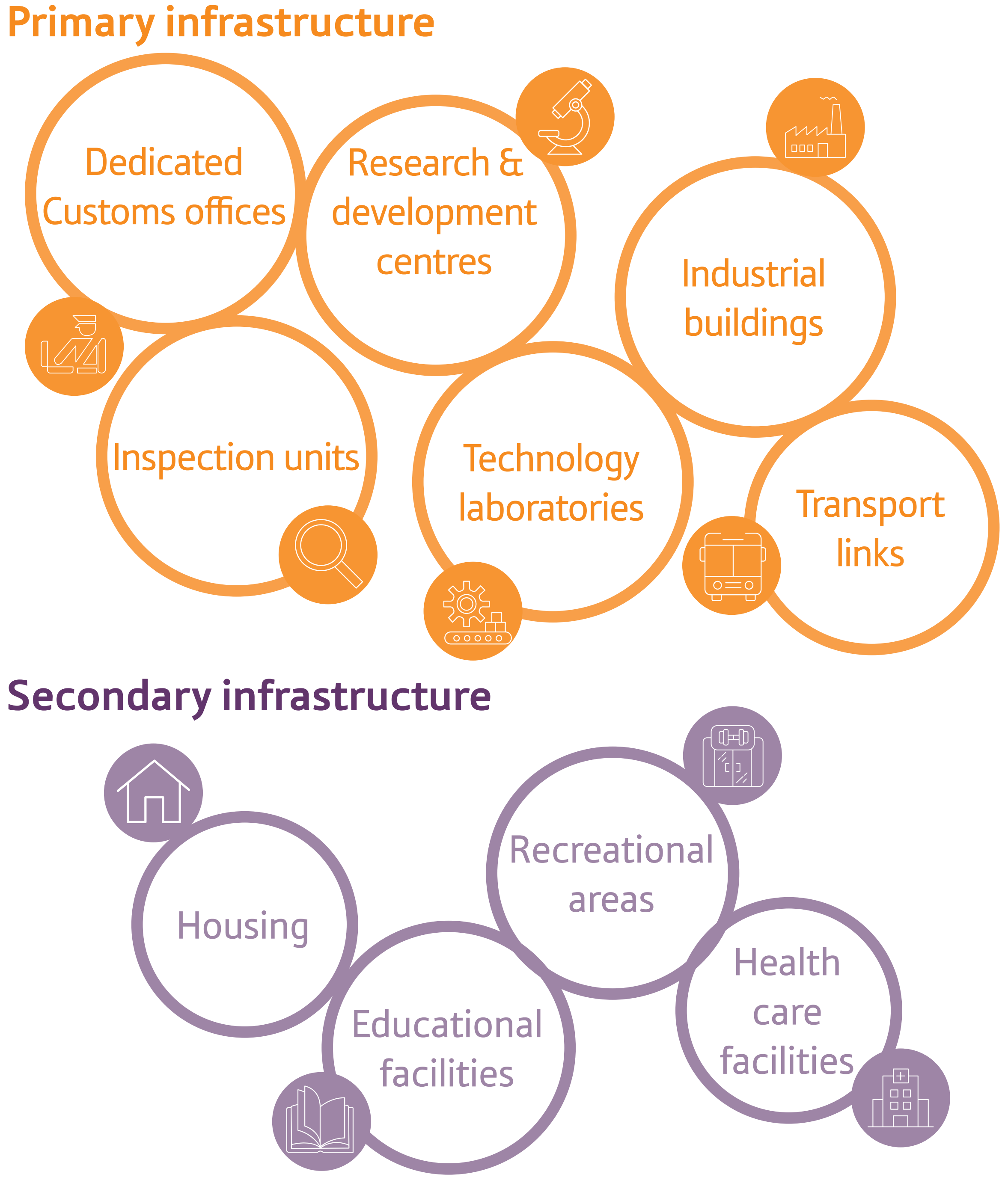
Annual export growth among Africa SEZs, 2016-21 (%)



Graph source: *AEZO*

Upgrading local industry

Examples of key infrastructure to catalyse growth in SEZs



Infrastructure development in free zones focuses on industrial buildings and transport links to facilitate industrial activity and trade. The success of an SEZ often depends on the breadth and quality of its facilities, which can include dedicated Customs offices; inspection units; research, development and training centres; and technology laboratories. The development of housing, educational institutions, recreational areas and health care facilities can attract skilled workers to the zone. Additionally, the provision of extensive facilities that promote high ESG standards can be attractive to investors looking to contribute to the sustainable development of a region. In many cases, a focus on the financial performance of an SEZ can overshadow the provision of quality infrastructure and social amenities for workers, which can limit the impact of a free zone on local growth.

The Musina-Makhado SEZ, a new free zone in South Africa under construction as of mid-2023, will include upgraded facilities in water, electricity, ICT, roads, transport, accommodation, aviation, education and training. Musina is located close to Beitbridge Border Post, one of the busiest ports of entry to South Africa. The project, which is primarily funded by China, aims to resemble developments in the Asia-Pacific region, such as the Suzhou Industrial Park (SIP) in Jiangsu, China. Since its establishment in 1994, SIP has transformed into a liveable city that facilities business and trade while providing social amenities to over 5% of the city's population.

In addition to improving the infrastructure within a free zone, investment in a country's traditional economic activities – such as agriculture and manufacturing – and improvements to off-site infrastructure can help support the development of its value-added industries. For example, public-private investment in road infrastructure linking farms to urban centres can facilitate the transport of crops for processing and export. This is often supported by the development of processing plants and the training of workers to carry out advanced industrial activities. Processing raw materials locally using comparatively low-cost labour can make products more competitive and avoid an overreliance on other countries with processing facilities.

The implementation of the AfCFTA is expected to accelerate the development of agro-processing activities, which will boost food security, create more jobs and reduce poverty. By 2030 intra-African agricultural trade is projected to increase by 574% compared to the baseline without the AfCFTA. In addition to supporting the growth of local businesses, this development is expected to boost the regional fertiliser industry, decreasing the reliance on foreign inputs for farming.

The development of the local industrial base will help make more competitive products that boost export levels and enhance SEZ revenue. Furthermore, around 70% of those employed in the agriculture sector are female, with women making up a large proportion of the agro-processing workforce. As a result, upgrading the local industrial base to support SEZ activities can lessen the gender disparity in employment.

Infographic source: *UNCTAD*

Case Study

The Lagos Free Zone (LFZ), a port-based industrial zone in Nigeria, was established in 2012 and spans 850 ha. As of early 2023 over $2.5bn in foreign direct investment had been deployed within the zone, located east of Lagos in the Lekki development corridor. Given both the weight of Nigeria's economy and the size of its consumer market, the LFZ is one of the primary manufacturing and trading centres in West Africa. In line with its globally focused operations, the LFZ is owned and operated by Singapore-based Tolaram, and is home to multinational companies such as BASF, Kellogg's, Colgate, dairy producer Arla and Dufil Prima Foods.

> With many multinationals already set up in the port-based industrial zone, the Lagos Free Zone is one of the primary manufacturing and trading centres in West Africa

The LFZ has prioritised sustainability and implemented measures to ensure environmental protection and conservation. Roughly 30% of the zone's total land area has been set aside for green spaces and common infrastructure.

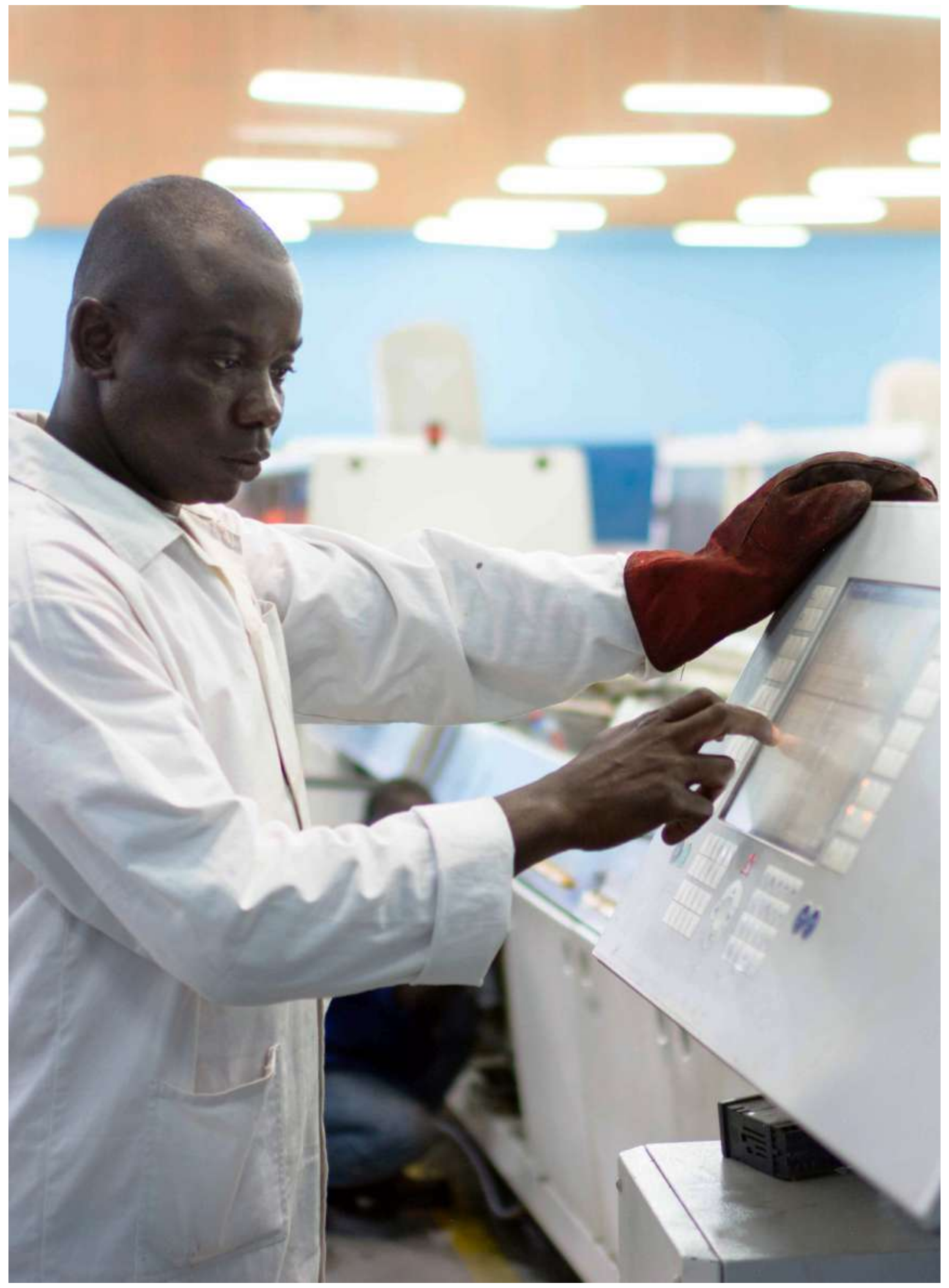
In addition to a favourable location, supportive infrastructure and emphasis on sustainability, investors benefit from incentives when establishing long-term operations. The LFZ offers several tax incentives, including no corporate income, education or withholding taxes. Full 100% foreign ownership is permitted, and a single window for permits and approvals was created to streamline processing. The free zone is designed to support the broader industrial ecosystem. For example, ready-to-lease warehouses, standard design factories, residential units and a medical centre are on site.

"While the free zone's fiscal incentives are an attraction for many investors, the most important pull factors are the business environment and infrastructure," Jean-Marc Ricca, managing director of BASF West Africa, told OBG. "The LFZ provides investors with a variety of support and services, allowing them to establish operations and grow. This, in combination with Lekki Deepsea Port, makes it attractive to investors. We are all working to create value by developing a pop-up business environment in which companies can thrive."

Looking to the future, the free zone is expected to play a critical role in the country's long-term economic development by providing a competitive business ecosystem and expertise in end-to-end value chains for manufacturing sector. Investment in and the expansion of the LFZ, in turn, will support the efforts of the Nigerian government to better serve domestic businesses, and to address infrastructure deficits in the fields of security, energy, e-commerce, transport and logistics.

**Photo as of H2 2022*

Catalysing innovation



When developing free zones, governments expect the economic activity and enhanced trade experienced within an SEZ to promote growth in the wider community. Proactive and targeted policy measures that align with national economic strategies can help promote this kind of spillover effect. Indirect benefits include upgrading skills in the local workforce, the introduction of new technologies from SEZ firms, partnerships between SEZ and non-SEZ companies, and the sourcing of local raw materials and labour.

In order to promote indirect development, a number of governments have adopted the successful strategy of incentivising the hiring of labour and the sourcing of materials from the region where the SEZ is located. Establishing partnerships with local suppliers serves to reduce costs and waiting times. Situating a free zone on a major trade route, or adjacent to an agricultural production centre, can encourage investors to support local businesses in return for their products and expertise. This can spur growth and improve productivity within a free zone.

While the transfer of certain skills and technologies from SEZs to the local community is a key benefit of free zones, it is not a guaranteed process. Globally, some SEZs remain closed off from the region in which they operate, particularly as incentives are often strictly limited to the areas immediately adjacent to the free zone. Several studies investigating the indirect benefits of SEZs have seen negative results, with some free zones failing to contribute to the socio-economic development of the city or country in which they are located.

The Hawassa Industrial Park in Ethiopia is a prime example of the challenges and opportunities facing SEZs in Africa. The park was constructed by the China Civil Engineering Construction Corporation and began operations in 2016. The $246m park was developed in partnership with Europe and the US to serve as a centre for textile and garment manufacturing. The government established several fiscal and non-fiscal incentives to attract investors, including income tax and Customs duty exemptions, high-quality services and facilities, easy access to transport and support with administrative procedures. The park also offers low-cost labour and utilities when compared to similar sites in Asia.

The park provides up to 60,000 jobs, with many workers hired from the local community. However, companies have experienced a number of challenges, including low employee retention, limited access to local raw materials such as field organic cotton, and a lack of small and medium-sized enterprises nearby, mainly due to the absence of business incentives beyond the SEZ.

To encourage more widespread integration, in 2020 the Ethiopian Investment Commission partnered with Mastercard to modernise factories through the digitisation of labour supply and demand matching. The scheme aims to develop a database for the park and six other SEZs in order to promote job creation, optimise employment, and foster partnerships between local suppliers and investors. The programme is expected to be fully implemented in 2023.

Evolving industries

Several industries in Africa are developing quickly thanks to high levels of investment aimed at adding value to traditional economic activities, as well as an openness to modernisation present in many countries. The most recently developed SEZs across the continent reflect the willingness of many governments to embrace technological innovation and develop modern industries to support economic growth.

The transformation of strategic sectors, such as agriculture and manufacturing, has helped countries to add value to their natural resource base and traditional economic activities. While free zones provide a platform for countries to attract investment, the introduction of agro-industry and high-tech manufacturing often supports the expansion of local businesses and encourages the rollout of skills development programmes for the local workforce.

In recent years the continent has seen an increase in greenfield FDI to $33bn annually, with investment in high-skilled industries increasing by 84% and investment in manufacturing up 60%. The establishment of a diversified industrial base has been shown to support the development of SEZ-based firms and local companies, which in turn supports industrialisation.

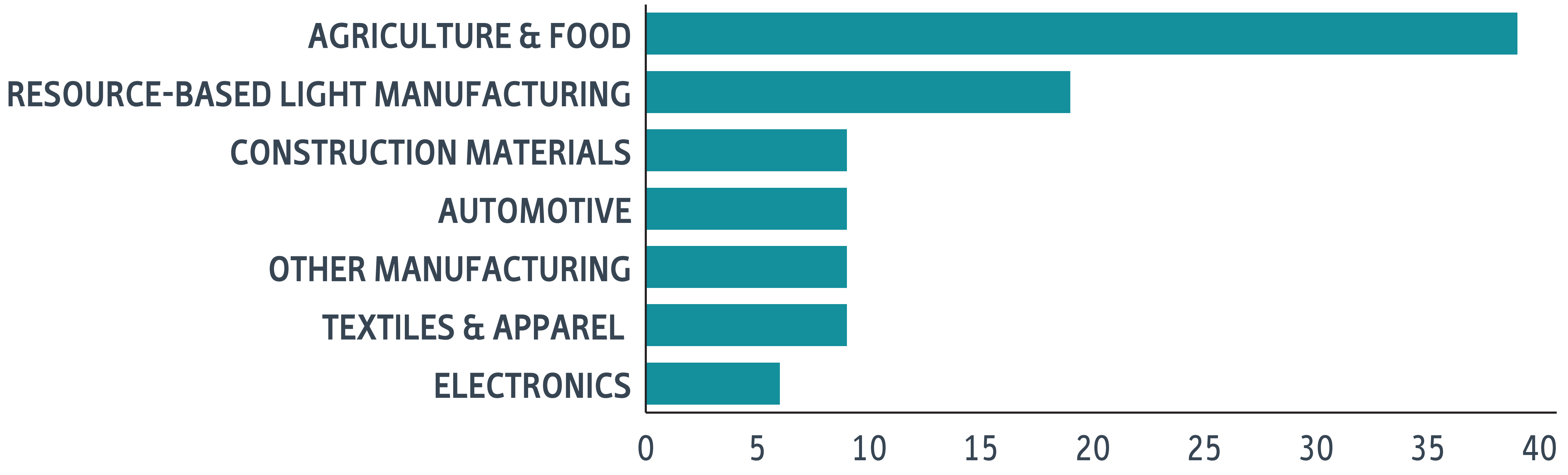
In addition to elevated investment in traditional industries, there has been significantly more interest in sustainable development in recent years. More pressure has been put on African countries to improve their environmental and social practices, as good ESG performance in business and trade is seen as increasingly important to companies worldwide. In recent years several countries across the continent have welcomed funding for emissions reductions and clean energy technology adoption in order to support sustainable development in free zones.

In April 2023 the African Export-Import Bank (Afreximbank) and the UN Economic Commission for Africa (UNECA) signed an agreement to establish SEZs to produce battery-powered electric vehicles and related services in the Democratic Republic of the Congo and Zambia. This is the latest of several SEZ projects across Africa supporting the global green transition, with free zones across the continent using renewable energy to power industrial activities.

The project will receive financing and technological support from the Afreximbank and UNECA, and aims to establish production facilities for battery precursors, batteries and electric vehicles. It will develop upon the existing mining industries of both countries, adding value to raw materials commonly found in the region.

The Democratic Republic of the Congo accounts for 70% of the world's cobalt reserves and 88% of cobalt exports. Together with Zambia, it contributes 11% of the world's copper supply. The SEZ project is expected to accelerate the manufacture of pre-export value-added products and encourage training programmes to develop a skilled labour force and boost employment.

Export growth among Africa SEZs, 2016-21 (avg % change)



Graph source: *AEZO*

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Regulatory frameworks

Free zones typically operate under a separate regulatory framework, providing incentives to attract private funding and investment in an effort to stimulate structural economic transformation. Governments use incentives – most often financial ones, such as tax exceptions and special Customs regimes – to encourage investors to participate in special economic zones (SEZs). The facilitation of investment through streamlined administrative procedures and support for bureaucratic processes can also help attract international investors.

The African Continental Free Trade Area (AfCFTA) is expected to help unify regulatory frameworks across the continent, leading to higher levels of investment and trade. Most African countries with free zones adopted laws for their development before 2000 and have since amended them to reflect the evolving business environment. With expectations of improved environmental, social and governance (ESG) standards in free zones, as well as the emergence of new technologies, it is vital to the success of SEZs that governments adopt policies that are in line with local and global developments.

The most successful SEZs have been developed in line with national policies, while also considering the local industrial context and social norms. Regulations and activities that reflect national economic policies are likely to have a greater spillover effect on local industry. Notably, governments that have welcomed international partnerships and input from multiple stakeholders have benefitted from expertise and finance.

Many governments aim to make free zones a one-stop shop for investment and trade, as seen in Ethiopia, Morocco, Rwanda and Senegal. Some, including the Rwanda Development Board, introduced pre-registration processes, offering potential investors a list of the necessary documents and deadlines. Many governments also provide technical assistance or ease restrictions on employment and the hiring of foreign workers. As of 2021 around 23% of African SEZ policies explicitly sought to facilitate trade, according to the UN Conference on Trade and Development, with many aiming to reduce wait times at borders and ensure that the rules and regulations are clear to investors.

Case Study

Established in 2009 by the Angolan government, the Luanda-Bengo Special Economic Zone (LBSEZ) is a 4700-ha industrial complex in the Luanda municipality of Viana. The zone is home to numerous manufacturing, processing, production and commercial activities. It also hosts housing, services and other investment projects. As of March 2022 there were 75 operational industrial and commercial projects in the zone, with another 20 being implemented, 18 being constructed, 11 being restructured and seven being privatised.

Although the oil sector and related services accounted for about half of Angola's GDP as of August 2022, the country has made significant efforts to diversify its economic base in recent years. In 2021 the Angolan government's efforts stimulated non-oil growth, particularly in industry, agriculture and services. This resulted in the country's GDP returning to positive territory, at 0.8% in 2021 and 2.9% in 2022. Angola's GDP growth is projected to continue to rise, reaching 3.4% in 2023 and 3.9% in 2024.

The development of the LBSEZ is in line with Angola's strategy of easing its economy's reliance on hydrocarbons and making it less susceptible to changes in the global oil market. The zone offers services adapted to tenants, and it provides investors and entrepreneurs with a stable commercial environment in which to pursue their ventures. It also offers simplified bureaucratic procedures to facilitate the approval of new public and private investment projects. The government aims to convert the LBSEZ into a free trade zone to further stimulate the country's economy and increase employment opportunities.

Building infrastructure that is up to international standards, such as roads and a fibre-optic network, and developing green sources of energy are expected to help the free trade zone establish connections with the EU, the Middle East, Asia and South America. The free trade zone should also have a preferential relationship with the African Continental Free Trade Area and its 1bn potential consumers.

Part 3: Improvements

Access to land and energy

Land

Access to land can be complex when establishing a free zone, particularly in countries without a well-established land tenure system. Around 90% of rural land on the continent is undocumented, while approximately 4% of African countries have documented the land in their respective capital cities.

Free zones have designated boundaries, and the land within them is registered and incorporated into the government's private domain. While most are developed on publicly owned land, the land used for free zones is often contested due to the lack of a formal tenure system in many African countries. Although several international conventions suggest that governments should compensate private owners for any loss of land, this rarely happens in practice.

Governments typically offer businesses access to land in an SEZ at a subsidised rate. This forms part of broader incentives packages that can include subsidised utilities, such as water and electricity.

Power

The provision of power is a key consideration when developing a free zone. Whether the SEZ is privately or publicly funded, investors must plan for the installation of core infrastructure, including basic utilities such as water, electricity, telecommunications and waste management. Reliable utility services can help attract international investors and have been linked with greater success worldwide.

In addition to the initial installation of infrastructure, governments and investors must ensure that these networks are well maintained. Best practices involve collaborating with national service providers to ensure the stable, long-term provision of energy to industrial areas. This will ultimately help companies save time and costs, and could help attract more investment in the relevant SEZ.

Green Energy

As companies around the world become more concerned about their carbon footprint and their overall impact on the environment, many are looking to invest in regions that have demonstrated strong ESG practices. This has led to the rise of green energy infrastructure to fuel operations in SEZs across Africa.

In South Africa's 9003-ha Coega SEZ, for example, Belgium-based green energy production company Electrawinds established the first commercial wind farm in the country. There are also plans for a $4.6bn green ammonia plant to be developed by Hive Ammonia South Africa, with funding from Hive Energy and Built Africa. This plant will not only help power the SEZ, but also support the development of South Africa's green energy industry.

Viewpoint

Patrice Melom,
CEO, Port Authority of Kribi

Cameroon faced significant challenges in the aftermath of the Covid-19 pandemic but has since rebounded and improved its business environment, resulting in increased investor interest. Indeed, foreign direct investment (FDI) inflows rose from $675m in 2020 to $850m in 2021. This has helped stimulate growth and sustain momentum in sectors such as hospitality, infrastructure, manufacturing and financial services.

Growth in investment has been driven by the continued implementation of various industrial and economic zone projects across the country, including the one associated with the Kribi Port. The infrastructure related to the project is expected to eventually generate over 50,000 direct jobs, and position Cameroon as a regional and global player in terms of port infrastructure.

Moving forwards, increased cooperation among stakeholders in the public and private sectors could boost productivity, efficiency and capabilities at all levels. Overall, industrial platforms like the Kribi Port will serve as a major asset for Cameroon, helping the country to increase its export volume, enhance competitiveness through foreign trade and strengthen FDI. These factors will spur industrialisation and boost growth in line with the National Development Strategy 2020-30.

Investing in qualified talent

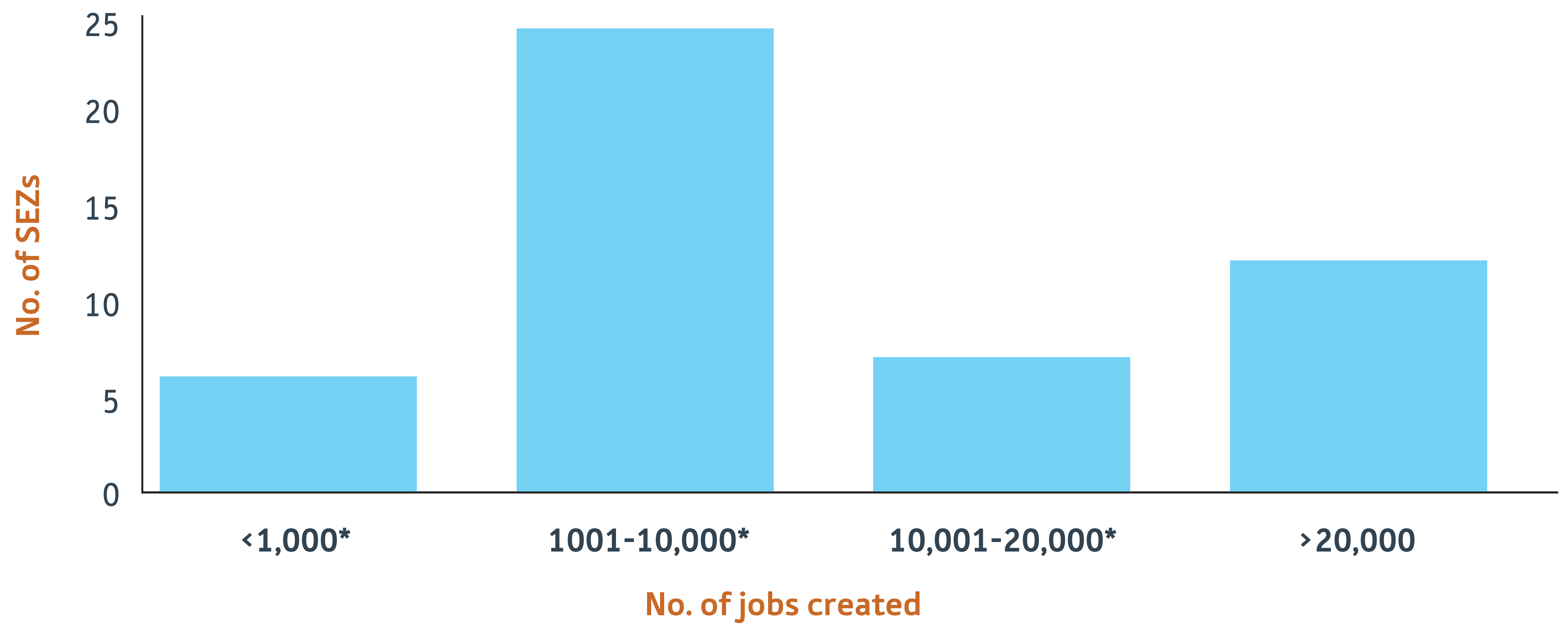
International investors are increasingly seeking productivity-related incentives when investing in free zones, such as a skilled workforce, efficient logistics and supportive infrastructure. One success story in this regard is Kenya, whose workforce consists of many highly educated and skilled workers. Kenya has provided free primary education since 2003 and free secondary school since 2017, and has 49 public and private universities, 11 national polytechnics, 574 vocational training centres, and 829 technical training institutes and colleges. Its adult literacy rate stood at 83% in 2022, above the sub-Saharan regional average of 68%. Its strong education system and technical and vocational education and training have helped it develop a skilled workforce.

In turn, investment in free zones can help develop the talent pool. Several SEZs in Africa have been established in areas of weak economic performance and high unemployment to reduce poverty and improve job opportunities. Indeed, boosting employment is often a government's second-most important objective of establishing an SEZ, after attracting the companies themselves, given indirect opportunities such as education and training.

In the decade leading to 2021 free zones contributed to the employment of 41m people in agriculture, particularly in agro-processing. There were 14m industrial jobs established in 2016-21, mainly in construction, manufacturing, mining and utilities. Looking ahead, opportunities are emerging in skilled sectors like telecoms ,and digital products and services, with 2m jobs created in 2016-21.

By 2020 Kenya had 61 SEZs providing 57,000 jobs and $650m in annual turnover. However, approximately 80% of firms operating in its free zones were fully foreign-owned as of 2014, with relatively few local firms contributing to the export mix. Kenya's Export Processing Zones Authority established the Export Business Accelerator in 2013 to accelerate the growth of small and medium-sized exporters, and help local entrepreneurs set up businesses. This scheme has helped integrate the local workforce into spaces that were previously occupied primarily by foreign companies.

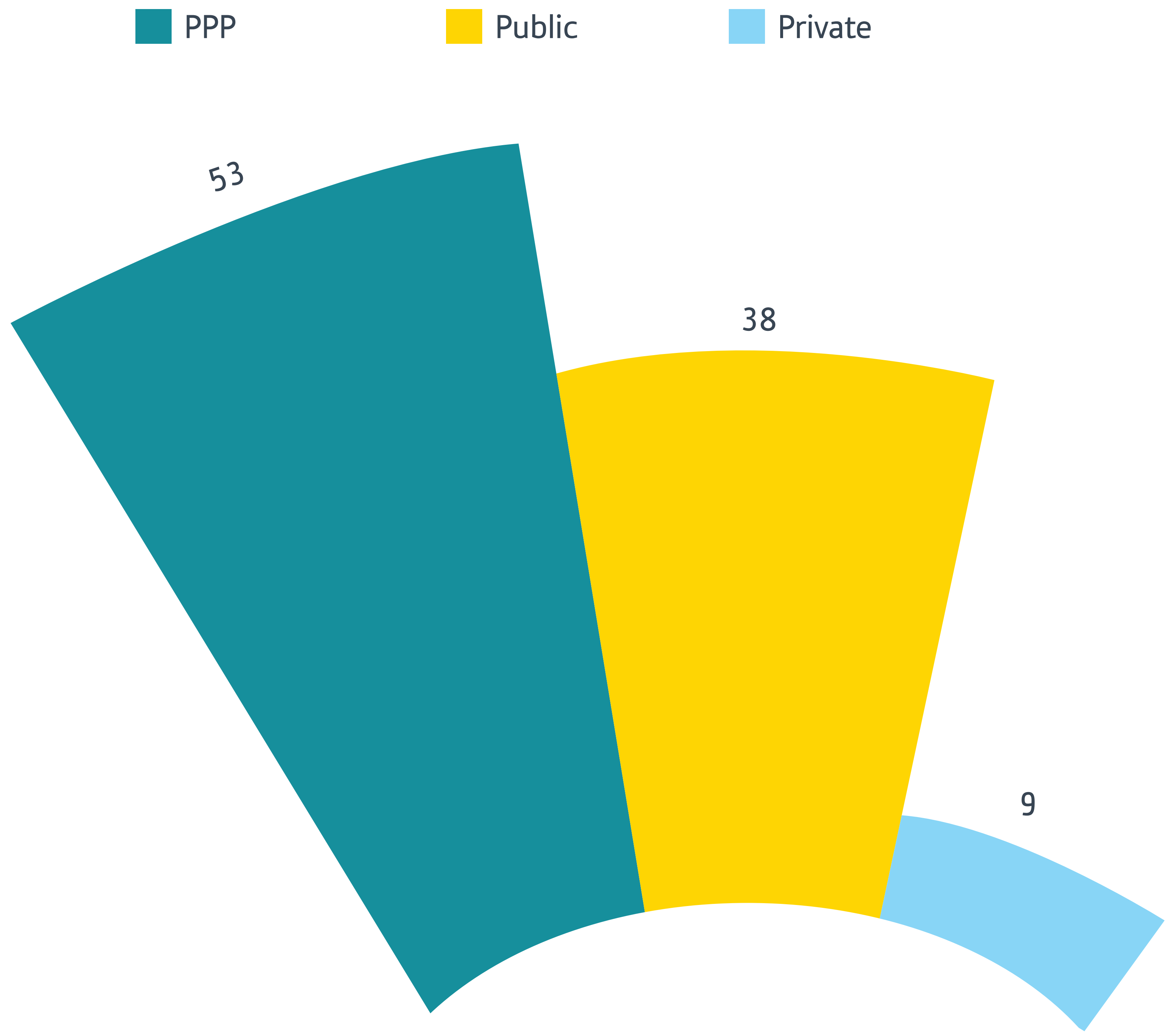
Job creation in African SEZs to date, 2021



Graph sources: *UNCTAD; AEZO*

Finance and fundraising

SEZ funding & governance models, 2021 (%)



Free zones require financing for infrastructure and services. There are a range of financing models, and each country must decide on the appropriate funding approach based on the needs of the free zone.

Under a public financing model, the government owns the project, with limited private participation typically taking the form of civil works or service contracts. Around 38% of African SEZs fell into this category as of 2021, according to the Africa Economic Zones Organisation. While public management allows for closer coordination with broader policy objectives, it also places all responsibility on the government. Much public funding for SEZs comes from multilateral development banks. From 1973 to 2015 the World Bank provided $2.4bn to 35 SEZs to cover a range of needs, including land acquisition and site development, infrastructure, factory shells and technical assistance. The African Development Bank, for its part, also provides significant funding to free zones. In Mozambique, for example, the bank co-financed the development of a free zone and infrastructure along the trade corridor at Nacala Port. It has also funded agricultural processing zones in Cameroon and Malawi, and a science park in Angola.

The private model substantially reduces risk for the government, putting the responsibility on private firms to design, construct and operate the free zone. This model is less popular, however, comprising 9% of African SEZs in 2021. Much of the funding comes from domestic and international commercial banks, as well as capital markets and venture capital. Commercial banks typically provide funding in the form of a loan, offering lower conditionality than public finance and specialised advice on key issues. However, these loans can be costly.

Lastly, the public-private partnership (PPP) model allows governments to participate without taking on all the financial burden. Governments typically fund off-site infrastructure, while private investment is used for on-site infrastructure and operations. In 2021 approximately 53% of SEZs fell under the PPP model.

Each model has its pros and cons. Ethiopia has had success developing both publicly and privately financed SEZs. Government funding – including through a sovereign bond issue in 2014 – helped Ethiopia finance the development of industrial parks, with complementary funding coming private Chinese firms.

Graph source: *AEZO*

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Sustainability and efficiency

In recent years there has been mounting pressure from the private sector for African special economic zones (SEZs) to improve their environmental, social and governance (ESG) practices, which has led to the development of eco-industrial parks and the emergence of sustainability as a mega-trend in the industry. Traditionally, free trade agreements have not been associated with climate-friendly policies, as industrialisation is linked to an increase in greenhouse gas (GHG) emissions. However, the African Continental Free Trade Area (AfCFTA) is expected to have a positive impact on sustainable development both within and beyond SEZs, with knock-on benefits for transport emissions as more goods are produced regionally.

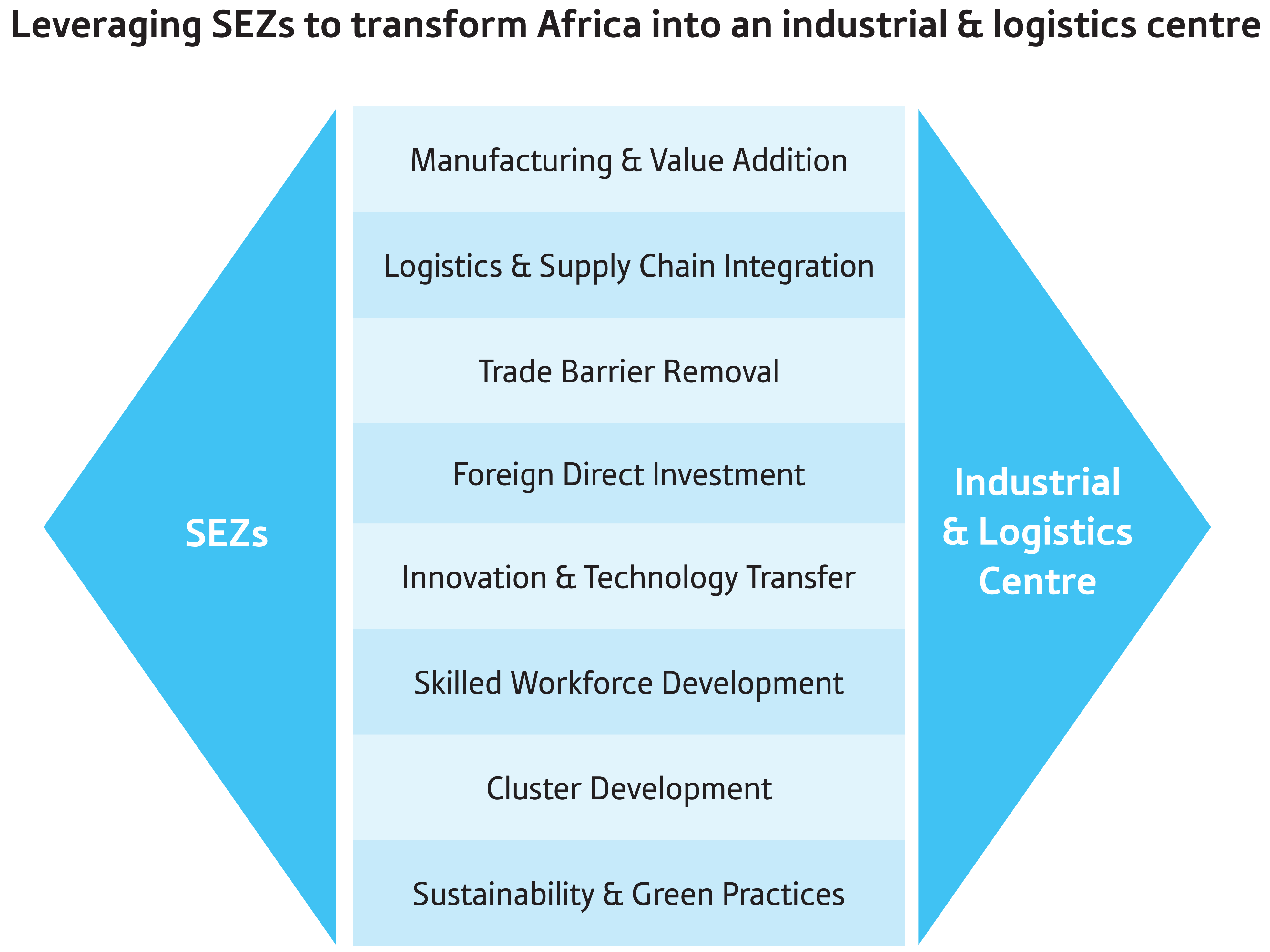
Although Africa accounts for a small share of global GHG emissions – estimated at less than 4% – as industrialisation continues, there will be a need to roll out green energy technologies to power industrial activities and ensure emissions remain low. Several international energy organisations expect Africa to become a major centre for renewable energy in the years ahead given its ample resources, with much of its energy coming from geothermal power. It also has significant hydropower capacity and the potential for widespread solar development. Its hydropower pipeline for 2022-37 stands at 60.8 GW, almost double its current installed capacity of 34.3 GW.

Integrating renewable energy and decarbonisation projects into Africa's SEZ landscape could encourage investment as companies work to minimise their carbon footprint. It also has the potential to spur technological transformation by driving investors to establish green energy and low-carbon production centres. Aligning free zone regulations with national development targets and the UN Sustainable Development Goals offers an avenue to unlock investment inflows and accelerate decarbonisation, as recently demonstrated in Gabon.

The Nkok SEZ was awarded the ISO 14064-1 certification for carbon neutrality in 2021 – the first industrial zone in the world to receive this certification. The multi-sector SEZ covers industries that include wood transformation, construction materials, pharmaceuticals, food processing, telecoms equipment, and waste and metal recycling, and has 144 companies from 16 countries, with $1.7bn in foreign direct investment to date.

Infographic source: *UN*

Industrial and logistics potential



An SEZ is considered a logistics hub if it provides commercial, warehousing and logistics services. Logistics hubs are typically located close to sea- and airports for trans-shipment and re-export, like the Mauritius Freeport and the Equatorial Guinea Luba Freeport. Around 1% of SEZs in Africa were considered logistics hubs as of 2021, while 89% were deemed multi-sector zones and 10% specialised free zones.

South Africa has a key logistics hub at the Musina Makhado SEZ, located on the N1 North-South Economic Corridor, which connects it with Gauteng Province – home to one-quarter of the population – and the rest of the country. It is also situated on the Johannesburg-Beitbridge railway line. Its strategic location provides access to low-cost raw materials and allows for more competitive pricing, making it a key logistics hub for the Southern African Development Community.

Industrial hubs, meanwhile, are typically focused on specific industries and seek to add value to existing activities. There are several examples of free zones acting as industrial hubs in Africa, including a focus on forest and wood-related products in Gabon, automotive manufacturing in Morocco and steelworks in Cameroon. With industrialisation one of five stated objectives to transform the continent, the African Development Bank (AfDB) aims to double regional industrial GDP to more than $1.7trn by 2025 and boost GDP to $5.6trn by giving the private sector the tools to drive industrialisation. The AfDB plans to facilitate a cumulative investment of $56bn for the implementation of six flagship industrialisation programmes over 10 years.

The AfCFTA is also designed to spur industrialisation. By removing some of the traditional barriers to trade and supporting the development of intra-continental commerce, it will create new regional value chains. This is expected to help attract manufacturers and develop key sectors such as construction, automotive, manufacturing, mining and agriculture. As international investors become more dependent on Africa for their manufacturing and energy needs, this should strengthen connections between Africa, Asia and Europe. The development of major regional transport corridors across the continent will improve trade and provide connectivity between landlocked countries and major international trade and transport routes.

Connectivity and intra-African trade

There has been a growing trend of regionalisation as governments and companies seek to shorten their value chains. A regional approach to value-added industrial activities and trade reduces the reliance on foreign products and the need to transport these products, thereby reducing the burden on the environment. In the wake of the Covid-19 pandemic and Russia's invasion of Ukraine, the importance of local supply chains has become even more evident, spurring the development of several new regional partnerships.

The rise of regional trade agreements, such as the AfCFTA, is expected to spur the development of regional value chains. This will encourage cross-border initiatives and regional cooperation, which will in turn help facilitate the implementation of the AfCFTA. To date, the contribution of SEZs to intra-African trade has been minimal. However, the AfCFTA's rollout is expected to encourage greater integration and economic spillover effects from free zones across Africa.

Intra-African trade currently accounts for around 14.4% of total African exports. A forecast from the UN Conference on Trade and Development suggests that the AfCFTA could increase intra-African trade by around 33% and reduce the continent's trade deficit by 51%.

The successful implementation of the AfCFTA will require greater freedom of movement for people and labour, as well as trade. The AfDB found that travel became more open to African citizens in 2022, with fewer restrictions. However, Benin, Gambia and the Seychelles are the only African countries that allow visa-free entry to all Africans. Freedom of movement could be supported by long-term cooperation in investment and competition policies to reduce regulatory barriers to market entry and avoid market dominance by countries with more favourable policies.

There are currently 14 trading blocs on the continent, with varying rules and regulations, as well as overlapping members. Given these existing trade structures, as well as some lingering sovereignty concerns among many AfCFTA member nations, the successful implementation of a continent-wide free trade regime will require open dialogue between the UN, the AfCFTA Secretariat and national leaders to encourage participation and adherence.

Impact of the AfCFTA

- **14.4%** intra-African trade as share of total at present
- **33%** projected increase in intra-African trade
- **51%** projected reduction in Africa's trade deficit
- **$21.9bn** worth of estimated untapped export potential in Africa

Infographic source: *UN*

6 Key Takeaways

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1

The AfCFTA holds significant potential for SEZs in Africa. Zone-based companies stand to gain from improved market access, reduced trade barriers, more cost-effective production, participation in regional value chains and economies of scale. These advantages translate into enhanced competitiveness and the potential for SEZs to become vital centres for intra-African trade and economic growth.

2

ESG considerations are increasingly vital to developing African SEZs. Balancing economic growth with sustainability, zones must prioritise eco-friendly infrastructure, fair labour practices and transparent governance. By taking steps to adhere to international ESG principles, SEZs on the continent can attract responsible investors, bolster social development and increase attractiveness.

3

The Fourth Industrial Revolution is set to continue transforming African SEZs. By integrating advanced and emerging technologies such as artificial intelligence, the internet of things and automation, SEZs can enhance both their productivity and competitiveness. These intelligent technologies foster innovation, attract tech-based industries and create jobs.

4

Governments could benefit by prioritising the development of supportive infrastructure, including transport, energy and digital connectivity, to enhance the attractiveness of SEZs and reduce logistical barriers to business. Well-developed infrastructure makes SEZs more competitive, while also facilitating regional economic integration and trade.

5

Implementing and maintaining stable, transparent and investor-friendly regulatory frameworks is crucial to providing certainty and encouraging long-term investment in SEZs. A supportive regulatory environment can help streamline bureaucratic processes, reduce red tape and offer incentives that target the specific needs of businesses in SEZs.

6

Investment in education and vocational training to develop a skilled workforce is key, increasing SEZs' competitiveness and long-term sustainability. A focus on skills not only enhances SEZs, but also contributes to broader human capital development and improved living standards for local communities, aligning economic growth with social progress.

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