AFRICAN ECONOMIC ZONES OUTLOOK

AFRICA
ECONOMIC
ZONES
ORGANIZATION

AEZO OUTLOOK

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“Africa Economic Zones Organization (AEZO) is a continental association consisting of leading public and private institutions in charge of the Development, Management and Promotion of Economic Zones in Africa.

Founded in November 2015 by Tanger Med, AEZO is striving to support African Economic Zones projects and strengthen relationships within its ecosystem with devoted focus on growth and prosperity.

Africa Economic Zones Organization (AEZO) is guided by its strategic orientations to "foster collective knowledge sharing, provide strategic and technical assistance, connect with international business network and promote sustainable economic models and practices".

The organization comprises more than 82 members representing 42 countries.”

AFRICAN ECONOMIC ZONES OUTLOOK 2021

This outlook serves as a database of experiences, lessons learnt and best practices in the process of considering and deploying SEZs.
It provides an objective assessment of the effectiveness of Economic Zones in the delivery of expected and achieved economic benefits, as well as their drawbacks and limitations.

This year edition of the African Economic Zones Outlook will focus on the following:

- Provide a resource document on African SEZs.
- Explore the performance and economic impact of SEZs implementation across the continent.
- Deliver survey collected information on key features and issues related to African SEZs, including zone types, main achievements, employment, sustainability, and regulations.
- Promote options and guidelines for establishing successful SEZs.
- Showcase the linkages between SEZs, and their contribution in promoting intra-African trade and investment under the AfCFTA.

AFRICA ECONOMIC ZONES AT GLANCE

AFRICAN ECONOMIC ZONES AT GLANCE

KEY FIGURES

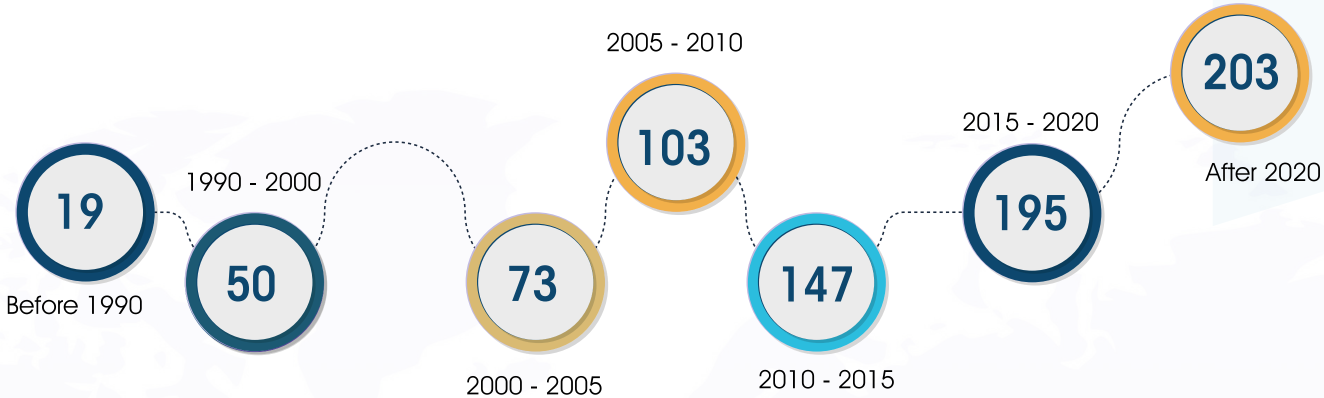
SEZs were adopted relatively late in Africa, although they have been increasing in number recently. With infrastructure and institutional weaknesses widely recognized as major factors hampering economic development in Africa, the creation of zones that allow governments to concentrate administrative resources and infrastructure provision in confined areas is often seen as a pragmatic solution to structural limitations.

Today, there are about 203 operating SEZs in Africa and 73 projects have been announced for completion. Northern Africa accounts for the largest share with almost (**29%**) of the total SEZs developed in the continent, followed by Eastern Africa with (**26%**), Western Africa with (**24%**), Southern Africa (**15%**) and Central Africa with (**6%**) of the total.

More than 146 372 Hectares of land has been dedicated to the implementation of the Economic Zones facilities across the continent with more than 50% assigned to Agro-processing in Western Africa.

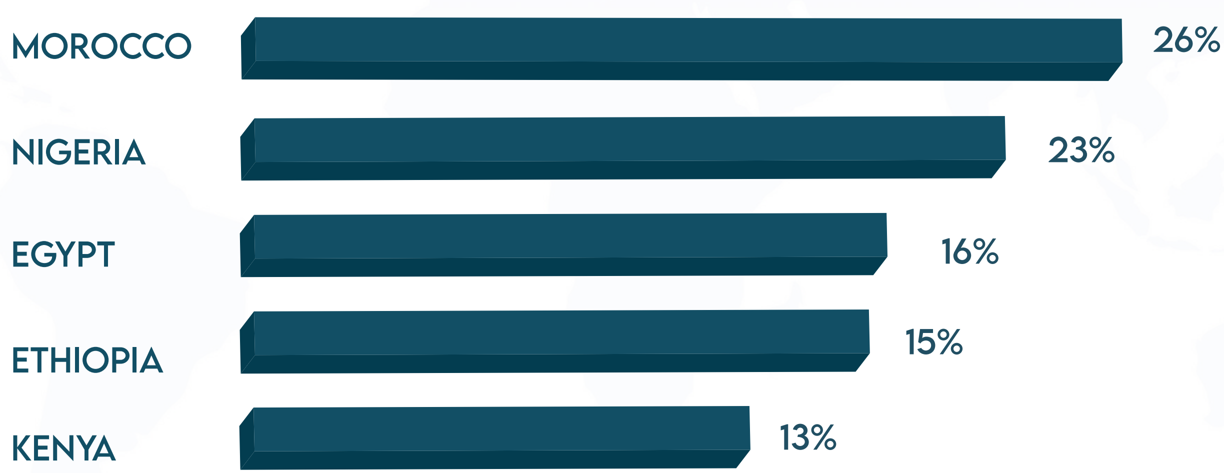
	NUMBER OF SEZs	ON-GOING SEZs PROJECT
TOTAL AFRICA	203	73
NORTHERN AFRICA	56	10
WESTERN AFRICA	55	19
EASTERN AFRICA	53	19
SOUTHERN AFRICA	29	20
CENTRAL AFRICA	10	05

NUMBER OF SEZs IN AFRICA



THE EVOLUTION OF THE NUMBER OF SEZs

SEZs are found and well developed in 47 of the 54 economies of the continent, with the highest number in Morocco and Nigeria



AFRICA ECONOMIES WITH THE MOST SEZs

AFRICAN ECONOMIC ZONES AT GLANCE

AFRICAN SEZs TYPOLOGIES

The World Bank defines SEZs as falling within six broad typologies:

- ### FREE TRADE ZONES
  Also known as commercial free zones, they are usually fenced in, duty free areas offering warehousing, storage and distribution facilities for trade, trans-shipment and re-export operations.

- ### EXPORT PROCESSING ZONES
  Are typically industrial estates aimed primarily at the production of goods destined for foreign markets.

- ### HYBRID EPZs
  Are typically sub-divided into a general zone open to all industries and a separate EPZ area reserved for export-orientated, EPZ-registered enterprises.

- ### FREEPORTS
  Typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits.

- ### SINGLE FACTORY EPZs
  Provide incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges.

- ### SPECIALISED ZONES
  Such as science/technology parks, petrochemical zones, logistics parks and airport based zones.

- ### ENTERPRISE ZONES
  Are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants.

	PHYSICAL CHARACTERISTICS	ECONOMIC OBJECTIVES	TYPICAL ACTIVITIES	TYPICAL EXAMPLES
FREE PORT	ENTIRE CITY OR JURISDICTION	DEVELOPMENT OF TRADING CENTER & DIVERSIFIED ECONOMIC BASE	TRADE, SERVICE, INDUSTRY, BANKING ETC.	GUINEA EQUATORIAL, LIBERIA, MAURITIUS
INDUSTRIAL FREE ZONE / EPZ	ENCLAVE OR INDUSTRIAL PARK	DEVELOPMENT OF EXPORT MANUFACTURING / ASSEMBLY	LIGHT INDUSTRY AND MANUFACTURING	DJIBOUTI, EGYPT, ETHIOPIA, KENYA, MOROCCO, MOZAMBIQUE, NIGERIA…
COMMERCIAL FREE ZONE	WAREHOUSE AREA, OFTEN ADJACENT TO PORT OR AIRPORT	FACILITATION OF TRADE AND IMPORTS	WAREHOUSING, PACK-AGING, DISTRIBUTION, TRANS-SHIPMENT	MAURITIUS
FINANCIAL SERVICES ZONE	BUSINESS PARK ADJACENT TO CITY	DEVELOPMENT OF OFF SHORE BANKING, INSURANCE, SECURITIES HUB	FINANCIAL SERVICES	SEYCHELLES
IT / SCIENCE PARK	BUSINESS PARK – NEAR UNIVERSITY	DEVELOPMENT OF TECHNOLOGY INTENSIVE INDUSTRY	DATA PROCESSING, SOFTWARE DEVELOPMENT, COMPUTER GRAPHICS	COTE D'IVOIRE
TOURISM ZONE	ENTIRE JURISDICTION	INTEGRATED TOURISM DEVELOPMENT	RESORTS AND OTHER TOURISM	NIGERIA
SPECIAL ECONOMIC ZONE	ENTIRE PROVINCE OR MUNICIPALITY	DEREGULATION, PRIVATE SECTOR INVESTMENT IN RESTRICTED AREA	ALL TYPES OF INDUSTRY AND SERVICES	ANGOLA, GABON, MOROCCO, SOUTH AFRICA,
ENTERPRISE ZONE	PART OF CITY OR ENTIRE CITY	DEVELOPMENT OF SMEs IN DEPRESSED AREAS	ALL	KENYA

AFRICAN ECONOMIC ZONES AT GLANCE

SEZ BUSINESS MODELS

There are three main business models applied to SEZs in Africa.

PUBLIC MODEL

The project ownership is under public governance and the participation from private actors is limited to - utility restructuring, corporatization, decentralization, civil works and service contracts.

PRIVATE MODEL

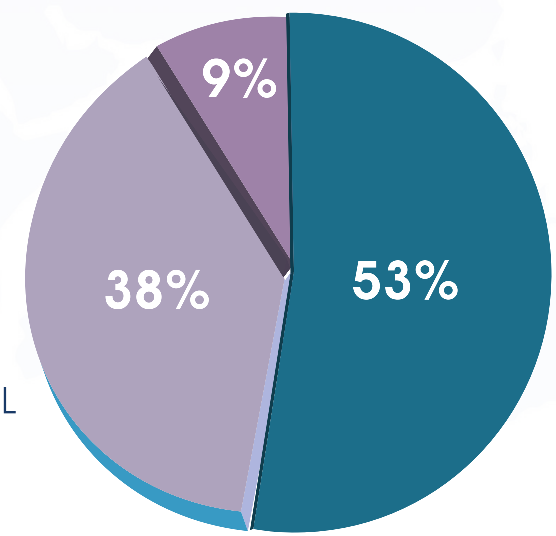
The private sector is responsible for the design, construction and operation of the infrastructure facility.

PPP MODEL

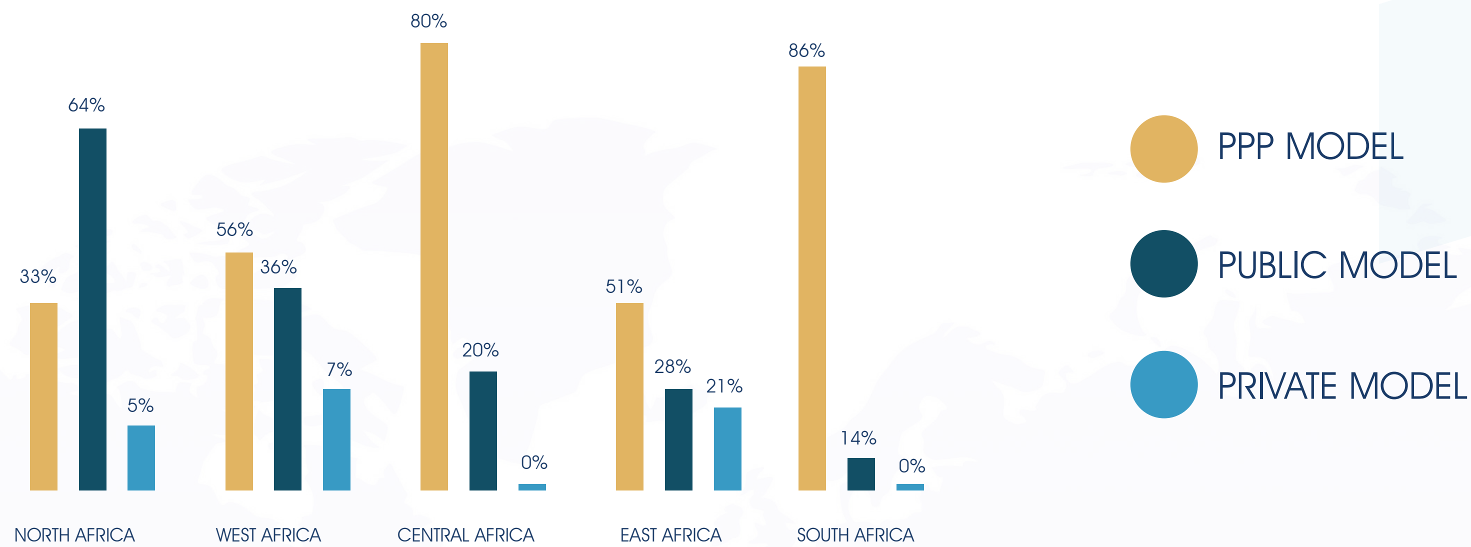
The terms of a PPP are typically set out in a contract or agreement that outlines responsibilities of the stakeholders, allocate risk and assign tasks. PPPs take a wide range of forms depending on the extent of involvement and risk taken by the private partner.

The nature of the zone management (public, private, PPP) does not seem to influence zone performance. The impact of zone management on performance depends on the local context. Whether zones are operated by the private or the public sector frequently is dependent on country-level policymaking and legislation.

The Public Private Partnership operated SEZs are the most common model across the five African region, accounting for about 53% of the total SEZs. The Public model represent 38% of the total and the remaining 9% of the zones are privately operated.



PPP MODEL PUBLIC MODEL PRIVATE MODEL



SEZ MODEL BY REGION

Public operated SEZs are the most common in Northern Africa accounting for 64% of the total.

Public Private Partnership (PPP) is the preferred model in Southern Africa, Central Africa, Western Africa, and Eastern Africa, accounting for 86%, 80%, 56% and 51% respectively.

Private SEZs in Eastern Africa, representing 21% of the total.

The Public-private partnerships aim to help African governments to incorporate skills and knowledge from the private sector into regulation and projects for the public good. Such partnerships also enable progress towards more sustainable business solutions,continuous cooperation, and robust collaboration, between African Economic Zones and the public and private sectors operators.

Some examples of the most common SEZs legal structures under a PPP model are listed below:

Direct Contract: The zone owner commissions a series of design consultants to plan and design on individual lot basis and is responsible to integrate the work of all parties in order to deliver quality outcomes. The owner finances the whole project and directly pay all the parties involved. Direct contract is an attractive option when direct ownership and operation of certain aspects and facilities is required. This structure requires large amounts of expertise and experience from the owner in case of highly complex projects.

Build Operate Transfer (BOT): Entities formed between parties for specific purpose of developing a project or service. Rents and lease agreements accrue to project company until the assets are transferred following the annual payments of the owner. The owner of the zone pays annual instalments to top up income of project company and assets are wholly transferred to the owner after a defined time period (e.g. 25 or 30 years).

Special Purpose Vehicle (SPV): Entities formed between parties for specific purpose of developing a project or service. Assets are transferred to the SPV but business decisions remain with the initial entities. This structure is often used as means of securing project finance through securitisation of future revenue streams as opposed to normal debt. SPV is also associated with bankruptcy costs reduction - given that there are less assets in a specific SPV compared to the decision-making entities.

Joint Venture (JV): Two or more parties pooling resources to accomplish a specific task. Based on contract terms, profits, losses and costs are shared accordingly between the parties. Joint ventures drive a profit oriented culture, an increase access to knowledge sharing and promote efficient use of resources. However, extensive contracts and legal negotiations are required to set up a joint venture.

COUNTRY	ZONE	BUSINESS MODEL
ANGOLA	LUANDA-BENGO SEZ	PPP
DJIBOUTI	DJIBOUTI INTERNATIONAL FREE TRADE ZONE	PPP
EGYPT	SUEZ CANAL SPECIAL ECONOMIC ZONE	PUBLIC
ETHIOPIA	HAWASSA INDUSTRIAL PARK CYCLE 1 & 2	PUBLIC
GABON	NKOK SPECIAL ECONOMIC ZONE	PPP
GHANA	TEMA EPZ	PPP
MOROCCO	TANGER MED ZONES	PPP
NIGERIA	KANO FREE TRADE ZONE	PUBLIC
LYBIA	MISURATA FREE ZONE	PUBLIC
SENEGAL	DIAMNIADIO INTEGRATED INDUSTRIAL PARK	PPP

ECONOMIC RATIONAL BEHIND SEZ DEVELOPMENT

“Whilst there are many multi-faceted reasons behind the deployed of SEZs, they are typically concerned with achieving one or more of the following economic and policy objectives. These are outlined in further details in this section that provides a broad overview of the economic rationale behind the establishment of SEZ programs.”

ECONOMIC RATIONAL BEHIND SEZ DEVELOPEMENT

FOREIGN DIRECT INVESTMENT (FDI) AND LINKAGES WITH LOCAL ECONOMY

Special Economic Zones (SEZs) have given a significant boost to Foreign Direct Investment (FDI) flows in Africa, created attractive investment conditions and supported job creation: over the past 5 years, 60 million jobs have been created in Agro-processing, industrial fields, and services.

The vast majority of SEZs are created to achieve greater levels of foreign direct investment within the host country. The creation of SEZs can highlight to foreign investors that a country or state is committed to foreign investment and can incentivize investment.

The creation of more effective investment environments with greater transparency and competitiveness can also encourage and enable increased levels of FDI. By providing a variety of incentives, as well as a higher quality physical operating environment, SEZs are utilized to attract investment that might not otherwise consider the country as a possible location for investment. SEZs can also reduce the risks to investment within locations and markets which are considered challenging.

Most SEZ programmes are designed to attract national and foreign investment. Countries that traditionally struggle to attract FDI show higher propensity to adopt SEZ programmes, as almost 90% of all SEZ are located in developing economies. To ensure maximum benefits, the FDI screening mechanism is increasing across the continent and introduced at least 107 measures affecting FDI attractivness in SEZ.

Early-stages of SEZ operation has had a higher impact on national FDI inflows. Many African countries experienced a rapid increase in FDI inflows after new SEZs became operational but sustaining high levels of FDI has proven to be difficult. For example, in Ethiopia, the FDI inflows increased three times from when the first SEZ was open in 2010 until the third zone became operational in 2013. A similar trend can be found in other African countries, for example in Morocco: after the first SEZ became operational, the FDI inflows increased rapidly, and then again after the third and fourth were opened.

FDI inflows to SEZs can be volatile on an annual basis, depending on the sector. For example, in Ethiopia, most SEZs are involved in the agricultural sector and agriculture accounts for a significant share of the country's GDP. After the first SEZ was opened, FDI increased by 41% and 18% after two other SEZs were opened in 2014. Kenyan FDI increased by 27% to $1.6 Billion due to investment in diverse sectors, including manufacturing, hospitality and chemicals. Investment diversification increased Kenyan resilience to oil prices, which have been increasing since 2016.

SEZ can influence the type of foreign investment. For example by increasing investment in high-technology and professional sectors. For example. Recently, Greenfield FDI in high-skilled industries increased by 84% and 60% to $33 Billion in the Manufacturing sector. A more diversified and increasing industrial base leads to a greater interaction between SEZ-based and non-SEZ based firms and subsequently increasing the clustering and spillover effect of SEZs.

There are moreover some fundamentals that must be taken into consideration in order to ensure a greater probability of success in building SEZ linkages with the local economy and supporting public PPPs initiatives. The main fundamentals for African SEZs are:

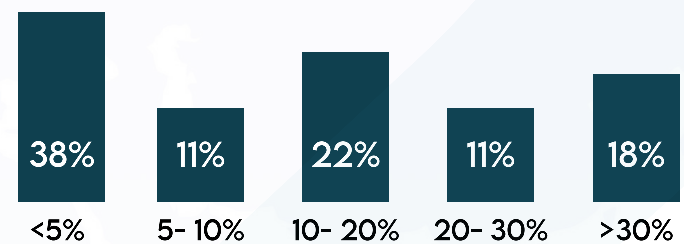
1- SEZs should bring transformational change to the country by attracting qualify FDI that can help in creating economy-wide jobs better skills industrial upgrading and a productive local private sector.

2 - On the investor side, we've noticed an important development in global FDI trends which is the rise of "efficiency seeking" investors. These sorts of investors are increasingly looking for a wide range of productivity incentives – in terms of a skilled workforce efficient logistics and supportive infrastructure – rather than fiscal benefits.

3 - The regional trade and integration would foster SEZs business value proposition. Investors and industrialists would certainly be encouraged by greater regional integration, which would offer a larger 'nearby' market and greater sourcing opportunities. This would also support local private sector development and job creation in regional economies.

African Economic Zones have also led to export diversification, promoting regional trade and stimulating industrial spillover effect and clustering. In many African countries, export growth increased rapidly after an SEZ program was introduced. For example, when Gabon opened an Economic Zone in 2014, national exports increased eight times the following year.

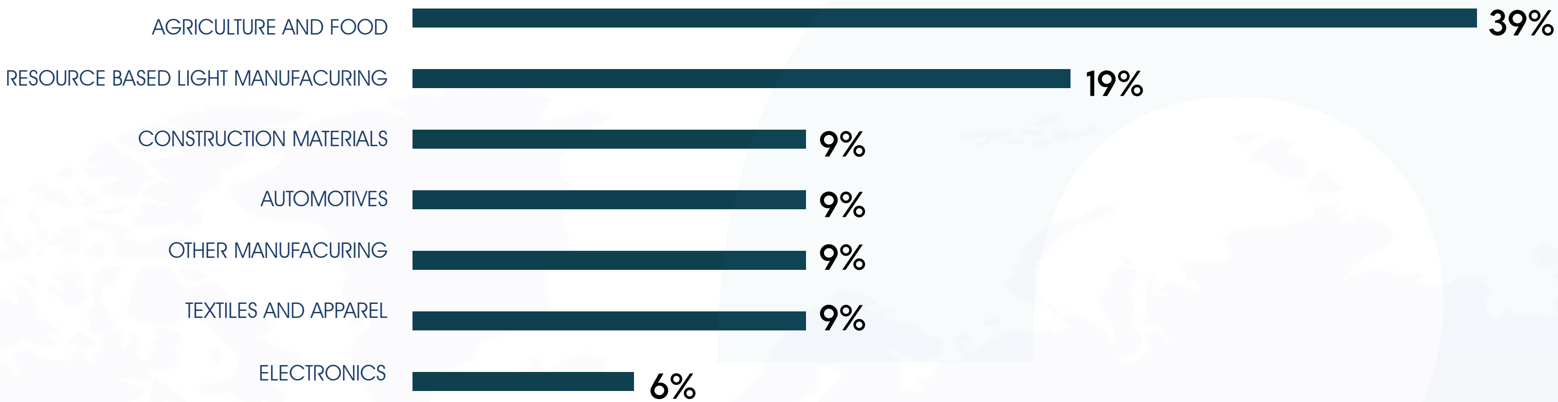
During the last five years, the average growth rate of exports was relatively low for many of the African SEZs, with nearly half of the operating zones reporting less than 5% of average annual growth. However, the other half of the zones reported average annual growth of exports of more than 10%, among which a few reported growths of more than 30% on average annually.



AVERAGE ANNUAL GROWTH RATE
OF EXPORTS IN THE LAST 5 YEARS

The agriculture and food industry accounted for the highest share of exports, with 39% as one of the three most important export industries, followed by resource based light manufacturing Other important export industries include automotive, construction materials and textiles and apparel. Compared to the overall export profile in Africa, SEZ exports appear to be more concentrated on foodstuffs and textiles, and less on mineral products, that account for 33% of intra-African exports and 50% of total exports from Africa to the rest of the world.

INDUSTRIES CONSIDERED AS ONE OF THE THREE MOST IMPORTANT FOR EXPORTS



Some countries, such as Morocco and Ethiopia are explicitly pursuing an SEZ-driven strategy to fuel their trade growth and implement high-value generating companies operating in textile, automotive, aeronautics and electronics sectors. Hence, SEZs are increasingly playing a key role in supporting Africa's industrial transformation and economic growth. For policy makers, institutional investors and international financing institutions, it is crucial that Economic zones performance is accelerated.

FACILITATING ECONOMIC DIVERSIFICATION AND VALUE CHAIN INTEGRATION

Economic diversification objectives are often a key driver in SEZ implementation, particularly within countries which have identified an overreliance on specific natural resources to support economic growth. SEZ development can help to facilitate the gradual emergence of services and export-oriented manufacturing sector. A key success story has been the creation of Mauritius' EPZ which has contributed to national diversification away from sugar exports to the clothing and services sector. A further, associated benefit of SEZs is the transfer of knowledge and innovative processes from inward investors into the wider economy.

SEZs are often targeted towards investors that can not only viably establish operations in a country, but which also have the potential to transfer new business and industrial processes into the economy, as well as more efficient business operations and behaviors.

This can occur 'naturally' through the procurement of inputs via local supply chains and enhanced local competition, or proactively via complementary policies and obligations that require the incoming investor to actively share knowledge and business practice.

The primary objective underpinning many plans for SEZ development is a sustained attempt to extend and deepen industry value chains. This is often pursued where existing industrial activity provides a basis for moving further into downstream (and sometimes upstream) value chain segments. Examples include several African countries with significant activity in the garment, textiles, and apparel (CTA) sector.

It is common to have substantial activity and employment in one aspect of the value chain which might include production of cotton feedstock, or alternatively garment assembly. In many instances other aspects of the value chain including intermediate elements such as design or spinning may be absent. The SEZ policy in these cases is often geared towards attracting investors that can essentially 'plug' the value chain gap and create a deeper industry value chain in-country. This is seen as facilitating greater resilience in the industrial system – it will become reliant on activity outside of the country – as well as yielding higher values from production processes.

JOB CREATION AND SKILLS DEVELOPMENT

A large number of SEZs have been implemented in areas of depressed economic growth and high unemployment to stimulate significant job creation, reduce poverty rates and increase living standards. The creation of SEZs can also facilitate human capital development, reduce social problems, generate government revenue streams (from income taxation), reduce government expenditure on unemployment benefits and provide markets for domestically produced goods and services.
Depending on the regulatory and legislative framework, SEZs can result in significant direct employment provision for local workers. SEZs can also generate significant indirect employment opportunities within local supply chains as companies within the zones source inputs from outside the zone across the domestic economy.

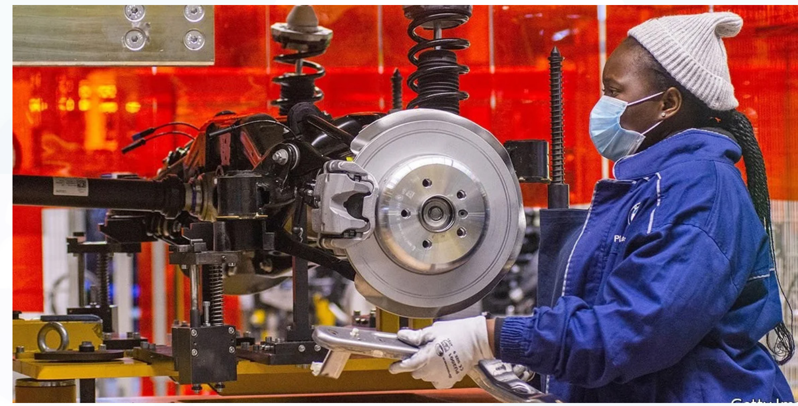
SEZs have supported employment creation in skilled and highly skilled sectors in Africa. Over the past 10 years, more than 41 million jobs have been created in the agricultural sector, the majority in agro-processing instead of traditional farming. Industrial sector employment has increased with more than 14 million new jobs in the last 5 years, namely in construction, manufacturing, mining and utilities. Employment in highly skilled sectors such as telecommunications and digital products and services is also growing, with more than 2 million new jobs in the last 5 years.

SEZs can be linked with increased labor productivity and skills improvement. The current growth model in Africa relies on low-productivity sectors, exported commodities and on public expenditure, combined with low levels of private sector investment, resulting in poor labor productivity. Evidence suggests that firms located in SEZs have higher labor productivity compared to similar firms located outside the zone.

Knowledge-transfer and labor skills improvement also increases the local labor force competitiveness. The positive impact of SEZs can be expected to have a greater impact in the future, as currently, SEZs have been linked to displacement of jobs from migration as the local labor force do not meet companies requirements.

Investors can be targeted on the basis that they will create job opportunities with higher level skill requirements and that this will in turn improve overall skill levels across the local labor force. Often this process requires complementary activities on the part of the host government, offering education and skills programs that help create an appropriate labor supply for the investor and its associated supply chain.

The creation of jobs that have more sophisticated technical and managerial characteristics are often sought from FDI. In many cases, senior managerial jobs will have to be filled by nationals of the investor's origin country, due to a lack of these skills locally. However, again with appropriate complementary policies, involvement with educational institutions and obligations placed upon the investor, these skills can also be developed within the local labor force.



CLUSTERING AND DRIVING ECONOMIC REFORM

SEZs have been implemented as a tool to develop and diversify exports as they reduce anti-export bias whilst keeping protective barriers intact. SEZs can assist in wider economic policy reform by allowing countries to experiment with more liberal economic legislation, regulation and policies for their economies. This includes providing incubators for new policy in countries where reform is contentious, allowing countries to build the political capital necessary for the implementation of nation-wide economic policy reform.

For many governments adopting SEZ strategies, a key consideration is how the country can quickly develop clusters of industrial activity that will become specialized internationally differentiated and create high-value products and/or services.

SEZ strategies and site selection is sometimes targeted towards specific industry sectors where economic assessment suggests that niche specialisms can be developed quickly. This can be linked to existing specialization within the country or to the availability of relevant feedstocks or raw materials inputs.

SEZ strategies have been developed based in part on an attempt to create or deepen clusters of sector-specific activity. This is to be considered as a key determinant of both economic diversification and improved international competitiveness.

INCENTIVES SCHEMES

The incentive schemes used in SEZs can broadly be separated into either fiscal or non-fiscal incentives. Incentives are utilized to address pre-existing constraints or barriers to investment which may otherwise deter investors from selecting the zone for investment. The different types of incentive schemes are outlined in more detail below.

FINANCIAL AND FISCAL INCENTIVES

Fiscal incentives typically relate to forms of tax or duty reduction or exemption, ease of profit repatriation and/or the provision of specific subsidies such as financial assistance for infrastructure development or land purchases. Fiscal incentives are either standardized at the country level or at the individual zone level. Almost exclusively, fiscal incentives will involve lower import and export taxes and tariffs compared to the domestic economy. Financial incentives typically consist of financial support to individual enterprises to encourage them to locate within the SEZ. They may be used to overcome perceived disadvantages of the location for investors and can often include investment in infrastructure to alleviate site challenges or contributions to meet relocation, training, or land costs.

Typical financial and fiscal incentives observed in global SEZ development include:

- Income 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 waste generated by the production process from export 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.

NON-FISCAL INCENTIVES

Since most countries with SEZs offer some form of fiscal incentives, competition has increased to attract investment as the number of zones worldwide has grown. Non-fiscal incentives, related to the ease of operations within zones are therefore also key considerations for investors when choosing where to locate.

Typical non-fiscal incentives can include:

- Single-window fast track clearances
- Simplified export-import procedures and customs clearances
- Ease of restriction on foreign workers
- Repatriation of profits
- 100% foreign ownership
- Allowing sale of goods to the domestic tariff area.

Non-fiscal incentives which facilitate the ease of doing business within SEZs are now often cited as more important to investors than the implementation of fiscal benefits, particularly with regards to the provision of a genuine 'one-stop-shop' which can expedite the acquisition of licenses and fast-track clearance processes.


AFRICA
TRADE HOUSE

> “Special Economic Zones are one of the main devices to advance the objectives of the AfCFTA in driving sustainable economic growth, uplifting trade integration, enhancing competitiveness and promoting industrial investment as well as job creation.”

3 AFRICAN SEZs SUPPORTING THE AfCFTA IMPLEMENTATION

AFRICAN SEZs SUPPORTING THE AfCFTA IMPLEMENTATION

Special Economic Zones are one of the main devices to advance the objectives of the AfCFTA in driving sustainable economic growth, uplifting trade integration, enhancing competitiveness and promoting industrial investment as well as job creation.

SEZs can accordingly be viewed as part of the strategic instruments to accelerate Africa's industrialization that will create employment and economic diversification which will embrace everyone – the private and public sector, women, youth and many more.

The AfCFTA is also a remarkable achievement that would help African Economic Zones to expand their activities and develop new processes supporting the vision of creating one African Market under the AfCFTA Agreement.

The process of regional integration of Africa under the AfCFTA isthe first step toward boosting competitiveness and integrating African economies into the global economy as active globalizers. The AfCFTA will establish a market of 1.2 billion people with a combined GDP of 2.5$ trillion and combined consumer and business spending of more than 4$ trillion.

Basic simulations that assume expanded and increased efficiency of goods and labor markets under the AfCFTA marks a significant increase in Africa's overall ranking on the Global Competitiveness Index in both the short and the medium term.
Over the long term, the average ranking for Africa could rise even further, through a more dynamic trade and economic environment that expands manufacturing bases, sustains the growth of agro-processing industries fit for value chain integration, and accelerates the development and integration of financial markets.

The implementation of the AfCFTA could boost competitiveness through other conduit notably: Technology transfer, Industrial development, Diversification of sources of growth and expansion of intra-African trade.

To this aim, African Member States are expected to pool resources to take advantage of the economies of scale factor and the comparative advantage when designing Economic Zones projects.

The AfCFTA creates a bigger market space through the opportunity to trade wgion. As a result, new business agreements will be formed, new technology will be shared, knowledge expertise and skills will be exchanged between Economic Zones from all over Africa.

Hence, the AfCFTA is a business opportunity for extending SEZ activities in promoting intraAfrican Trade along with the development of regional value chains and industrial complementarity. The African Special Economic Zones are also entitled to develop new process for the supply chain that stands for making a significant contribution to reducing trade transaction costs, facilitate cross-border trade along with attending the objectives of the AfCFTA.

STANDARDIZE AS MUCH & AS FAR AS POSSIBLE

01

The standardization & harmonization of product standards, quality controls, phytosanitary regulations and technical specifications (etc) is crucial to making the continental market work as unified entity. This is arguably what holds back intra-regional trade more than anything else at the current time: non-tariff barriers of the discretionary kind leave traders vulnerable to arbitrary decisions by customs officials. African SEZ would advocate for the harmonization of regulatory standards, with objective to remove the discretionary nature of many cross-border transactions and provide clear benefits for investors and SEZ operators

OPEN SERVICES TO INTRA-AFRICAN COMPETITION

02

Much of the discussion on the benefits from the AfCFTA have tended to focus on merchandise trade. Yet many of the benefits will spring from the liberalization of intra African services trade. Services already constitute more than 50% of the regional economy. If services are opened up to intra-African competition, one of the major benefits from creating a unified continental market will be that it will reduce costs for both consumers and enterprises in a host of services, ranging from financial to transport.

BE ESPECIALLY OPEN TO FDI FROM OTHER AFRICAN COUNTRIES

03

A quick way to create regional value-chains, and more employment, is to encourage greater intraregional investment. Hence African SEZ can offer remarkable business opportunities designed to investors and traders. The AfCFTA will facilitate the expansion of firms seeking a greater regional or continental presence, and Member States should be especially open to FDI from other African countries.

LEVERAGE THE POTENTIAL FOR CROSS-BORDER DIGITAL TRADE

04

Although from a very low base, digital trade is currently growing annually at 18 percent in Africa – which is more than double the global average. African SEZ is especially well placed to leverage the dynamism in digital trade. New continental-wide policies under the umbrella of the AfCFTA could provide a major boost to cross border digital trade, helping to catch up with other regions of the world where it is far more prevalent.

"The challenge therefore for African SEZs is not just a matter of attracting investors or joining value chains. It is about increasing the share of value added created locally and to moving up the chain hierarchy from simple to more complex activities. Although there is no single model, and no 'one-size-fits-all' solutions to SEZ development."

4 REQUIREMENTS FOR SUCCESSFUL SEZs

REQUIREMENTS FOR SUCCESSFUL SEZs

CHALLENGES AND FUNDAMENTALS

Several SEZs have played a key role in structural transformation promoting greater participation in global value chains. However, for every successful project, multiple other have not attracted the expected investment, and some have even ended in costly failures.

African Economic zones appear to have struggled for a variety of reasons. Some of these factors are particularly specific to the zones or the countries, but many of them are common to zone programs across the continent. Factors that have been identified as inhibiting zone performance in Africa include:

- Poor quality infrastructure
- Poor program planning and management,
- Insufficient attention to trade facilitation,
- Challenges relating to a lack of institutional coordination,
- Failure to integrate zone program into broader trade and industrial strategies.

Strong long-term vision and institutional support are essential for zones success and development. The Egyptian SEZ program secured political support and the government was committed to create the best possible market access for its investors. The Moroccan SEZ program is considered one of the most successful in the region.

Effective cooperation between different levels of government agencies and private sector is understood to be one of the key elements to attract significant investments. For example, the Lekki Free Zone (Nigeria), learning from past experiences - where only the Federal Government of Nigeria were involved- changed the way Free Zones were governed and operated. The inclusion of State government and private sector helped catalyze the development of this zone and partnering with the private sector was one of its key success factors.

Infrastructure investment and creation of 'integrated cluster' are crucial elements to ensure connectivity and coordination between different zones and boost performances at zone and country level. For example, large-scale investment in infrastructure allowed the Moroccan Tanger Med Zones to capitalize on their strategic geographic position. Coordinated investment on the port, road infrastructure and a dedicated rail link enabled the zones to attract the likes of Renault, a key anchor tenant.

Underdeveloped infrastructure and networks represented a main challenge in Athi River, Kenya constraining connectivity and logistics. Due to a lack of 'integrated cluster' of zones, investors preferred to set up single factory EPZs as they owned the land and/or factory. In addition, weak on-site infrastructure and service provision did not attract investors to the site and multiple single factory EPZs have been set up instead.

Qualified labor force and Investment in skills represented a key success factor in many African SEZs such as, Nkok Economic zone in Gabon or Tanger Med Zones in Morocco, where training centers were established. Training programs were tailored to the needs of relevant sectors in the zone. Investment in skills training would be beneficial to all African SEZs, where one of the main challenges is the lack of local capabilities for supervision and management.

REQUIREMENTS FOR SUCCESSFUL SEZs

KEY SUCCESS FACTORS

Latest thinking and evidence of best practices indicates that successful SEZ adopt parallel economic (feasibility studies, market analysis, demand forecast, business case) and physical programming (site assessment, infrastructure review) supported by a strong organizational framework (SEZ regime, incentives and developer model).

PHYSICAL SUCCESS FACTORS

SITE SELECTION

This should be considered early on in developing a national SEZ strategy and should utilize a number of key criteria linked to target industry-sectors and associated investors and tenants.

INVESTMENT IN INFRASTRUCTURE

Provision of high-quality infrastructure and low cost is a key comparative advantage when looking at attracting FDI. PPP arrangements can be adopted to facilitate investment in infrastructure. This helps in differentiating SEZs using the same pallet of incentives

KEY ECONOMIC SUCCESS FACTORS

SELECTION OF SECTORS & ACTIVITIES

The correct choice of SEZ target industry-sectors is important to ensure that the comparative advantages of the country, region or site are fully utilised and that the key challenges and risks have been considered.

LINKS TO NATIONAL & LOCAL ECONOMY

When designing a SEZ program consideration should be given to trade policy, strategic and sectoral focus, zone typology, policies on domestic participation and policies on access to local markets to ensure favorable conditions for facilitating backward and forward linkages within the domestic economy

TARGETED ECONOMIC IMPACT

There should be a clear vision from the inception of an SEZ program on which economic impacts are being targeted and the extent of these impacts. Key economic performance indicators should be monitored on a regular basis to ensure that targets are being met.

REQUIREMENTS FOR SUCCESSFUL SEZs

KEY SUCCESS FACTORS

KEY ORGANIZATIONAL FACTORS

ALIGNMENT TO NATIONAL VISION

Implementation of SEZs program should be considered with regards to a national economic strategy which identifies linkages to certain parts of the economy

ROBUST ECONOMIC RATIONALE

Analysis of country's performance, constraints to growth and investment climate should be undertaken to determine whether an SEZ program is a suitable policy instrument.

SELECTION OF SEZ MODEL

The type of SEZs development model (e.g. EPZ, FTZ, Freeports) should be aligned to the policy objectives. Innovative configurations could be implemented to present the most attractive value proposition to the market.

FORMULATION OF SEZs WORKING GROUPS

The creation of such groups can be a key tool in ensuring that the full range of issues and opportunities that an SEZ program generates is captured and to ensure lateral support from relevant stakeholders.

CONSIDERATION OF INVESTOR REQUIREMENTS

Prioritizing sector specific requirements when developing the legal, incentives and regulatory framework.

PROVISION OF INVESTMENT PROMOTION AGENCIES OR 'ONE-STOP-SHOPS'

The establishment of such entities are effective tools for targeting inward investment in SEZs and to facilitating a significantly more attractive environment for potential investors.

TARGETED INCENTIVE FRAMEWORKS

Fiscal incentives should be focused on the sectors and strategies which are being targeted by the proposed zone program and should not be used as the main differentiator between competing zones.

CONCLUSION

SEZs are increasingly playing a key role in Africa's industrial transformation and economic growth. Countries like Egypt, Ethiopia, Moroccon, Nigeria and South Africa have set up world class zones, attracting major companies and global investors. For policy makers, institutional investors and international financing institutions. it is crucial that zones performance data is clear, more readily available and comparable.

The objective of the Economic Zones outlook 2021 was to identify the key challenges faced by African countries when developing and implementing SEZ programs, as well as the key success factors which underpin the most successful zones experiences across the continent.

The impact of Economic Zones on trade facilitation, jobs creation and industrialization was also examined more carefully specially in understanding the impact on local and regional economies, inclusion for youth, women and socially responsible investment. Another area would be to understand the key factors which can accelerate or support zones performance in logistics competitiveness, knowledge transfer programs, access to finance, along with enhancing the spill-over effect on zones attractiveness. Business models for zones are also evolving with more zones operated as PPP or privately. This would mean greater responsibility for governments to create capacity to forge new partnerships, new funding models and new institutional structures.

The implementation of the AfCFTA could have a positive effect on trade and investment, especially intra- African, as major economies on the continent seek to benefit from increasing integration. The agreement is also expected to contribute to enhancing industrial diversification. Global Value Chain-intensive activities within zones are expected to grow after the implementation of the AfCFTA with important implications for regional value chains and continent-wide economic diversification. GVC-oriented industries are also expected to become more important for FDI promotion with the implementation of the AfCFTA.

In light of the findings from the outlook, SEZs can make an important contribution to economic integration in Africa by promoting intra-regional trade and investment, as they can strongly influence the realization of AfCFTA's objectives. To facilitate this, SEZs policies should be harmonized within the continent for which the new SEZ's regulations encompassed in the framework of the AfCFTA can play a crucial role.

Benchmarking zones is useful to compare performance and zone evolution over time. However, it will be immensely beneficial to analyze challenges and success factors of Economic zones when comparing their achievement. This will support countries to develop the "next generation of zones": zones that will have to abide by Sustainable Development Goals, transition to the new industrial revolution and the digital economy, and rapidly changing patterns of international production and global value chains.

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