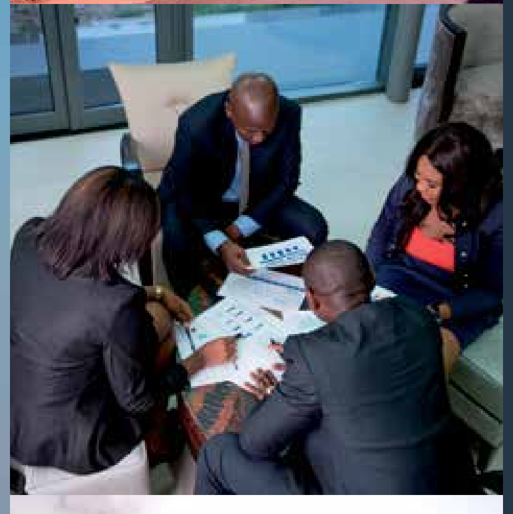

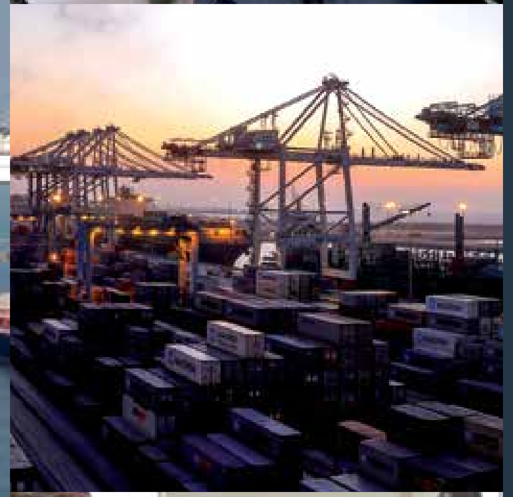

OXFORD BUSINESS GROUP

Economic Zones in Africa

Focus Report

In partnership with AEZO

AFRICA ECONOMIC ZONES ORGANIZATION

Foreword

Ahmed Bennis,
Secretary-General, AEZO

The significant growth in the number of economic zones around the world is part of a new wave of industrial policies and a response to trade globalisation. Africa is no exception, and such zones are increasingly playing a key role in the continent's industrial transformation and economic growth. For policymakers, investors and finance organisations, it is crucial to support the development of African economic zones.

The African Continental Free Trade Area (AfCFTA), with a GDP of more than $2.5trn, is forecast to boost intra-African trade by 50% to close to $16bn, and covers several areas of interest to operators: duty-free treatment of goods, clearer rules of origin, Customs cooperation, trade facilitation, the removal of non-tariff barriers, legal framework harmonisation and compliance with international standards. When African economic zones trade among themselves, they exchange more manufactured and processed goods, and support knowledge transfer that leads to complementarity and diversification of the value chain. The real test of AfCFTA will be how quickly African economic zones can accelerate export diversification and product sophistication, and make trade more inclusive. This includes bolstering productivity and increasing the overall value of exports. Some positive examples in this regard come from countries that have well-established zones and manufacturing bases, such as Morocco and South Africa, with their automotive experience, and Ethiopia, with its textile and garment industry. If AfCFTA is to fulfil its potential to diversify and transform African economies in an inclusive manner, economic zones must develop effective strategies for exports, and identify new opportunities for diversification and industrialisation to build innovative regional value chains involving high-end technologies and higher-quality inputs that support trade-facilitation reforms.

AfCFTA presents an opportunity to extend economic zone activities and promote intra-African trade, along with developing regional value chains and industrial complementarity. Economic zones can play a game-changing role in Africa's diversification and inclusion by providing end-to-end solutions and services that support industrial upgrades and increase countries' attractiveness for investment. Greater manufacturing and transformational capacity will in turn improve Africans' livelihoods. With the implementation of AfCFTA and the post-Covid-19 recovery that the world is beginning to experience, we believe that real investment opportunities exist in Africa at this moment, which can translate into job creation and social and economic development. Africa has resources that need to be developed and economic zones can play a key role in this. We are pleased to collaborate with Oxford Business Group on the production of this report to highlight these opportunities.

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UNLEASHING POTENTIAL

PART 4

ESG PRINCIPLES

AEZO: History and Background

The Africa Economic Zones Organisation (AEZO) was established in November 2015 by Tanger Med, a Moroccan port and economic zone complex located on the Strait of Gibraltar, to strengthen relationships among African economic zones and related government institutions. The organisation comprises various economic zones and institutions, leading the development, management and promotion of economic zones across the continent. AEZO aims to facilitate cooperation among the African economic zone community to achieve strategic objectives and forge beneficial relationships within the ecosystem; identify business opportunities; provide tactical and technical assistance; contribute to the socio-economic development, growth and prosperity of its members; establish customised models of development; and promote sustainable practices within daily operations.

AEZO also represents African economic zones in international meetings, bolstering their competitiveness and promoting members' business activities and initiatives. To best achieve this, AEZO has partnered with a number of continental and global organisations, including the African Union Commission, the UN Conference on Trade and Development (UNCTAD), the African Development Bank (AfDB), the Trade Law Centre, the UN Industrial Development Organisation, the World Trade Organisation, the AfroChampions Initiative and the World Bank. Moreover, AEZO works to foster collective knowledge sharing and connect members with global business networks and international actors. The organisation helps economic zones commercialise their operations by deploying project initiatives; implementing standards and best practices; launching go-to-market activities; mastering in- and out-flow management; and promoting business and investment opportunities to private players.

The organisation offers support to its members by providing a one-stop shop; strengthening capacity-building; hosting regional workshops, training sessions and get-together meetings; and providing a number of online services. The last of these includes a knowledge centre with reports and presentations; the AEZO Atlas database for macroeconomic reporting, data assessments, statistical analysis of key markets and partners, and information on investment and regulatory frameworks of countries, including laws, Customs procedures and fiscal incentives; and AEZO Connect, an exchange platform to facilitate information sharing between managers of economic zones.

AEZO has grown rapidly in recent years, from representing 25 countries in 2018, to 82 members from 42 nations as of November 2021. There are four categories of members, the first of which is qualified members, or those who participated in the founding and creation of AEZO. The second is active members, open to any economic zone with a head office located in Africa; a chamber of commerce of an African country; a ministry responsible for economic zone development, investment promotion or industrial development; or an African authority charged with regulating and managing economic zones. Honorary members, for their part, have contributed significantly to the organisation, while associate membership is available to any private or public body whose primary activity is involved with serving the interests of African economic zones.

Interview

Jaafar Mrhardy

Managing Director, Tanger Med Zones

What steps need to be taken to create a successful ecosystem for investors?

The development of economic zones needs to look beyond just offering infrastructure to investors. In order to successfully attract investment, economic zones have to provide different services, such as one-stop shops and multi-sector technical advice.

Attracting international companies can be a difficult undertaking for any special economic zone around the world, not just those in Africa. To address this challenge, we are able to offer attractive incentives to companies as part of efforts to strengthen our position as a model of regional development and a success story on the continent. Exemptions on corporate taxes, registration fees, stamp duties for land acquisition, and business and patent taxes are some of the incentives offered at Tanger Med Zones. This could be replicated across Africa to create a more attractive framework for foreign direct investment (FDI) in the continent. It is key for zones to diversify their offerings to both strengthen the value chain and increase their value proposition.

To what extent can economic zones facilitate Africa's economic and social development?

The continent's industrial development has long been hampered by different issues such as unreliable power, difficult access to land, high logistics costs due to underdeveloped or non-existent infrastructure, and lengthy licensing and bureaucratic processes, among others.

Each of the aforementioned challenges can be addressed through the development of economic zones. International companies looking to boost efficiency and productivity, and lower operating costs will be attracted to economic zones in Africa focused on trade and investment in the manufacturing, logistics and services industries.

By bringing in FDI, zones are poised to significantly boost Africa's economic development and its value added, which would translate to greater benefits for the continent's social development. Additionally, the establishment of special economic zones would facilitate the creation of direct and indirect jobs.

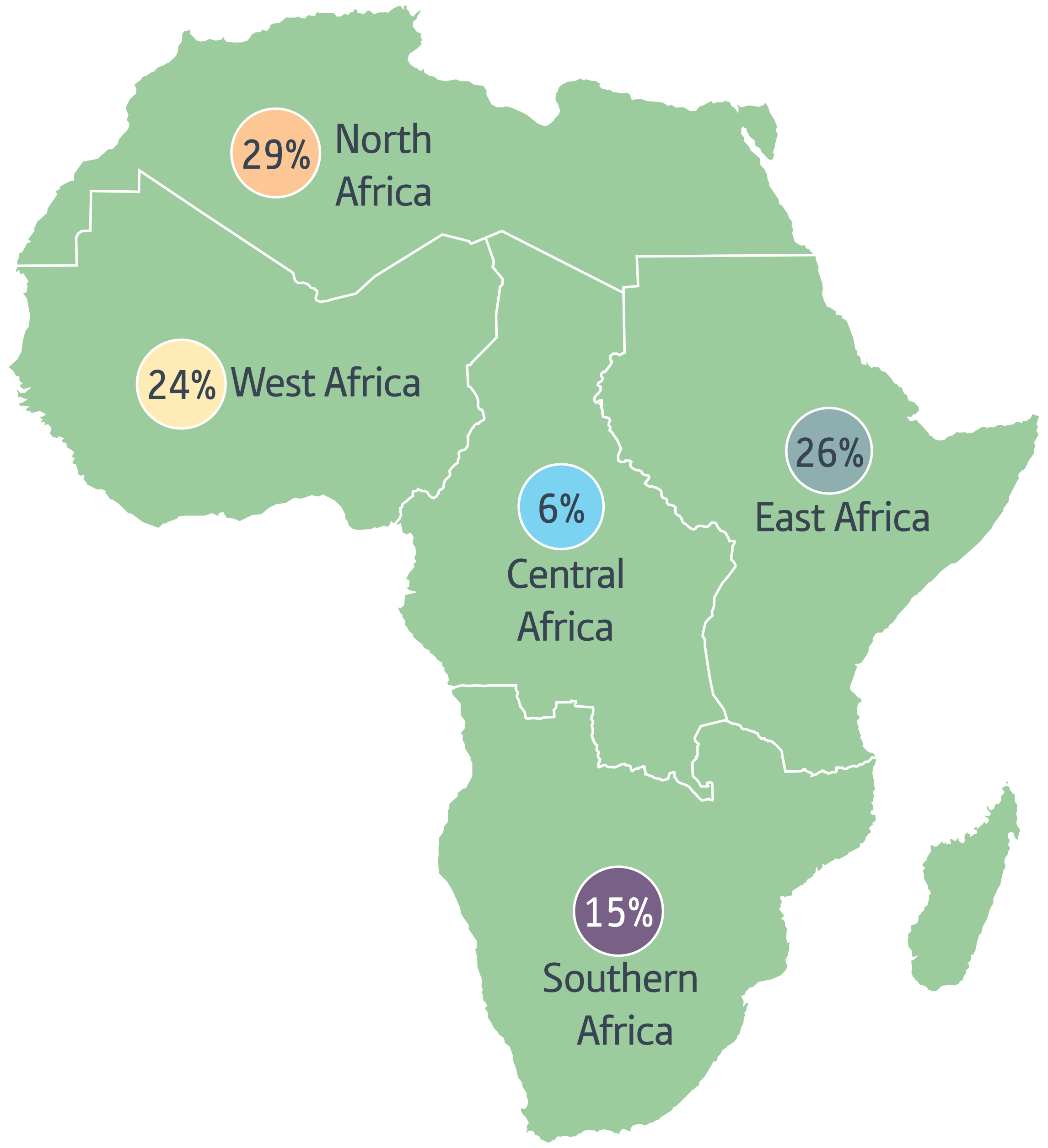
How can economic zones help Africa meet sustainable development goals?

Africa's population is set to double to 2.5bn by 2050, and with a high reliance on the agriculture sector for GDP and employment creation, the continent is extremely threatened by climate change. Given these challenges, sustainable development needs to play a role in investment plans for the continent. This presents an opportunity for investors in economic zones to lead the charge. The establishment of economic zones must be centred around sustainable development, as well as on environmental, social and governance principles to ensure they have a positive long-term impact on society.

Two primary long-term objectives at Tanger Med Zones are environmental sustainability and energy efficiency. We are located in a water scarce, hyper-acidic environment, which means climate-related issues are a top priority. We can provide green energy solutions to Tanger Automotive City thanks to our proximity to wind farms, and plan to equip all leased industrial warehouses there with solar farms.

Presence of Economic Zones in Africa

Concentration of economic zones in Africa, 2021

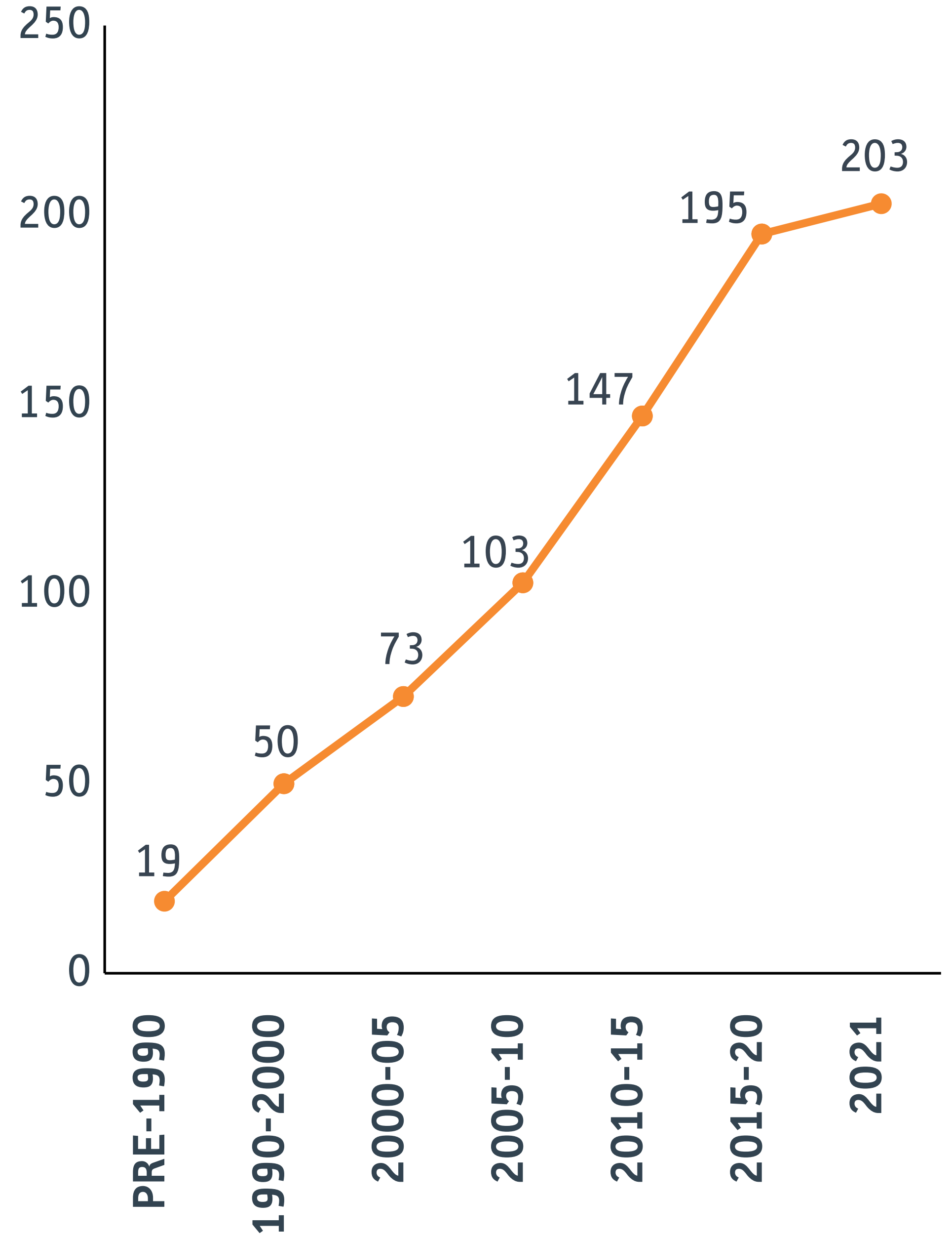


Economic zones are institutions aimed at attracting investment and are important instruments for a country's development. They are geographic areas with clearly established borders designed to facilitate industrial activity and trade logistics, and can be either multi-industry or sector-specific, depending on a country's level of industrialisation. Features of economic zones include streamlined procedures and financial benefits within the territory, such as a duty-free designation, relief from tariffs and separate Customs regimes.

There are various types of economic zones, including special economic zones (SEZs), free trade zones, free zones, export-processing zones, industrial parks, bonded logistics parks and urban enterprise zones, all of which cluster infrastructure to allow companies to leverage economies of scale. Many governments of developing countries consider economic zones a crucial component in attracting foreign direct investment (FDI), facilitating industrialisation, creating jobs, procuring technological and innovative know-how, and connecting with global production networks, thereby both directly and indirectly contributing to widespread economic growth.

While economic zones have been around in some form for centuries, their modern concept began to grow in popularity in the 1970s and 1980s. African countries began to leverage them in the late 1990s and early 2000s, as only a few countries on the continent – such as Liberia, Mauritius and Senegal – deployed them in the 1970s. This trend has continued in recent years: in 1990 there were 20 such facilities, but by 2021 there were 203 economic zones in operation and a further 73 under development on the continent. Indeed, approximately 60% of the continent's economic zones were established since the turn of the 21st century. As of 2021 North Africa was the region with the highest concentration of economic zones on the continent, comprising roughly 29% of the total, closely followed by East Africa, with 26%. West Africa came in third, with 24%, followed by Southern Africa (15%) and Central Africa (6%).

Number of economic zones in Africa



Part 1: Introduction

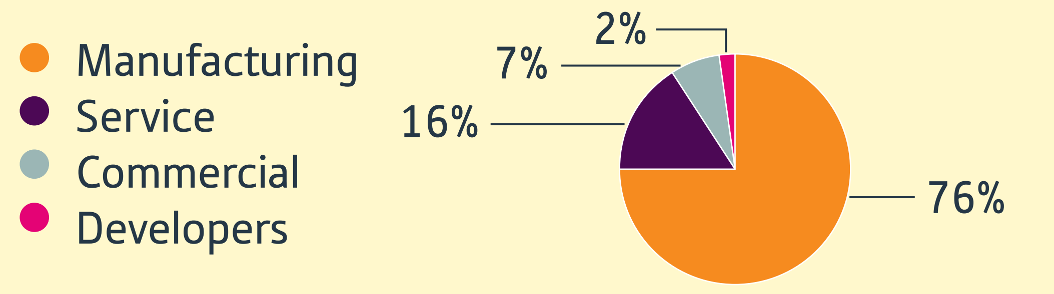
Case Study

Created in 1995, the Ghana Free Zones Authority (GFZA) is a dedicated governmental institution established to facilitate the development of economic zones. The GFZA promotes the processing and manufacturing of goods by establishing export processing zones (EPZs), and supports the development of commercial and service activities at the airport and seaport. The authority's primary goal is to create an attractive ecosystem for potential investors who can utilise the economic zones as central points to produce goods and services for export to Africa and beyond. To this end, the GFZA offers several industrial advantages, logistics facilities and incentives. These include exemptions from taxes on dividends arising from economic zone investments; exemption from duties and levies on imports for production; and relief from bureaucratic processes, import licensing requirements and restrictions on the repatriation of finances.

The GFZA manages four EPZs established on 3035 ha of land: the Tema EPZ is close to the country's largest port; the Sekondi EPZ is next to the second-largest port and has access to key road links with industrial plants; the Shama EPZ is a petrochemical zone in the Western Region; and Ashanti Technology Park hosts several clusters, including cocoa processing, social services, biotechnology and ICT.

Since the launch of the African Continental Free Trade Area (AfCFTA) in January 2021, the GFZA has been working with regulators across the continent to give preference to AfCFTA members and limit double incentives. Ghana intends to play a key role in the AfCFTA through its network of economic zones and EPZs, leveraging its supportive regulatory environment to foster economic development.

Four broad areas for investors



Viewpoint

Michael Oquaye, CEO, Ghana Free Zones Authority

As a member of the African Continental Free Trade Area (AfCFTA), Ghana stands to fully benefit from access to the common market, which comprises a combined 1.3bn people and \$2.3bn per year of economic output. These impressive figures highlight both the strength of the market, and opportunities for future expansion and foreign investment.

Special economic zones (SEZs) across the continent also stand to benefit from the agreement. With reduced barriers to trade and enhanced cooperation between stakeholders, manufacturers and service providers will be able to expand production to meet Africa's growing demand across several segments of the economy. The main purpose of these platforms is to provide the continent with the facilities necessary to accelerate the transformation of raw materials into finished goods, thereby increasing their added value. This will enable a wider array of entities to enter the African market, and in the longer term facilitate the transfer of technologies and knowledge that our economies need to meet our full potential.

However, there are several challenges that must be overcome to meet these goals. Among the most pressing is the issue of which currency will be used in commercial trade, as well as the implementation of a centralised banking system that would facilitate the movement of goods through the free movement of money between all countries on the continent.

The creation of a large continental market through the AfCFTA is closely linked to the development and expansion of SEZs. This is largely due to their capacity to facilitate trade flows and attract investment from both domestic and foreign companies. Indeed, such zones can help create thousands of jobs tailored for a skilled workforce, as well as boost economic and social development across the continent.

Potential of AfCFTA to Boost Trade

"The AfCFTA will be a game changer and create a new way of doing business in Africa. SEZs will play key role in this movement. Multi-country and cross-border SEZs have a positive impact on the connectivity of such zones and other centres created in a country. Linking SEZs across Africa is important to create integrated value chains to capture larger markets."

Inge Baumgarten, director of the Office to the African Union at the German development organisation GIZ

Spearheaded by the African Union (AU), the AfCFTA agreement was signed in March 2018 and aims to substantially reduce both tariff and non-tariff barriers to trade. The AfCFTA aims to facilitate intra-African trade; improve structural transformation; create a single market for goods, services and the movement of people; liberalise trade policies; and enhance members' and industrial products' competitiveness on a global scale.

The free trade area was launched on January 1, 2021 and is composed of 54 of the 55 members of the AU, integrating a market with a combined GDP of $3.4trn. According to the World Bank, the new free trade area is expected to boost Africa's exports by $560bn and lift more than 30m people out of extreme poverty, with West Africa seeing the biggest rise in people moving to the middle class. Furthermore, according to the UN Economic Commission for Africa, the AfCFTA could boost intra-African trade by 40-50% by 2040, with intra-African exports forecast to increase by 25-30% by the same year.

The implementation of the AfCFTA is expected to unlock a range of opportunities for African economic zones and the companies located in them. This includes greater market access; lower-cost and higher-quality production resources due to the reduction in trade barriers and an expanding local market; the opportunity to benefit from emerging regional value chains and increase economies of scale; and lower trade and production costs, which would increase firms' competitiveness. In particular, the AfCFTA should benefit economic zones that are located in markets with smaller domestic consumer bases, and bring new opportunities to both local and foreign firms with operations in such facilities. Moreover, the agreement should help to facilitate new approaches to economic zone development and expand their share of regional trade in the coming years. Indeed, economic zones may prove to be a useful policy tool for overcoming trade barriers, as well as in addressing the production, institutional and infrastructural bottlenecks that could emerge under the agreement. Due to the fact that economic zones are often situated in strategic geographical locations along regional commercial corridors and are key drivers of intra-regional trade, the logistical infrastructure already in place on the continent should help realise the potential of the AfCFTA.

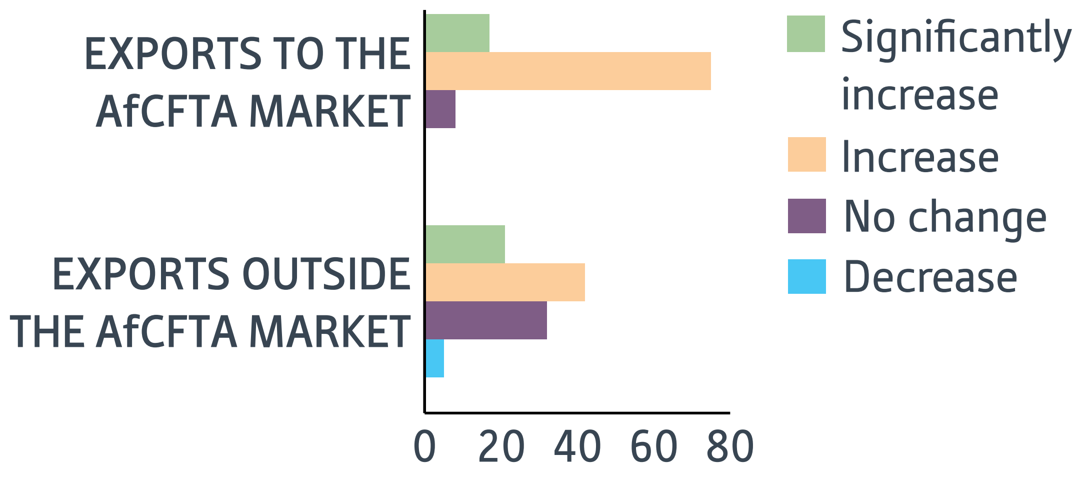
Part 1: Introduction

Driving Industry and Trade

Fostering industrialisation, boosting exports and facilitating economic diversification are among the principal goals of economic zones. Indeed, national development programmes are often integrated with economic zone strategies, as they have complementary aims. Kenya, for example, integrated SEZs into its Kenya Vision 2030 development plan, which leverages economic zones to boost industrialisation, technological development and manufacturing activities. Nigeria, Ethiopia, Ghana, Senegal and South Africa have given SEZs a central role in national plans as well, with the aim to transform existing economic zones into larger production centres.

The AfCFTA is to work in tandem with the objectives of economic zones, namely the focus on industrialisation and commerce facilitation for lower trade costs. The agreement will consider goods produced in economic zones with special regimes as domestic products, which would grant them free access within the trading bloc – similar to goods produced outside economic zones. As those products will be given export permission to all member nations, this should assist in industrialisation, with additional opportunities for specialisation due to resource clustering. According to US-based think tank the Brookings Institution, the implementation of the AfCFTA has the potential to double the size of Africa's manufacturing industry by 2025, creating 13m-16m new jobs to bridge the employment gap. African SEZs have played a major role in the continent's industrial transformation and economic development in recent decades, with zones in countries such as Morocco, South Africa, Egypt and Ethiopia attracting and significant FDI.

Expected impact of the AfCFTA on SEZs, 2020 (% of survey respondents)



Viewpoint

Osman Arikan, General Manager, Polaris Parks

Egypt has free and preferential trade agreements with more than 70 countries, is located close to other large markets and hosts major maritime routes. Small and medium-sized enterprises (SMEs) are a major source of jobs, but despite the fact that 75% of the workforce is employed by SMEs they contribute to less than 20% of the country's exports. This is a reflection of Egypt's low export volumes relative to its economic size. For a country to grow, it must have a robust backbone of SMEs and a proper base for exports, particularly if it wishes to attract labour-intensive industries.

The role of free zones and industrial parks in Egypt is therefore not confined to supporting large companies and heavy industry, but to boost SME development and stimulate business connections between cities and parks. There is a key opportunity for SMEs in Egypt to build out their production capacity, test innovative ideas and ultimately begin exporting their products from industrial parks. The government has been encouraging the development of SMEs through special incentives and financing, while parks have put tools at SMEs' disposal. Even if SMEs do not reach the production levels necessary for export, the local market in itself is substantial. With growth of 2% per year among a population of 100m and median age of 25, the market is the second largest in Africa. This means more houses and more white goods are needed, and more general consumption every year. Overall, there are more opportunities for small businesses to tap into.

Egypt's GDP was one of the few to expand during the pandemic, evidence of the country's resilient and growing economy. The digital economy and supporting data centres will help migrate the economy into a new era for Egypt's economy in which the middle class will grow.

Graph sources: *AEZO; UNCTAD*

Impact and Solutions

The Covid-19 pandemic, while disruptive for business, provided an opportunity for African countries – and the economic zones that operate within them – to address long-standing challenges such as infrastructural, institutional and human resource gaps in order to build resilience to future external shocks. Africa witnessed a pandemic-induced GDP contraction of 2.1% in 2020 and the health crisis interrupted potential investment in the continent, presenting another obstacle to growth. For example, in 2020 FDI to Africa declined by 16% to $40bn. The effect was almost immediate, with African economic zones experiencing production problems arising from global supply chain disruptions. According to a survey conducted by the Kiel Institute for the World Economy in March and April 2020, around two-thirds of free zones in Africa and the Middle East are expected to be affected to some extent, with one-third expecting substantial negative consequences.

However, the continent's real GDP growth is forecast to be 3.4% in 2021, underpinned by resumed consumption, a recovery in commodity prices, and the lifting of pandemic-induced trade and travel restrictions, according to the AfDB. The implementation of AfCFTA, and its focus on intra-regional trade and improved connectivity through the advocacy of economic zones, is also likely to support economic recovery.

Industrial players applied innovative solutions to the problems presented by the crisis. Specifically, economic zones in Africa are embracing digitalisation via the Fourth Industrial Revolution – referring to the digital transformation and automation of traditional practices. In particular, the continent's economic zones have upgraded legacy industrial activities towards more high-tech processes and digital services to increase their value proposition, and are transitioning to asset-light, technology-intensive investment. Morocco, for example, has established many technology-focused economic zones, such as Tetouan Shore in Tanger Med Zones, Rabat Technopolis and Oujda Technopolis, in order to attract high-tech industrial investment; and Atlantis Special Economic Zone in South Africa is working on more effective renewable-energy technologies. Côte d'Ivoire and Ethiopia developed economic zones that target high-tech industries as well: specifically the Village of Information Technologies and Biotechnology in Grand-Bassam and Kilinto Industrial Park in Addis Ababa, which focuses on pharmaceuticals.

Measures taken by economic zones to address the Covid-19 pandemic

- Establishment of task forces involving major stakeholders
- Implementation of social-distancing measures
- Measurement of body temperatures
- Distribution and provision of personal protective equipment such as masks and hand sanitiser
- Digitalisation of operations such as electronic invoicing and payments, and one-stop shop services
- Disinfection of facilities
- Regulation of passenger numbers on transport
- Creation of awareness-raising campaigns to promote safety and security
- Establishment of a helpline to respond to requests, and provide information and updates
- Deployment of training sessions on health, safety and security

Infographic source: *AEZO*

Trade Performance

Economic zones in Africa have had a significant impact on trade volumes across the continent, as well as on job creation and foreign direct investment (FDI) inflows. Indeed, exports from economic zones can make up a substantial share of a country's outbound trade. Economic zones typically have a greater effect on exports when a nation has a well-developed economic zone programme, in addition to having outward-looking and export-oriented policies in place. For example, Morocco and Ethiopia have both pursued strategies that champion economic zones, with a view to boosting trade: companies located within economic zones in Morocco and Ethiopia saw average compound annual growth rates of 10.2% and 9%, respectively, between 2008 and 2018.

According to an outlook report published by the Africa Economic Zones Organisation (AEZO) in 2021, special economic zones were present in 47 of the 54 countries on the continent that year, with the highest concentration in Morocco and Nigeria. In a 2020 survey on African economic zones conducted by AEZO and the UN Conference on Trade and Development (UNCTAD), more than half of the zones surveyed reported annual export growth of over 10% between 2015 and 2019. Of this cohort, three zones reported growth in excess of 30% – compared to Africa's average annual export growth rate of 5.5% for the same period.

However, while intra-African trade as a share of total trade value on the continent grew modestly over the past two decades – peaking at 21% in 2015, and averaging 18% annually between 2016 and 2018 – in 2020 it slowed to 16%, accounting for approximately $61bn, due to pandemic-related disruptions such as supply chain bottlenecks.

Looking ahead, economic zones in Africa are expected to capitalise on the benefits stemming from the African Continental Free Trade Area agreement – which include more integrated value chains and greater access to regional markets – and see a significant increase in export volumes. In particular, the textiles and apparel, transport equipment, wood and paper products, and electronics segments look set to profit the most from reduced trade barriers, according to the UN Economic Commission for Africa.

In **Morocco** and **Ethiopia** companies located within economic zones saw trade increase by an average CAGR of **10.2%** and **9%**, respectively, between 2008 and 2018

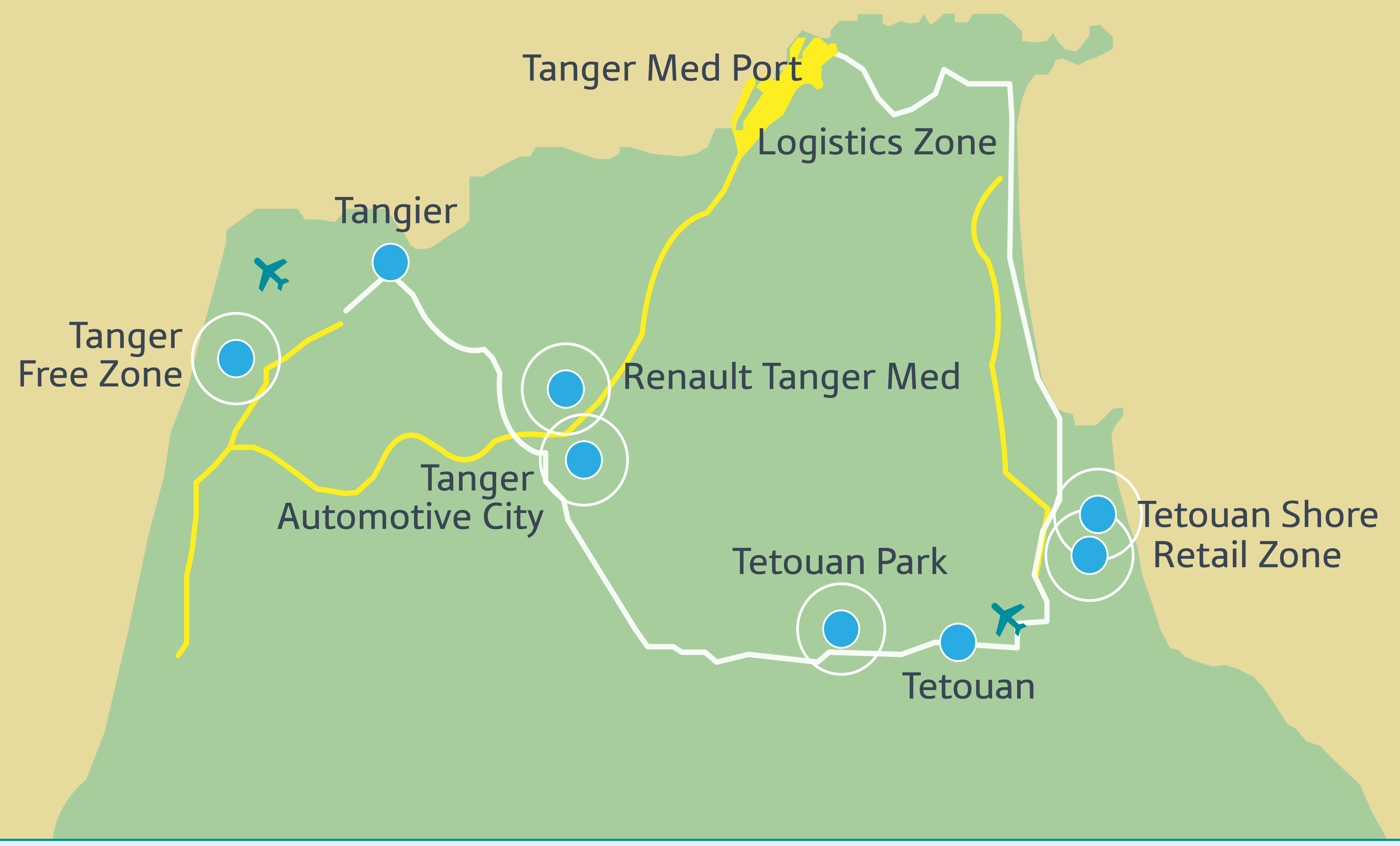
Case Study

TANGER MED ZONES

Located in the Strait of Gibraltar, Tanger Med is a global logistics gateway that began operations in 2007. Today it is connected to 186 ports worldwide and has an annual processing capacity of 9m containers, 7m passengers, 1m vehicles and 700,000 trucks. The port's capacity expanded from 4.8m twenty-foot equivalent units (TEUs) per year in 2019 to 5.8m TEUs in 2020 – a record growth rate of 20.2%. This trend continued in the first three months of 2021, when capacity grew by a quarterly rate of 35%. In addition to port facilities, Tanger Med developed and operates an industrial and logistics platform comprising six activity zones that host 1100 operators in diverse sectors including automotive, aeronautics, textiles and trade, representing a business volume of €7bn. This platform acts as an integrated one-stop shop for the administrative needs of producers and exporters.

Tanger Med Industrial Platform, developed and operated by the subsidiary Tanger Med Zones, extends over 20m sq metres and comprises several dedicated zones. Its network includes Tanger Free Zone, Tanger Automotive City, Tetouan Park, Tetouan Shore and Renault Tanger Med. A key reason why Tanger Med is one of the drivers of Morocco's competitiveness as a gateway to Africa is the integrated logistics flow between the zones and the port through a unified administrative process and high-quality infrastructure.

Tanger Med, which is operated by the Tanger Med Special Agency, is responsible for mobilising funding and issuing technical and economic studies, as well as creating the framework for the development of the area's facilities, among other duties. One of the group's primary objectives is to ensure the constant flow of goods for its operators exporting and importing from within and outside the zones. In terms of corporate social responsibility, the agency has implemented a multidimensional strategy, balancing logistics and industrial priorities with the UN Sustainable Development Goals. By managing operations and infrastructure sustainably, as well as adopting good governance principles, Tanger Med aims to develop human capital in a way that has a positive social and economic impact. This inclusive approach will help it play a leading role in global supply chains.



Dh59bn in export turnover in 2020

1100 companies

90,000 jobs

40+ countries represented

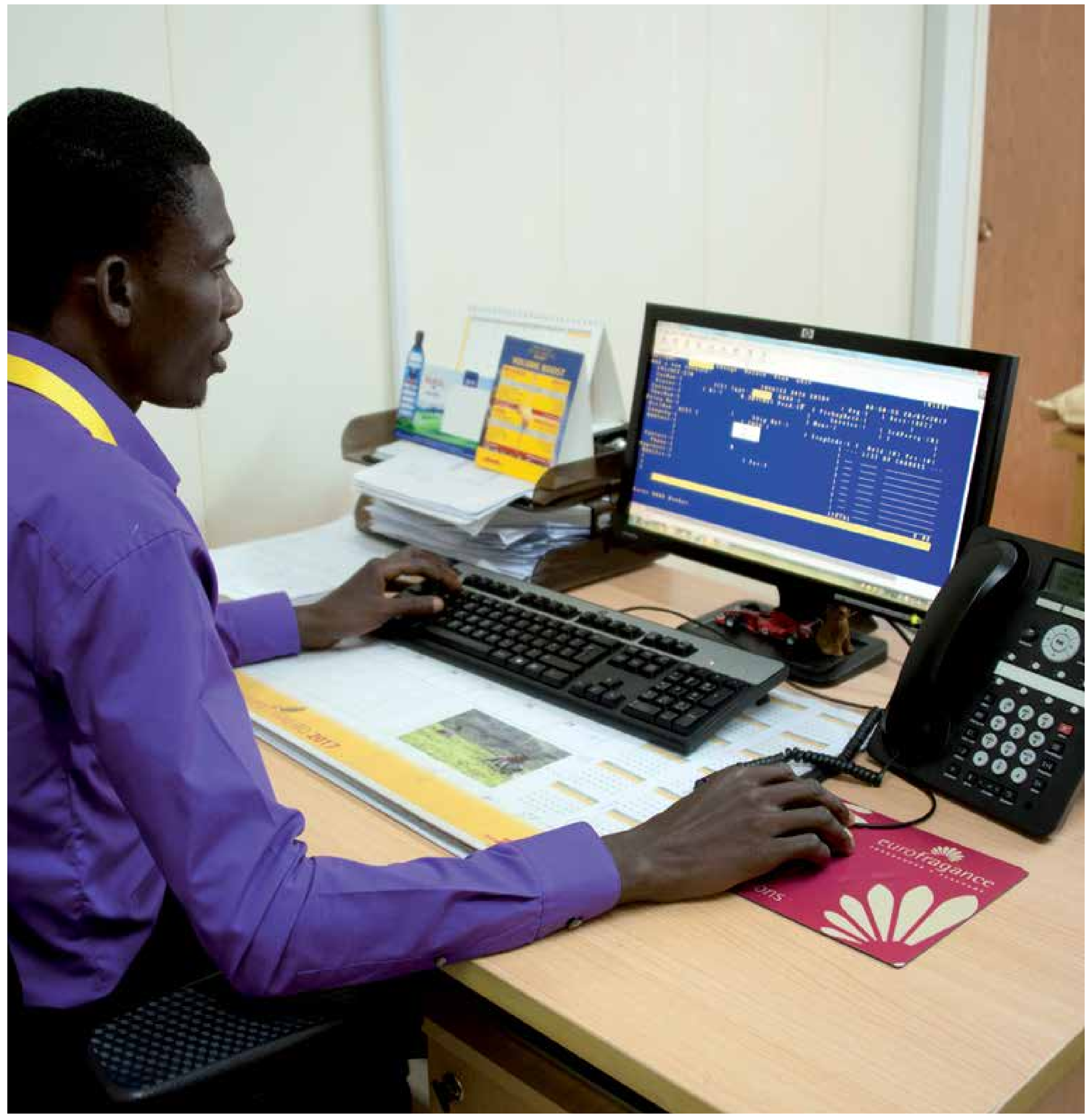
Technological Drivers

A number of emerging trends are shaping the future of economic zones in Africa, which include harnessing new technologies and embracing the digital revolution. Indeed, slow innovation and the sluggish deployment of technology-oriented policies present a challenge for attracting FDI to and facilitating global trade in African economic zones. Digitalisation and automation help to boost competitiveness, productivity gains and investment. Digital technologies – such as the internet of things, big data, artificial intelligence, web-based apps, enterprise resource planning and advanced robotics – are transforming production processes and business models, and are proving to be more effective in attracting FDI than cheap labour, for example.

In recent years economic zones in Africa have trended towards promoting higher-value-added activities, as opposed to traditional segments that are more labour-intensive and low-tech. For example, Morocco has shifted its focus in the last decade from low-tech exports such as garments and textiles, to high-tech exports in automotive, aerospace and electronics, notably at Tanger Automotive City and the Kenitra Atlantic Free Zone.

Deploying digital technologies enables the provision of digital services, such as one-stop shops and online single windows, to facilitate and streamline administrative services, improve efficiency and increase the value proposition of economic zones. For example, the Kigali Special Economic Zone in Rwanda, with its focus on heavy and light manufacturing, and the General Authority for Investment and Free Zones in Egypt offer a variety of services via online platforms, such as registering companies, and requesting licences and import permits. They also provide information on cross-border cooperation, project collaboration and resource-sharing.

Policymakers can leverage the advantages of technology and digitalisation at economic zones in various ways. First, it is necessary to undertake studies and formulate digitalisation frameworks to maximise the impact of emerging technologies. Second, leaders could encourage the development of those capabilities through technology transfer, in-house research and development, and technology spillover. Third, it is important for policymakers to work in partnership with industry stakeholders, consumers and government agencies to foster a pro-ICT environment that encourages the greater use and uptake of digital services. For example, AEZO advocates for the transfer of technology and skills between economic zones, and is working on the development of a so-called smart zone concept to facilitate this, which consists of a technology and business-to-business connection platform to help companies based in economic zones communicate with one another more effectively.



Part 2: Developments

Attractive Markets

One of the key functions of economic zones is to enhance the attractiveness of local and regional markets in order to facilitate development through investment. A major determinant of an economic zone's success is the availability of high-quality infrastructure and digital services, in addition to the flexibility of its model development, the identification and targeting of strategic sectors, and its capacity to nurture a rich talent pool. In recent years economic zones have played a key role in attracting FDI to Africa, which grew from $46bn in 2018 to $47bn in 2019, before dropping to $40bn in 2020 due to the impact of the pandemic. However, according to UNCTAD, FDI inflows to Africa are forecast to increase by 5% in 2021 and could reach pre-Covid-19 levels in 2022. Part of this recovery is being driven by the implementation of the African Continental Free Trade Area pact, as well as enhanced integration, growing worldwide demand for commodities and new opportunities in global supply chain restructuring. Typically, economic zones have their own regulatory and Customs regimes, and provide infrastructure support, thereby facilitating a more favourable business climate than the one provided in the home country. In a 2020 survey on African economic zones conducted by AEZO and UNCTAD, China was ranked as the top source of FDI, followed by India and France. Moreover, AEZO reported that African countries with special economic zone programmes have the highest ratio of inward FDI stock to GDP. In 2018 Gabon, which has two operational special economic zone programmes, had the highest FDI stock-to-GDP ratio, at 60.7%, followed by Ghana (55.4%) and Morocco (54.3%). By attracting players from a variety of sectors, economic zones are also able to enhance export diversification and support linkages with local economies. For example, Morocco's Tanger Med Zones, with its focus on the automotive, aerospace, electronic and logistics industries, has created approximately 90,000 jobs, and directly and indirectly increased domestic trade through associated supply lines.

> Economic zones play a key role in attracting foreign direct investment to Africa, which stood at **$40bn** in 2020

Case Study

TANGER MED ZONES

The region encompassing Tangier, Tetouan and Al Hoceima at the northern tip of Morocco has been identified by government officials as one with strong growth potential. The authorities cite its geostrategic position between the Atlantic Ocean and the Mediterranean Sea, as well as its strong industrial and maritime base. The region hosts several large-scale industrial facilities such as the Tanger Med Port Complex and Industrial Platform. The logistics hub offers an integrated ecosystem to investors, and companies based in the facility are given incentives and advantages to spur development, including financial subsidies from the government for manufacturing activities. Tanger Med has facilitated the rapid economic growth in the region, which, in recent years, has emerged as one of the top areas of Morocco for adding value to the country's GDP.

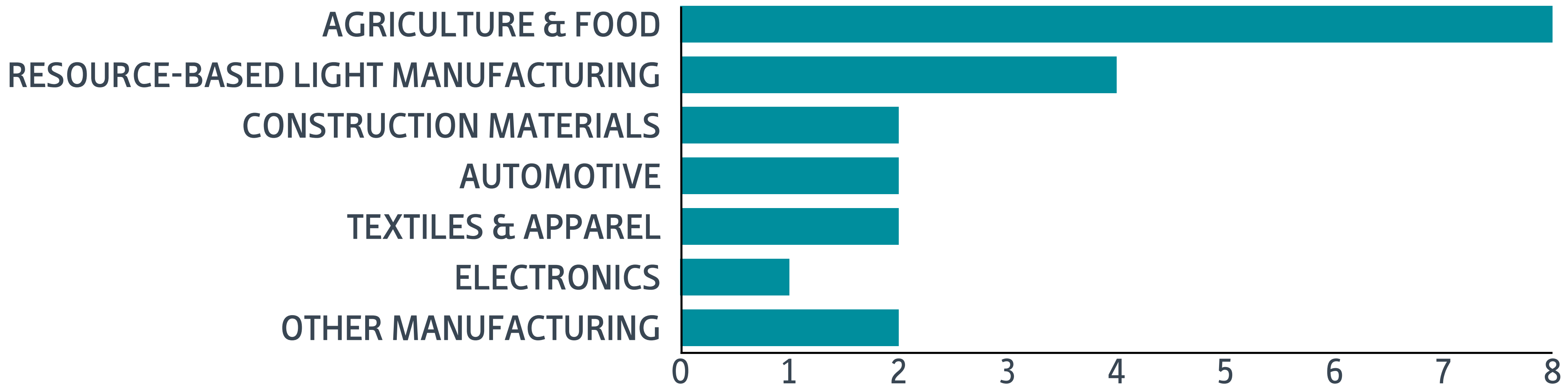
Tanger Med is in the process of expanding its offer to include a 70-ha activity zone dedicated to the retail sector. The new site will host commercial activities, restaurants and an outlet, and will allow major international retail players seeking to expand their activities to enter the Moroccan market and position themselves in an area with strong economic potential. Providers will also benefit from the proximity to seaside towns, as they can tap demand from local and international tourists looking to shop while on holiday.

This new commercial zone aims to give visibility to international brands looking to establish themselves in a market that doubles as a gateway to Africa. The first phase of the project will be delivered in April 2022, and the zone plans to welcome brands from various retail segments in the coming years. Indeed, in June 2021 Swedish home furnishing giant IKEA announced it would open a store in the park the following year, investing around €38.5m, and creating 500 direct and 1000 indirect jobs.

Strategic Activities

Governments often turn to economic zones as a tool to attract innovation and productivity, and to encourage economic development, diversification and industrialisation. Two of the key factors that determine the success of an economic zone are the main industries and activities that it targets, and governments' determination to translate the economic dynamism generated in those zones to the rest of the economy. While the objective of most economic zones in Africa, and particularly sub-Saharan Africa, is to enhance the primary and secondary sectors, such as manufacturing and processing in low-skill, labour-intensive industries like garments and textiles, many are now focusing on higher-value-added and technology-intensive industries. According to UNCTAD, almost 90% of African economic zones are home to a combination of industrial activities rather than specialising in a specific sector. For example, the Athi River Export Processing Zone (EPZ) in Kenya and the Tema EPZ in Ghana host multiple industrial activities such as food processing, textiles and leather, and jewellery production. Importantly, governments and economic zones should play to their strengths based on a country's value proposition and comparative advantages.

Industries considered by respondents as one of the three most important for exports (number of respondents)



Viewpoint

Dinesh Rathi, CEO, Lagos Free Zone

Nigeria is fertile ground for economic growth and industrial production, especially given its young and fast-growing population. At over 200m, the Nigerian population is forecast to surpass that of the US' in the coming decades, with some estimating that this milestone will be achieved by 2050. The median age in Nigeria is below 19, meaning that the African country is home to a large pool of tech-savvy individuals. Moreover, Nigeria's GDP has more than quadrupled in the past two decades.

In terms of free zones, facilities in Africa are increasingly powered by cleaner power sources, and environmental action is at the forefront of many nations' development strategy. In addition, free zones are by nature more environmentally friendly than decentralised operations; construction, production and distribution activities can take place within one space and share costs related to energy, transport and waste management. In Nigeria the Lagos Free Zone's access to a deepsea port and its commitment to enhancing the ease of operations for its tenants makes it an attractive destination for international manufacturers looking to cater to high demand in both domestic and regional markets.

Key features such as an efficient single-window clearance system, access to ready-built infrastructure like modern warehouses and standard factories, and most importantly, critical factors for production such as secured land, reliable power and gas, and a solid master plan, ensure that project launches within the free zone run smoothly.

Overall, free zones play a fundamental role in the continent's economic future. As Nigeria accounts for over 17% of Africa's total GDP, the Lagos Free Zone will contribute greatly to economic development across not just Nigeria, but also the entire West African region.

Graph source: *2020 survey on African economic zones conducted by AEZO & UNCTAD*

Part 2: Developments

Case Study

$2.1bn committed foreign direct investment, with around $950m already invested

Only industrial zone in Nigeria with a fully integrated **deepsea port**

Save up to 50% on logistics costs per container and 30% on power generation inside the zone when compared to elsewhere in Nigeria

Global recognition
fDi 2021 Highly Commended Free Zone in Africa Award and Singapore Business Review Award 2021

Established in 2012, Lagos Free Zone (LFZ) is the first private free zone in Nigeria with a fully integrated port as part of its master plan. LFZ is home to some of the world's most recognisable global brands, including Kellogg's, Arla Foods, Colgate and BASF. With a total land area of 830 ha, companies in the zone can benefit from direct access to Lekki Port, the deepest port in Nigeria.

LFZ's vision is to become the preferred industrial centre in West Africa by providing its tenants with robust infrastructure. The free zone is well positioned to facilitate Nigeria's efforts to boost non-oil revenue; improve transport infrastructure by delivering targeted, high-priority projects; and support private sector development.

While $2.1bn is currently the total committed investment in LFZ, just under $1bn has already been invested by the promoters towards infrastructure development and by existing tenants towards setting up their manufacturing plants. By the end of 2022 the zone will be 45% complete, equipped with a piped gas supply and distribution network, and a fibre-optic cable network. Recognised by fDi Intelligence with the Highly Commended Free Zone in Africa award for 2021, LFZ is fast consolidating itself as an ideal gateway for manufacturers in industries such as fast-moving consumer goods; packaged food and beverages; pharmaceuticals; paper and paper products; leather and footwear; chemicals; light engineering and non-metallic minerals.

- Cluster-based approach
- Integrated community
- Combined operations with Lekki Port
- Regional connectivity
- High-quality infrastructure

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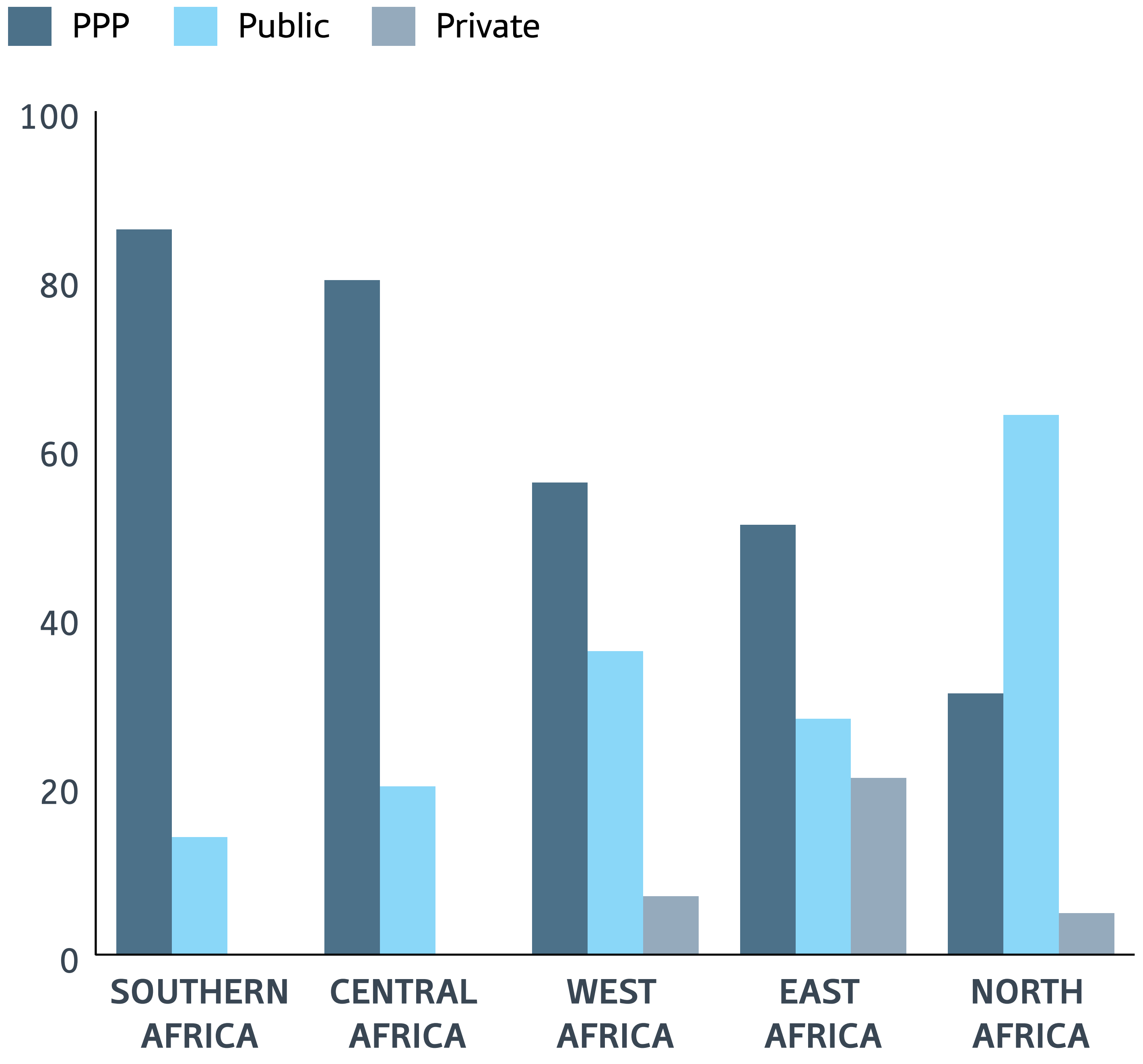
Business Models

Economic zone business model by region, 2021 (%)



There are a number of different business models under which economic zones in Africa operate, depending on the policies and legislation of a given country. The development, ownership and management of economic zones fall under three distinct categories: public, private or public-private partnership (PPP). While some countries have opted in favour of one type for all their zones, other nations use a combination of governance models. According to the most recent data from AEZO, PPP-operated economic zones were the most popular choice in Africa in 2021, accounting for 53% of the total, followed by the public model, at 38%, and the private model, which represented the remaining 9%.

Under the public model, an economic zone is operated by the government at the national, state or local level, either by a ministry, agency or authority, or through a commercially oriented state-owned enterprise. Project ownership falls under public governance, and the authority in charge is directly responsible for regulating, developing and operating the zone. The majority of African economic zones that use this model are owned by a national government, although some decentralisation has occurred in more developed countries where there is institutional capacity and political will. For example, most economic zones in South Africa are managed by the regional governments where they are located.

Under a private model, the zone operator is a private entity that is responsible for the design, construction and development of the facilities. The regulation of private zones, however, is still administered by the government, while the private entity oversees operations and decides which incentives and services are offered. Economic zones in Africa are often foreign owned and funded by private investment from outside the continent, increasingly from China. For example, Ethiopia has seven privately controlled economic zones, including the Chinese-owned CCCC Arerti Industrial Park and Huajian Group Light Industrial City.

PPPs are hybrid models between the government and private players, and are gaining popularity in Africa. They take a variety of forms depending on the involvement and risk shouldered by the private partner. The most common forms under this model are direct contracts, special-purpose vehicles and joint ventures. In Djibouti all established economic zones follow a PPP model, with capital increasingly coming from Chinese companies. In Morocco all economic zones are regulated by the government and are developed by public firms with investment from the private sector. In Côte d'Ivoire PPPs such as the Village of Information Technologies and Biotechnology are partnerships between the government and regional banks such as the West African Development Bank.

Graph source: *AEZO*

Impediments to Growth

The Covid-19 pandemic highlighted the vulnerability of global supply chains and the necessity of investing in robust infrastructure to safeguard and grow economies. Almost every manufacturing industry was affected, and the crisis revealed the shortfalls in value chains, with lockdown measures in one country affecting production in others.

This was because of a lack of critical inputs and logistical bottlenecks due to restricted mobility affecting manufacturing operations around the world. Landlocked economies in Africa in particular were more susceptible to logistics-related complications that arose due to border closures, with a 17% drop in foreign direct investment in 2020, compared to coastal African nations, according to the UN Conference on Trade and Development (UNCTAD).

Economic zones in Africa are useful tools to overcome these barriers and have the potential to unleash considerable economic growth. In particular, the clustering of zones that operate in similar industries helps to promote interactions between companies, and leverages interdependencies to create more streamlined logistics solutions and increase competitive advantages. For example, the cluster of Tanger Med Zones in Morocco benefitted from large-scale investment in infrastructure, which facilitated more efficient logistics networks, such as port, road and rail links. This enabled the economic zones to attract major international companies including Renault and take advantage of the country's strategic geographic location as a gateway between Europe and sub-Saharan Africa. Indeed, the development of commercial infrastructure – an example of which is economic zones – and the provision of reliable utilities such as electricity, water and telecommunications are proactive methods for governments to attract investment.

However, underdeveloped networks and poor infrastructure continue to be a hindrance to growth, and as of 2020 the continent's infrastructure financing gap weighed in at between $64bn and $108bn a year, according to the African Development Bank (AfDB). This is reflected in daily operations: a 2020 survey of economic zones conducted by the Africa Economic Zones Organisation (AEZO) and UNCTAD, approximately 70% of respondents described infrastructure links with target markets in Africa as very poor or underdeveloped. This is because intra-African trade is largely dependent on expensive and inefficient road networks.

As of 2020 Africa's infrastructure financing gap weighed in at between **$64bn** and **$108bn** a year. This constrains productivity by up to **40%** and reduces the continent's GDP by about **2%** per year.

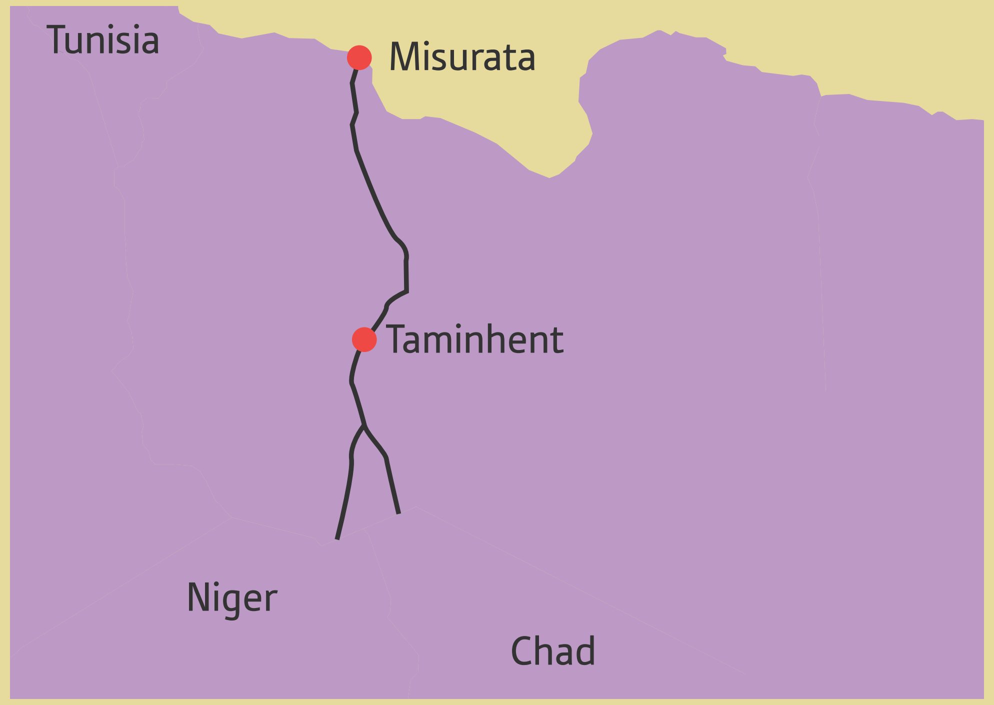
Infographic sources: *AEZO; UNCTAD*

Part 3: Unleashing Potential

Case Study

The Misurata Free Zone (MFZ) was established in 2000, and is one of a series of economic development projects implemented by the Libyan government with an aim to promote and diversify the economy. It leverages the country's geostratic location on the Mediterranean Sea. The MFZ is the first such zone to be established in Libya, and is currently the only one in operation. The zone's main goal is to increase revenue, while supporting the economy and creating jobs. The authorities aim to create an attractive environment for investment, where all free trade activities are facilitated and liberalised. The MFZ is working to position itself as the world's gateway to Africa, and is open to local and foreign investors. In doing so, it will promote international trade and investment.

The MFZ includes the Misurata Seaport, one of the major ports in Libya spanning 190 ha. At 14 metres deep and with 4000 metres of quayside, it has a capacity for 6m twenty-foot equivalent units per year. It also features 60 ha of open storage and a 40,000-tonne grain silo. The MFZ is nearly 98% complete, and the next steps will be to develop the largest exhibition centre in Libya at over 5 ha, as well as an investment building spanning 18,000 sq metres. The Taminhent Free Zone, meanwhile, is affiliated with the MFZ and plays a key role in inter-African trade routes. Taminhent is located in the south of Libya near several key cities, as well as African neighbours such as Niger and Chad.



Viewpoint

Muhsen Sigutri, Chairman, Misurata Free Zone (MFZ)

Despite the challenges and obstacles faced by Africa's free zones, they have developed and improved greatly in recent years. Even so, much work remains to be done. In particular, the continent's free zones will play a key role in facilitating Africa's growing role in international trade and commerce. This is mainly due to collaboration by governments and other stakeholders in several areas.

The challenges are big, but our hopes and dreams are bigger. We believe free zones will play an important role in supporting emerging economies and promoting sustainable growth. The leadership of African free zones has demonstrated their commitment to the implementation of the regulatory, strategic and operational procedures necessary for the construction of modern facilities.

Indeed, the MFZ is building a series of well-interconnected and integrated networks of transport infrastructure that will facilitate local and foreign free trade activities. The government's Libya as a Gateway to Africa programme is expected to be a pivotal point in promoting transit across the Mediterranean Sea, linking Africa to Europe and the world beyond.

The development of free zones across the continent will enhance sustainable economic growth, as evident by the growing support of international companies entering the region. Looking to the future, it will be necessary for governments across the region to implement supportive and strategic regulatory and operational policies in order for the continent to reach its full potential. These procedures, once finalised, will help stakeholders collaborate to build the modern infrastructure and facilities necessary to support long-term economic expansion in Libya. The MFZ is working towards these ends, and aims to become a leading investment destination in the Mediterranean.

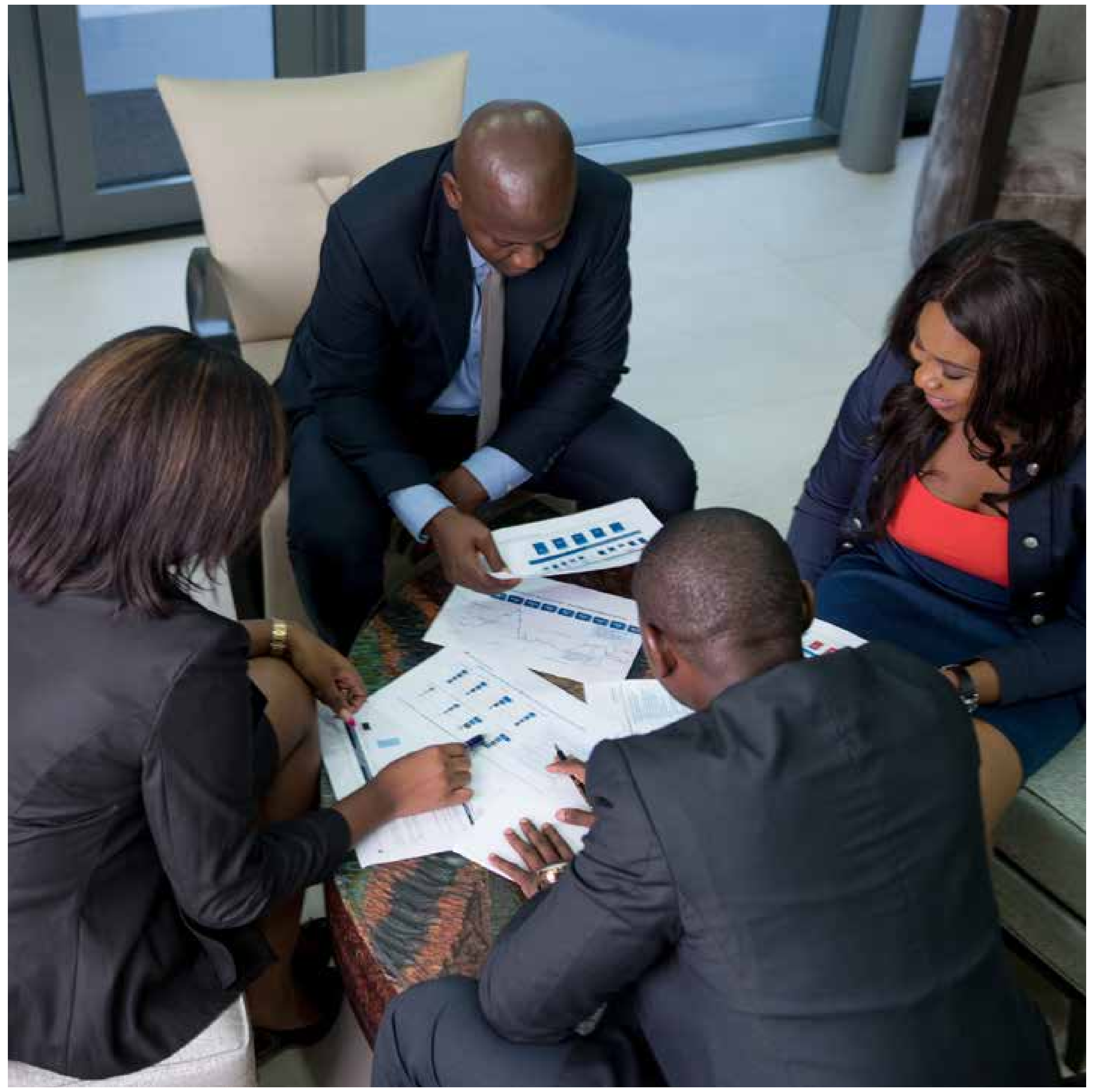
Regulatory Framework

In addition to supportive infrastructure and services aimed at facilitating business operations, one of the primary features that distinguishes economic zones from other development instruments is that they provide a distinct regulatory framework from the one that typically applies to the local or national economy in which they operate. When creating an economic zone's legal and regulatory framework, policymakers need to define the purpose, type and scope of activities that will take place in the zone in order to design an attractive and competitive investment climate based on a country's comparative advantages.

Economic zones typically act as separate Customs territories and include a range of fiscal incentives such as subsidies, tax exemptions, and relief from tariffs and Customs duties for a defined period of time. Non-fiscal incentives can also be offered and come in the form of proximity to key transport nodes, as well as preferential or priority access to land or property, labour, infrastructure, utilities and credit. These legal and regulatory frameworks should be modern, flexible, incentive-based and market-driven, and draw on international best practices in order to attract foreign investment. For this reason, central, regional and local governments all play a major role.

According to UNCTAD, fiscal incentives are the primary tool adopted by economic zones in Africa to attract investment, and are used by 87% of zones on the continent. This is followed by special Customs regimes, used in 73% of African zones; investment protection measures (40%); investment facilitation (33%); trade facilitation (23%); preferential land use (23%); infrastructure provision (20%); and social amenities (7%). For example, under its Special Economic Zones (SEZ) Act of 2015, Kenya offers a 10-year corporate income tax holiday for firms in SEZs, and the Egyptian government provides financial incentives for SEZ-based companies that provide vocational training to locals. Meanwhile, countries such as the Gambia, Kenya, Ethiopia, Mauritius, South Africa and Sudan have created special Customs regimes under which imports of capital equipment and production inputs are not subject to any duties.

Looking ahead, the implementation of the African Continental Free Trade Area agreement should help streamline and harmonise regulatory frameworks and laws that govern economic zones. While negotiations regarding regulations are still under way, the adoption of a shared framework could help the authorities standardise investment protection measures and reduce bureaucracy, in addition to increasing transparency and accountability.



Improving the Talent Pool

Effective cooperation between government agencies, academia and the private sector in Africa is essential to developing a skilled labour force that is capable of meeting the demands of sustainable industrialisation and economic growth in the coming years. In addition to fostering industrialisation and growth, one of the primary benefits of economic zones is that they are an effective tool for creating jobs and bridging the skills gap through knowledge transfer and specialised training programmes.

According to AEZO, economic zones created more than 41m jobs in the agriculture sector in the past decade, primarily in agro-processing, and roughly 2m jobs in highly skilled sectors such as telecoms and the digital economy between 2016 and 2021. Indeed, one the major strengths of economic zones is that they have a high concentration of skilled individuals, and there is evidence that firms that are located in economic zones have higher levels of labour productivity than those outside these zones.

A key incentive for investors considering economic zones is the level of training and education of the local workforce. Consequently, policymakers need to make sure the skill level of the labour force is aligned with the demands of the market, and collaborate with educational providers in the public and private sector to bridge gaps where necessary.

Morocco, for example, has been able to leverage its competitive advantages and successfully transition its industrial base to more high-tech segments, including automotive and aeronautics, through the establishment of clusters of economic zones – such as Tanger Med Zones, the Kenitra Atlantic Free Zone and the Midparc Casablanca Free Zone – and policies that focused on technical skills and training.

As of late 2019 Morocco's automotive segment had the capacity to produce 700,000 cars a year, led by two manufacturers – French firms Renault and Groupe PSA – and 200 suppliers that employed around 180,000 people, according to the Moroccan Association for Automotive Industry and Trade (Association Marocaine pour l'Industrie et le Commerce Automobile, AMICA). As one of the major generators of employment, the sector created almost 117,000 jobs between 2014 and 2018, according to the Ministry of Industry, Investment, Trade and Digital Economy. Indeed, vocational training has been an essential pillar in building the country's auto industry, and is offered through the Automotive Industry Training Institutes across four centres: three are managed as a public-private partnership (PPP) with AMICA, and the fourth is run by Renault at its Melloussa plant.

Ethiopia, for its part, has targeted the development of more labour-intensive sectors, such as textiles and garments, as they typically create a greater number of jobs. The government has been actively engaged in the cotton, textiles and apparel industry, and established the Ethiopian Textile Industry Development Institute in 2010 to develop the local workforce, as well as provide training and consultative services. The local industry relies on a network of approximately 500 technical and vocational education and training institutes that are managed as public-private collaborations, including the Mekelle Garment College, and several universities have textile engineering departments.

Economic zones created more than **41m jobs** in the agriculture sector in the past decade, and **2m jobs** in **highly skilled sectors** such as telecoms and the digital economy between 2016 and 2021

Infographic source: *AEZO*

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Access to Finance

Economic zones require financing for a number of reasons, including securing on-site infrastructure – such as power, water and other utilities, and common facilities and buildings – as well as off-site infrastructure, including access to transport links like roads, ports and railways. Moreover, private companies that invest in economic zones require financing for management and operations. Access to finance is provided through a number of different public, private or PPP sources, depending on a given zone's business model.

The Covid-19 pandemic exacerbated Africa's long-standing public financing needs, with the AfDB estimating in March 2021 that governments across the continent would require additional gross financing of approximately $154bn between 2020 and 2021 in order to effectively respond to the crisis. For policymakers in African economies, this may require a deepening of financial markets in order to attract private investment in economic zones, in addition to offering fiscal incentives in the form of subsidies and specialised Customs regimes.

Public funding is generally backed by multilateral development institutions such as the World Bank and the AfDB, and predominantly goes towards on-site and external infrastructure, land and technical support. For example, in 2015 the AfDB co-financed development of the Nacala port complex, located inside the Nacala SEZ in the north of Mozambique, to increase capacity and improve efficiency. The bank has also provided finance to agro-processing economic zones in Cameroon and Malawi.

However, a blended model of financing and management is becoming more commonplace in Africa, with 53% of economic zones on the continent falling under a PPP model in 2021, according to AEZO. Typically, these forms of partnerships involve public financing for off-site infrastructure and private financing for facilities within the economic zone. For example, all economic zones in Djibouti follow a hybrid model for financing and management, while the Village of Information Technologies and Biotechnology economic zone in Côte d'Ivoire is a partnership

between the government and private partners, including the Exim Bank of India. Lastly, under a private model, local and foreign direct investment are the key sources of finance and can facilitate the broader engagement of the private sector in an economy. Financing often comes from foreign and domestic commercial banks in the form of loans, and from international capital markets. For example, seven out of the 10 economic zones in Kenya rely on the private model, according to AEZO.

PART 1

INTRODUCTION

PART 2

DEVELOPMENTS

PART 3

UNLEASHING POTENTIAL

PART 4

ESG PRINCIPLES

Environment: Developing a Sustainable Future

Economic zones in Africa are working to improve their environmental, social and governance (ESG) strategies, and following sustainable business practices that allow them to develop their operations while safeguarding the environment. Investors the world over are increasingly interested in whether economic zones and the companies that operate within them have a clear and effective approach to ESG, and market regulators in emerging economies are looking to introduce and refine frameworks for ESG reporting.

Robust environmental standards can make an economic zone more attractive to investors, and the most successful economic zones in Africa have adapted their environmental policies to both the local context and international trends. Indeed, with many industries facing pressure to comply with stricter environmental standards, economic zones that can provide sustainable infrastructure and services are becoming more competitive. Moreover, economic zones that specialise in so-called green industries – such as organic agriculture, sustainable fisheries and renewable energy – are better able to leverage investment flows in project areas that align with the UN Sustainable Development Goals.

Africa has begun to see the development of eco-industrial parks (EIPs), which refer to a new class of economic zone that matches investment capital with low-carbon and green growth objectives, and has a long-term goal of achieving net-zero carbon emissions from all park operations. Examples of EIPs include the Atlantis Special Economic Zone (SEZ) in South Africa, which specialises in renewable energy, and the Hawassa Industrial Park in Ethiopia, which focuses on green textile production. Egypt, for its part, is attempting to make its existing zones more sustainable through the adoption of modern waste-treatment plants.

According to the UN Conference on Trade and Development (UNCTAD), approximately 15% of economic zones in Africa have established policies around socio-economic and environmental objectives. Rwanda's SEZ Law of 2011 emphasises environmental protection; Liberia's SEZ Act of 2017 prioritises environmental sustainability; and under Madagascar's SEZ Law of 2017, companies based in economic zones are expected to contribute to green targets and are granted an environmental licence pending an environmental impact assessment on their production practices.

Part 4: ESG Principles

Case Study

Sebore International Farms is a corporate institution established in 1982 in Adamawa State, which is located in the north-eastern region of Nigeria. Operating across 14,000 ha of land, Sebore International Farms focuses on manufacturing – namely the production of agricultural products – and offers a diverse range of extended services such as rural livelihood improvement programmes.

In 2001 the institution attained the status of an export processing zone, as it provides a stable and deregulated environment for authorised companies that results in a greater ease of doing business.

Furthermore, within the framework of transforming the entire agricultural value chain in Nigeria, the agri-business enterprise provides port supply services and facilities that are designed to significantly reduce the capital investment required to start business operations in agriculture, livestock production and the food industry. These efforts greatly support the livelihoods of many households in Nigeria's north-eastern region, where agriculture is the main source of income.

In fact, due to Nigeria's high agricultural potential from its 82m ha of arable land, the agriculture sector contributing 22.35% to GDP in the first quarter of 2021 is lower than it could be.

With this in mind, Nigeria aims to increase production volumes and value addition across key agricultural products by attracting more foreign direct investment. Dedicated zones such as the one run by Sebore International Farms offer a range of incentives to investors, including clean energy resources, direct access to the domestic market, tax advantages and administrative support.

Viewpoint

Aminu M Nyako, Managing Director and CEO, Sebore International Farms

Adamawa State provides many important investment opportunities in agriculture and the agri-business industry. These opportunities are supported by a range of competitive incentives such as those available through export processing zones (EPZs) and direct sales access to the region's large local consumer base.

One of the priorities of EPZs and other economic zones in Nigeria is to support the development of agri-business, in part by enabling local farmers to modernise their production in order to increase output in terms of both volume and quality. Agricultural and industrial operations in the Sebore Farms EPZ also benefit from green energy via large solar energy facilities.

Once farmers have enough power, there are great opportunities to be seized through the deployment of new agricultural technologies. Adopting more digital solutions will allow farmers to improve their productivity and resilience, and help them successfully adapt to future trends and changes.

The advantage of being in a private special economic zone is that investors are not subject to certain regulations that could otherwise affect their business model, such as those related to taxes. As an EPZ, Sebore International Farms is aware of its role in strengthening the economic fabric of the north-eastern region of Nigeria by providing a competitive environment for business. We hope that this structure can be a model for further developing the agri-business industry in the region by creating thousands of employment opportunities to accelerate economic and social development.

In the long term it is envisioned that economic zones will increase Nigeria's agricultural output, create more efficient logistics networks, supply job opportunities for the rural population and enable the country to reach food self-sufficiency.

Social: Supporting Workers and Communities

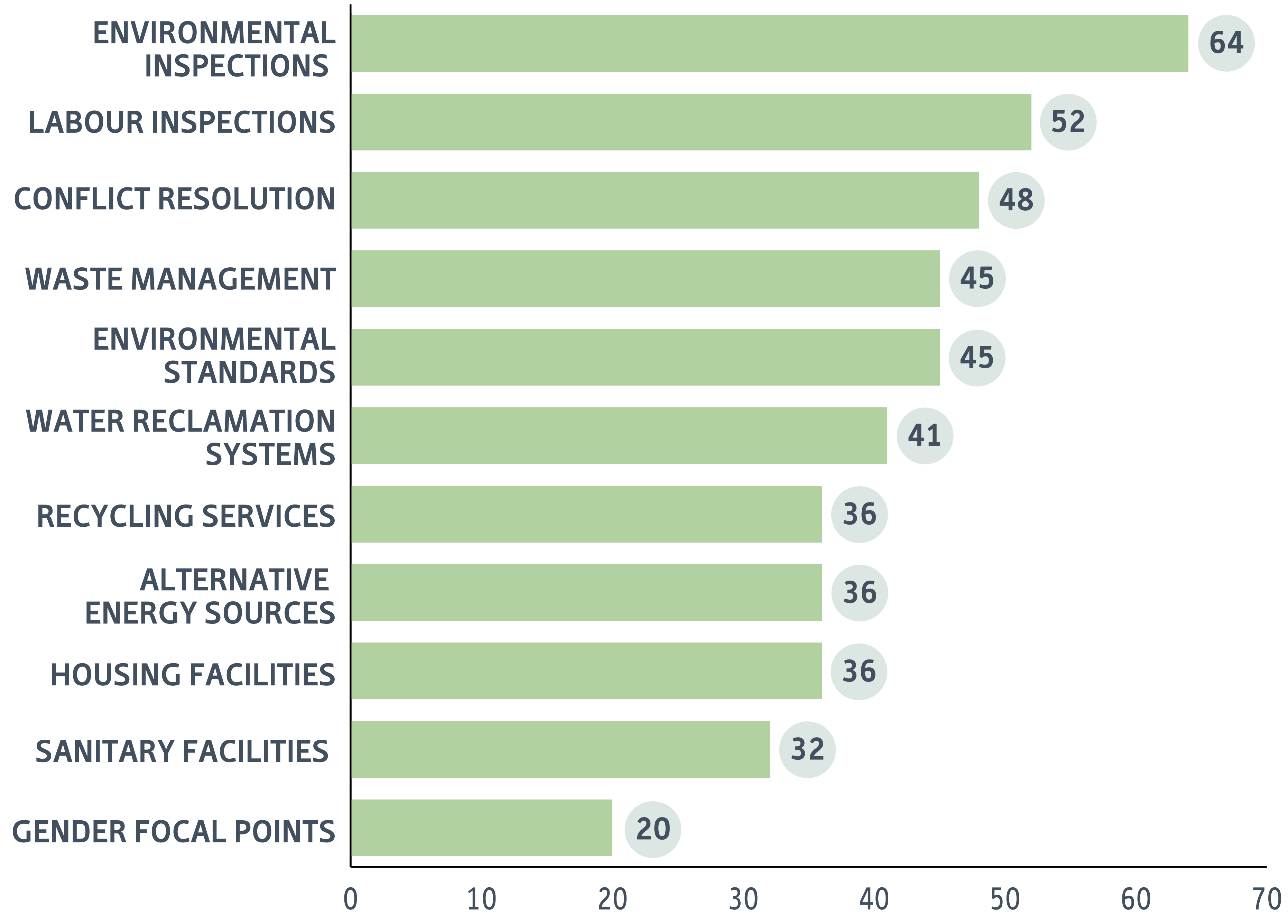
Moves to bolster corporate social responsibility initiatives to improve the well-being of employees and abide by more robust labour standards are becoming more widespread in African economic zones, in line with increased incorporation of dedicated ESG strategies. Alongside a heightened sense of environmental awareness, a focus on gender-inclusive programmes and social amenities for employees can elevate the societal contributions of zones, as well as increase worker productivity and morale. With increasing global scrutiny of social issues related to economic zone development – such as land rights or consultation with local communities – zones with ESG-compliant policies, which include generating inclusive economic growth within and beyond the zone, have a competitive advantage when it comes to attracting investment.

Per a 2020 survey of 39 African economic zones conducted by the Africa Economic Zones Organisation and UNCTAD, approximately half of the zones engaged in labour inspections and conflict-resolution programmes, 36% provided housing for workers, 32% provided sanitary facilities and 20% had a gender focal point staff member. A separate analysis by UNCTAD found that only around 7% of African SEZ policies mandated social amenities for workers, including health, education and recreation facilities. This demonstrates opportunities for improvement at the management level to differentiate a given zone in terms of its social offering to gain a competitive advantage. Indeed, the implementation of effective social reforms can deliver business benefits for both zone authorities and companies. These include reduced absenteeism and staff turnover through increased worker satisfaction, and improved reputation among firms seeking to recruit a skilled labour force.

There are a number of examples of economic zones and government policies across the continent that aim to benefit workers and communities alike. South Africa's SEZ Act of 2014, for instance, requires that zones provide decent work conditions and create social benefits for the surrounding area. Meanwhile, the Ismailia Public Free Zone in Egypt and the East London Industrial Development Zone in South Africa have seen worker productivity levels rise due to improved labour standards and the enactment of gender-inclusive policies.

African SEZs that provide social and environmental services

(% of survey respondents)



Graph source: *2020 survey on African economic zones conducted by AEZO & UNCTAD*

Case Study

POLARIS PARKS

5
Project sites

150
Factories

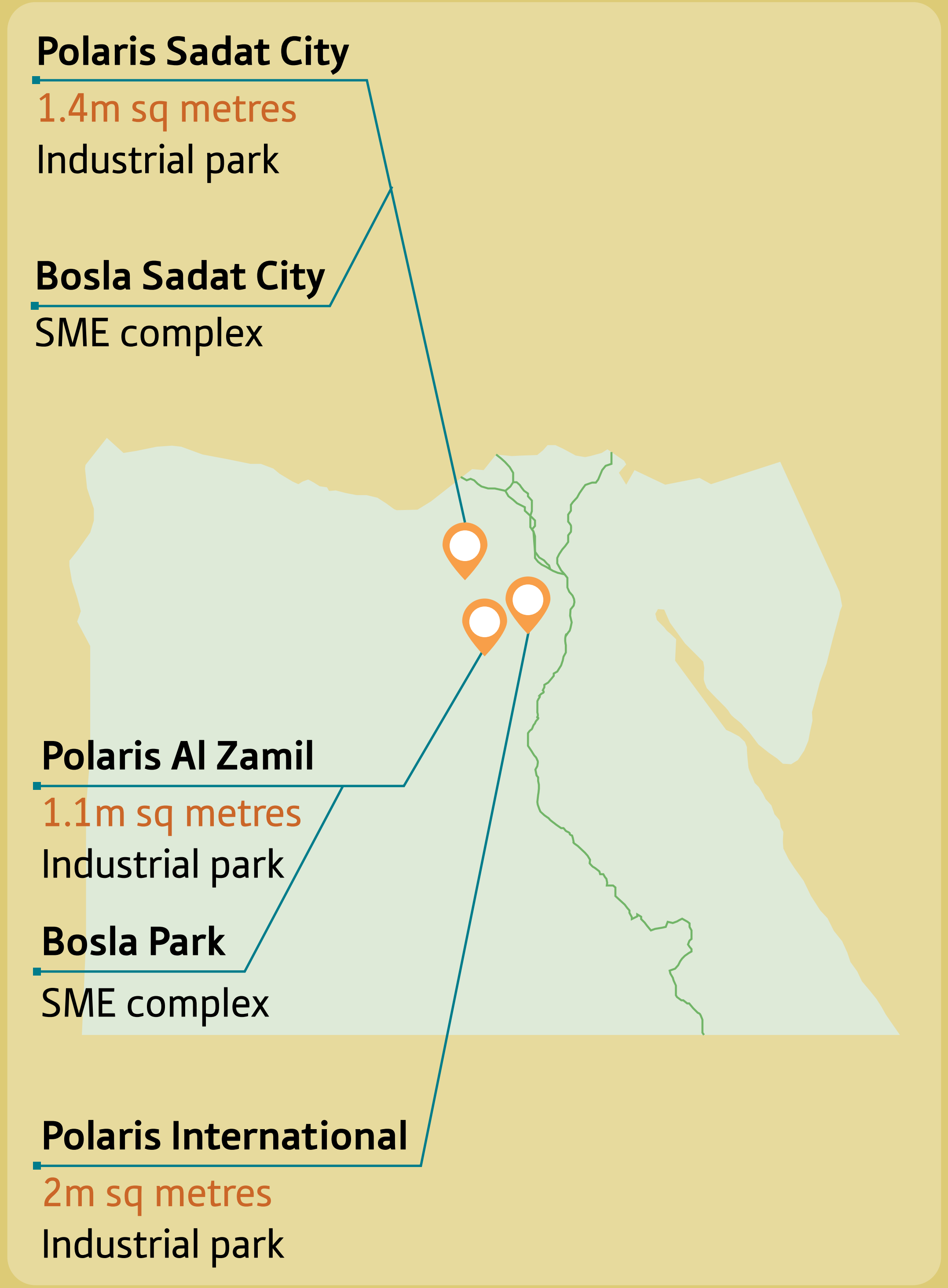
300
Small & medium-sized enterprises

65,000
Job facilities

Established in 2007, Polaris Parks is Egypt's first private industrial land development firm. It specialises in facility management, electricity distribution and warehouse development. Its parks span over 5m sq metres and host multinational producers such as Procter & Gamble, Schlumberger and Henkel, as well as regional and local companies. The firm's new industrial park is set to begin operations in the first quarter of 2022, while the existing Bosla Park serves small and medium-sized enterprises (SMEs).

The Covid-19 pandemic impacted the Egyptian economy to a lesser extent than neighbouring countries, with positive GDP growth of 3.6% in 2020 and fewer than 10,000 virus-related deaths recorded that year. Nevertheless, it was still disruptive to industrial operations. Businesses at times struggled with staff shortages alongside disruptions to supply and trade. As a result, companies focused on sustaining rather than expanding operations. Despite the negative effects of the pandemic, Polaris Parks will open a new site in Sadat City, close to the fertile Nile Delta and Cairo, the country's capital. The project targets industrial and logistics firms looking to enter the market, and more than half the plots were sold shortly after the project's launch.

Comprising 300 ready-made business units, Bosla Park is a zone where SMEs can easily begin operations. The zone adheres to international standards, and allows businesspeople to connect and share ideas with other entrepreneurs and decision-makers in an organised space. All Bosla Park units are turnkey properties, equipped with the facilities and infrastructure needed for a range of projects. The first two phases of the project have been completed, and a third phase is set to begin before the end of 2021.



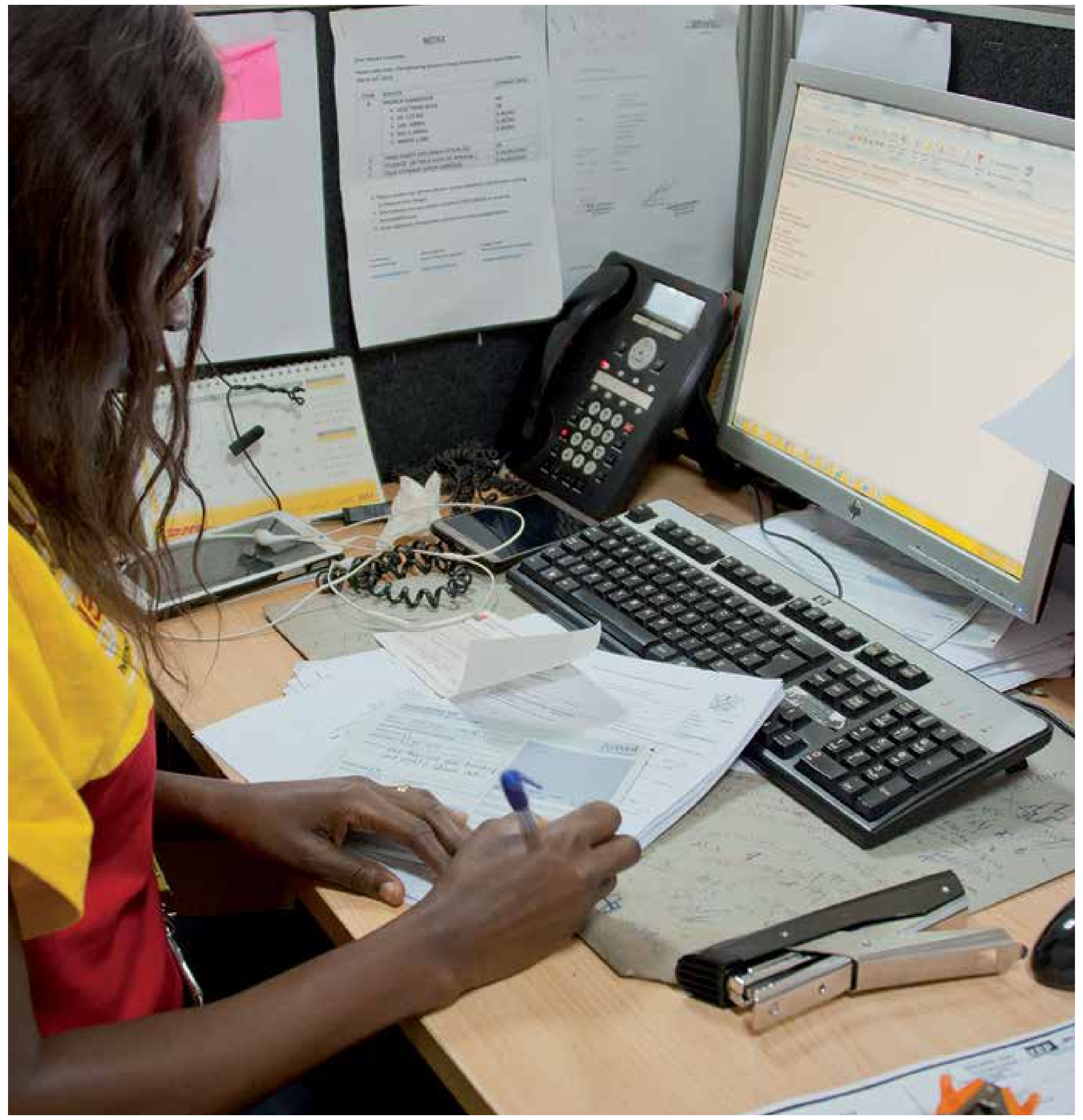
Governance: Increasing Transparency

Establishing effective governance models, management systems and related committees in African economic zones is an essential element of successful ESG strategies, which including increasing transparency, trust and integrity for all stakeholders. While progress has been made in strengthening continental and global governance over recent decades, the Covid-19 pandemic exposed inequalities between countries and left some populations more vulnerable to forces such as poverty, climate change and disease.

Mitigating the threat of political instability and tipping the scales in favour of inclusive economic development by expanding services and opportunities for communities will require regional and international cooperation and enhanced systems of governance, particularly in economic zones. The zones that are able to implement and monitor holistic ESG policies can make themselves more competitive and attractive to investors looking to locate in areas on the continent that prioritise the UN Sustainable Development Goals.

The construction, ownership and management of economic zones falls under three models: public, private and public-private partnership. While some countries favour one model for all their zones, other nations use a combination. Regardless of the model, governments lay out specific rules and guidelines in their economic zone programmes that adhere to industry standards and governance requirements. It is also common for national leaders to set expected outcomes for the zones and the companies based in them, with the aim of fostering transparency, predictability and credibility in a secure investment environment. Objectives could include quantitative growth goals based on foreign direct investment, export volume or job creation; dynamic growth goals based on economic diversification, skills development, industrialisation and innovation up-take; or socio-economic goals based on ESG principles, such as environmental protection and robust labour standards.

According to UNCTAD, some 15% of economic zones in Africa have established policies around socio-economic objectives. This low figure illustrates significant scope to make economic zones more attractive places to invest. Regulators, policymakers and decision-makers participating in zone programming should involve all stakeholders in the deliberation process to ensure transparency, including the private sector, local communities and media. Indeed, having private sector players involved in this process has been shown to lead to better decision-making, as they typically have more informed knowledge of the market than governments, and open discussion can reveal incentives that may inadvertently threaten the success of companies located in a zone.



6 Key Takeaways

1

The African Continental Free Trade Area is expected to unlock a range of opportunities for economic zones and the companies located in them. This includes greater market access; lower-cost and higher-quality production resources due to the reduction in trade barriers; the opportunity to benefit from emerging regional value chains and increase economies of scale; and lower trade and production costs.

2

Economic zones in Africa are embracing digitalisation and technological change via the Fourth Industrial Revolution. In particular, they are upgrading legacy industrial activities towards more high-tech processes and digital services to improve efficiency and increase their value proposition, and are transitioning to asset-light, technology-intensive investment.

3

Governments often turn to economic zones as a tool to attract innovation and boost productivity, and to encourage development, diversification and industrialisation. Two of the key factors that determine the success of an economic zone are the main industries and activities that it targets, and governments' determination to translate the economic dynamism generated in those zones to the rest of the economy.

4

Economic zones are useful tools for Africa to overcome logistical and mobility barriers, and have the potential to unleash considerable economic growth. In particular, the clustering of zones that operate in similar industries helps to promote interactions between companies, and leverages interdependencies to create more streamlined logistics solutions and increase competitive advantages.

5

One of the primary benefits of economic zones is that they are an effective tool for creating jobs and bridging the skills gap through knowledge transfer and specialised training programmes. A key incentive for investors is the level of training and education of the local workforce. Policymakers need to make sure the skill level of the labour force is aligned with the demands of the market, and to bridge gaps where necessary.

6

Economic zones in Africa are working to improve their environmental, social and governance (ESG) strategies, and following sustainable business practices. Zones with ESG-compliant policies can make themselves more competitive and attractive to investors looking to locate in areas on the continent that prioritise the UN Sustainable Development Goals.

In collaboration with

AFRICA ECONOMIC ZONES ORGANIZATION

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