



Catalysing transformational and inclusive economic growth from Industry 4.0:

A critical role for SEZs?

Dr Adarsh Varma and Eliana Gerardi

> AFRICA FREE ZONES ORGANISATION

BUROHAPPOLD ENGINEERING

4th ANNUAL MEETING NOVEMBER 18TH - 20TH, 2019





# Catalysing transformational and inclusive economic growth from Industry 4.0: A critical role for SEZs?





## **Agenda**

- 1. Introduction
- 2. Framework for developing SEZ of the future
- 3. We don't want just fiscal and financial incentives!
- 4. Develop strong value proposition to reach out to investors
- 5. Prioritise 'connectivity' to maximise regional/local impact
- 6. Conclusion

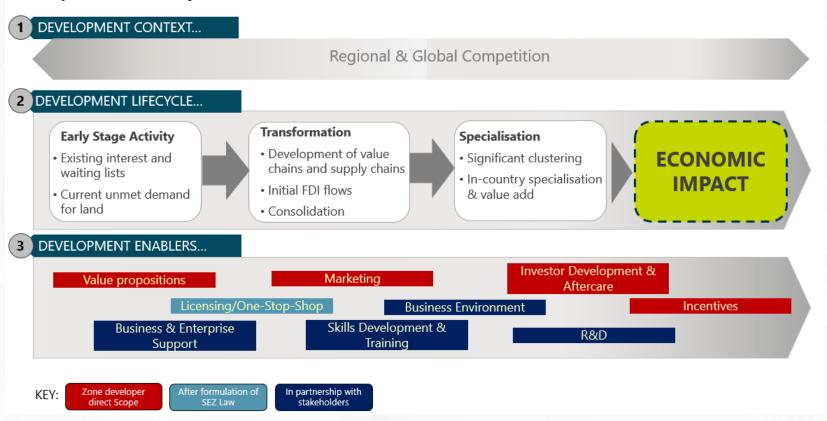




## 1. Framework for developing SEZ of the future



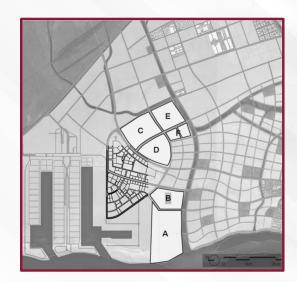
#### **SEZ Development Pathway**



#### AFRICA FREE ZONES ORGANISATION

#### **Our Approach**

'Real Time' integrated development approach



AFRICA FREE ZONES ORGANISATION Economic Programming
Sector selection framework
Value chain analysis
Market segmentation & sizing
Localisation potential analysis
Market capture and
Employment potential
GNI/ GDP Impact

INTEGRATED

Physical Programming
Landuse Planning & modeling
Physical development framework
Infrastructure engineering
ICT/ Digital masterplanning
Transport Planning
Environment



4th ANNUAL MEETING NOVEMBER 18TH - 20TH, 2019 ETHIOPIA - ADDIS ABABA



#### **SEZ Feasibility Study**

A step by step methodology



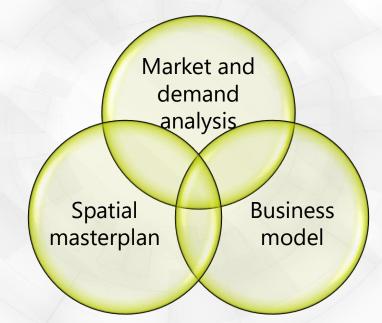
ASSESSMENT

**FORECAST** 



#### 3- Way Integrated SEZ offering

**Economics, Planning and Engineering** 



#### **Enabling Framework**

- Laws
- Skills, Education
- Social infrastructure
- Off site infra





# 2. We don't want just fiscal and financial incentives!



#### Zone evolution

From low value add to high value add zone products

○ Export ☐ Processing Zones

Zone

 input-driven (labour, raw materials) O Special Economic Zones

• efficiency-driven

Sincluding low carbon zones

• innovation-driven

Investor requirements: lowcost real estate, labour and infrastructure, reliable power supply.

Traditional fiscal and financial incentives

1969s- 1970s: Dominican Rep, Brazil, El Salvador, Honduras, Ireland, India Investor requirements: ease of doing business, including streamlined regulations and property rights.

Infrastructure provision, land access

1980s-1990s: China, Egypt, Tunisia, Morocco, Mauritius, Indonesia Investor requirements: highly skilled labour, complex legal and financial services.

Green standards and certification, tax reduction for sustainable practices

2000s: South Korea, China, South Africa, Dubai, Vietnam, India



#### **Incentives trend**

Not much to differentiate eh!

SEZ	FISCAL INCENTIVES							NON-FISCAL INCENTIVES				
	Income tax / Corporate Tax Allowances	Exemption of exported products from import duties	Exemption of exported products from indirect taxes	Exemption of imported goods used in production processes from import duties	Exemption of goods stored in the SEZ from duties and indirect taxes	Exemptions from other non- specific tax subsidies, including taxes imposed by national, regional and local authorities	Single-window	Ease of restriction on foreign workers	Repatriation of profits	100% foreign ownership	Allowing sale of goods to the domestic tariff area	
KLAIPEDA FEZ LITHUANIA	<b>√</b>	✓	<b>√</b>	<b>✓</b>	<b>√</b>	<b>√</b>	<b>√</b>				-	
ESBAS (AEGAN FREE ZONE) TURKEY	<b>√</b>		<b>√</b>	<b>✓</b>	<b>√</b>	1	1	<b>√</b>	<b>✓</b>	<b>√</b>	Limited	
Trakia SEZ- BULGARIA		<b>√</b>	1				1	1		<b>√</b>	Allowed	
Tanger Med Zones - MOROCCO	✓		1	<b>✓</b>	1	1	1		✓	<b>√</b>	Limited	
Aqaba SEZ - JORDAN	<b>√</b>	✓		1	1	1	1	<b>✓</b>	<b>√</b>	<b>√</b>	-	
Panama Pacifico SEZ - PANAMA	<b>√</b>	✓	1	1	✓	✓	1	<b>✓</b>		?	-	



#### Incentives trend

Less reliance on fiscal incentives for competitiveness differentiator



High quality infrastructure provision and effective customs environment

World Bank Report, Farole, T and Akinci, A (2011) Special Economic Zones: Progress, Emerging Challenges and Future Directions.



Fiscal and financial incentives





#### Incentives trend

advantage of zone incentives and tax exemption is very short lived

Earlier

State sponsored, low labour cost, low value manufacturing

Fiscal and financial incentives

Year 1

Now

High set up and labour cost, high up-front investment, time to enter new markets

Skilled labour training programmes, land access, high quality infrastructure, preferential market access



#### Incentives trend

Best practice: South Korea using incentives to achieve desired outomes

# green finance incentives private sector partnerships national green growth plan

#### initiatives

- EIP loans to private sector for green technologies including SMEs
- utility financing WASCO and ESCO
- R&D funding for green technologies
- credit guarantee and PPP for public infrastructure
- EIP centres to create local partnerships
- · collaborative R&D projects
- thematic forums workshops, training and conferences
- EIPs integrated in National Green Growth Plan
- supply chain outside EIPs also had incentives
- strong standards and certification
- national integrated EIP network

#### outcomes

- co-investment from private companies
- · High Rol
- Low OPEX

- new patents
- knowledge incubation & sharing
- local industry and research links
- new jobs
- National-local policy links
- environmental benefits
- database and online platform





# Develop strong value proposition to reach out to investors



#### **Zone location**

Is a primary consideration when developing successful SEZ programmes



Location, location –
 particularly proximity to major trade
 gateways (airports etc.), infrastructure
 provision and labour force are critical
 success and growth factors

Poor locations or pre-determined location often result in higher requirements for fiscal + financial incentives to overcome barriers to investment





#### Criteria for selecting an investment location

Results from surveyed SEZ firms

# top 3 criteria for selecting an investment location according to surveyed SEZ Firms

- transport infrastructure
- 2. cost of utilities
- 3. land access issues

#### top 3 criterial for overall SEZ regime

- 1. access to markets through preferential trading agreements
- 2. reduced operating costs either from availability of cheap labour and utilities or zone financial/fiscal incentives
- 3. improved value proposition through consolidation of operations and productivity

Economic incentives are most effective when they are aligned with the needs of potential investors



#### Port centred and strong infrastructure platform zone

**Tanger Med Zone** 







#### **Matching Site-Sector value proposition**

industrial park offering can address some of the value chain bottlenecks and address competitive constraints

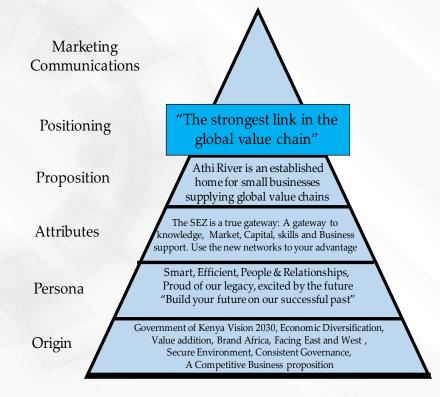
		Park Off	ering (Direct)	Cluster led services (Indirect)				
Sector	Speed to market	Low cost and reliable utilities	Super structures (factory shells, warehousing etc.) & land access	Port and market access	Quality testing & certification	Logistics and transport	R&D and Skills development	
Fruit processing	4	9	9	9	5	6	5	
Sea food	4	8	9	5	6	9	5	
Sisal	3	9	9	9	6	9	6	
Spices	3	7	9	6	5	5	5	
Honey	4	8	9	6	5	6	5	



#### **Marketing and Communication Strategy**

SEZ Positioning Development Framework based on value proposition



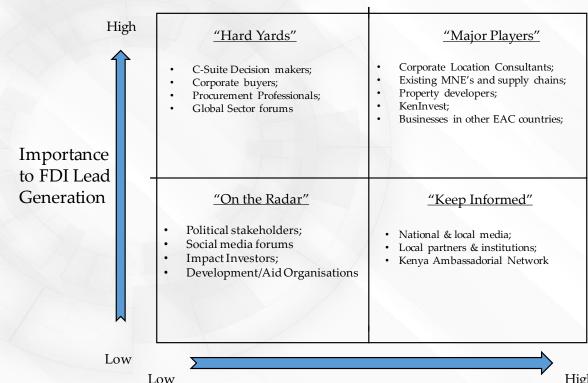




#### **Marketing and Communication Strategy**

**Engage, Inform and Inspire investors regularly** 

In FDI markets, clearly not all audiences are as easy to reach as others, so communications messages around the 'engage', 'inform' and 'inspire' motivations need to be segmented to apply to the target audiences as shown in the table.



Accessibility





# Prioritise 'connectivity' to maximise regional/local impact



## Connectivity Framework will address key off-site constraints and improve regional/local spill over effects

- Business environment access to finance, insurance,
- Cost and reliability of utilities energy, water,
- Labour costs, access, skills
- Operational issues e.g. quality of raw materials and inputs, equipment, technology, cost of spare parts, etc.
- Industry Regulation e.g. quality control standards
- Infrastructure lack of storage, logistics and transport (roads, ports)
- Land access and cost
- Market access to national, EAC, trading regimes, NTBs

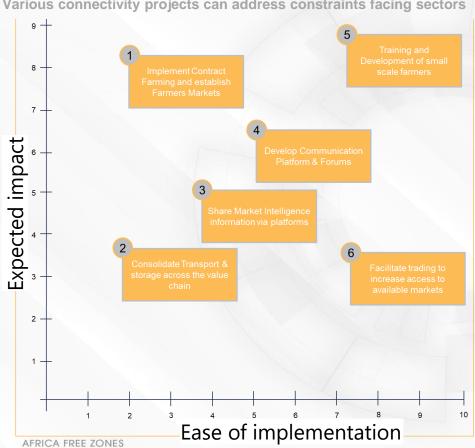




#### Connectivity project prioritisation

ORGANISATION

Various connectivity projects can address constraints facing sectors



- Implement contract farming and establish farmer markets/ collection points
- Consolidated transport and storage (Cold Chain where applicable)
- Share Market Indicator Information with Farmers
- **Develop Communication Platform and Forums**
- Improve and facilitation training and development programmes for small scale farmers
- Facilitate trading to increase access to available markets



#### Connectivity Framework should complement zone offer

Zone and Connectivity actions phased overtime

#### Sector / Activity Priorities

- Fruits
- Sea Food
- Sisal (Primary processing)
- Honey
- · Cloves, Pink Pepper, Vanilla

#### Sector / Activity Priorities

- Textiles
- Tourism
- Mica
- Essential oils
- Secondary agri industry packaging, bottling, chemicals

#### Sector / Activity Priorities

- Freeport (and related services)
- Sisal (Secondary processing)
- Engineering and assembly
- Agri machinery, inputs and R&D

#### 0-3 years

#### **4-10** years

#### 11-20 years

- Appoint commercial developer to attract tenants
- Provide low cost energy and water
- Provision of basic structures (factory shell, storage, offices etc.
- Cheap land access

training

Shared site services - security systems, logistics and storage

Chamber of Commerce programs providing training for financial management, resource

Undertake country/regional planning review

management, livestock practices and

Review schemes to provide financial

assistance to farmers and cooperatives

Promote contract farming

Finalize new air connections

sustainable fishing

- Investor attraction services (for Mauritian and Madagascar investors) and finding anchor tenant
- One-Stop-Shop' services
- Improved site infrastructure (low carbon energy, water and waste treatment hook-ups available and high bandwidth)
- Additional supporting services leisure, retail, health and banking etc.
- Upgrades to port infrastructure cranes, storage and berth infrastructure for cruise vessels

- Significant upgrades to port infrastructure fast container turnaround and speed to market
- Park is managed and operated to international standards
- Park is aggressively marketed to international investors
- Knowledge and training centers working in parallel with national and regional programs
- Continue/expand donor and govt. projects Better road connectivity with regional towns and agri across all sectors to improve yields and production areas
  - National skills and cluster development programs, e.g. planned skills/training corridor b/w Tulear and Fort Dauphin
  - Technical training at school/college level
  - Tourism strategy for the region including marketing
  - Regional agriculture center for testing, certification and R&D (can be located in the park)

- Formal vocational training centres
- Significant upgrades to roads
- SEZ Law is advanced and provides international operational and governance standards for tenants and developers
- SEZ masterplan includes best practice zoning and architectural design guidelines
- Competitive fiscal incentives, low/zero tariffs, foreign ownership, repatriation of profits etc.

Public

Donor Private

Private + Public

Public + Donor

Park specific

AFRICA FREE ZONES ORGANISATION





## **Final messages**



#### **SEZ** share of national export

Africa has rich lessons and experience to share on SEZ role for export growth and diversification

#### Morocco



#### **Tanger Med Zones**

Aeronautic, Electronics, Automotive and textiles

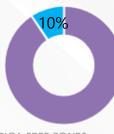
Ethiopia



#### **Bole Lemi**

Textile and Garments, Leather and Leather Products

Kenya



#### Kenya EPZ

Agro-processing, garments, coffee and tea, services



Preparation of Demand Analysis and Forecast Methodology



Benchmarking



Transport and logistics



Industry trends



Sector prioritisation



SEZ Value Proposition





Demand Scenarios



#### **Spatial Framework**

**Visionary Masterplan** 

#### Visionary masterplan outputs include:

- Zoning plan by sectors, predominant land uses and location of major urban centres and infrastructure nodes
- Proposed development density, mix of uses and quantum for each sector,
- Green and blue uses plan indicating principal green spaces and waterways
- Mobility infrastructure (road, rail, port, airport)
- Sustainable mobility network (pedestrian and cycle)
- Principal utilities network



#### AFRICA FREE ZONES ORGANISATION

#### **Spatial Framework**

**SEZ Site Masterplan** 

#### **SEZ Site Masterplan** outputs include:

- Land use plan, indicating development densities and built areas
- Definition of character areas and industry-related hubs
- Building typologies and massing principles
- Key buildings and key nodes
- Green and open spaces
- Sustainable mobility infrastructure
- Utility and infrastructure networks
- Phasing strategies
- 3D imagery

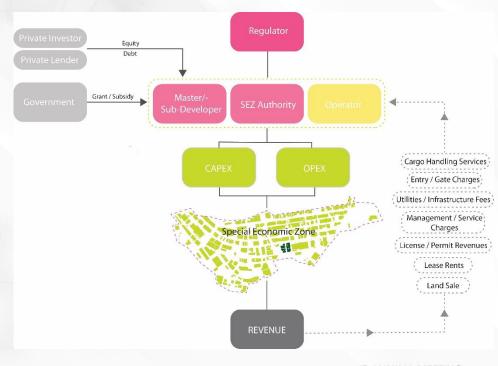




#### **Business Model and Financial Viability**

## **Business Model and Viability** outputs include:

- Financial Model and Report
  - Project CAPEX (broad), OPEX and revenues (by phase)
  - Excel-based SEZ business model subject to scenario based modification and sensitivity + options analysis
  - Reporting on the overall business case and viability of the proposed SEZ
  - Reporting on recommendations for developing the SEZ in the most feasible manner; including description of financial risks







#### **Implementation Plan and Recommendations**

#### **Implementation Plan** outputs include:

- Identification of new land acquisitions
- Phasing and development scenarios
- Infrastructure strategy
- Marketing strategy
- Next steps and recommendations





Dr Adarsh Varma, Associate Director, Economics

T: +44 (0) 20 7927 9700

M: +44 (0) 7740 544 599

Email: Adarsh.Varma@BuroHappold.com

www.burohappold.com