Harnessing the Potential of Special Economic Zones for Private Sector Development and Inclusive Industrialization in Southern Africa
Harnessing the Potential of Special Economic Zones for Private Sector Development and Inclusive Industrialization in Southern Africa
# Table of Contents

Acknowledgements..............................................................................................................viii

Abbreviations.........................................................................................................................ix

Executive Summary.................................................................................................................x

Chapter I: Background and information..............................................................................................1
  1. Background....................................................................................................................1
  2. Objective.........................................................................................................................2
  3. Approach and methodology...........................................................................................2
  4. Scope and limitations.....................................................................................................3
  5. Structure of the report......................................................................................................4

Chapter II: Macroeconomic context, industrialization and economic transformation in southern Africa .......................................................................................5
  1. Macroeconomic performance..........................................................................................5
  2. Industrial policies, investment promotion and economic transformation....................7
  3. Role of micro-, small and medium-sized enterprises and private-sector development ..............................................................................................................11

Chapter III: Conceptual framework and literature review.........................................................17
  1. Conceptual framework: definition and types of special economic zones.....................17
  2. Literature review..............................................................................................................26

Chapter IV: Characteristics and performance of special economic zones in Southern Africa ..................................................................................................................... 31
  1. Forms of special economic zone development in Southern Africa.................................31
  2. Status of special economic zone development by country..............................................36
  3. Policy and regulatory environment.....................................................................................51
  4. Institutional framework and coordination........................................................................54
  5. Strengths, weaknesses, opportunities and challenges of special economic zone programmes ..............................................................................................................58

Chapter V: Role of special economic zones as catalysts for private-sector development ..........................................................................................................................64
  1. Overview: expectations versus realities...........................................................................64
  2. Economic contributions of special economic zones by country....................................71
  3. Benefits of operating in a special economic zone.............................................................89
  4. Spillover effects and inter-firm linkages.............................................................................91
  5. Special economic zones and regional integration: forging strategic partnerships ............96
  6. Potential risks and challenges in leveraging special economic zones as a development tool ..............................................................................................................98
  7. Lessons from relatively successful African countries.....................................................103
Chapter VI: Emerging issues, opportunities and the future of special economic zones in the region .............................................................................................................110
1. Overview....................................................................................................................110
2. Agreement Establishing the African Continental Free Trade Area ..................110
3. Fourth Industrial Revolution and the realities of digital transformation ......114
4. Imperative of green industrialization for sustainable development .............116
5. Implications of the coronavirus disease pandemic on the development of special economic zones .................................................................119

Chapter VII: Conclusions and recommendations ..................................................124
1. Conclusion.................................................................................................................124
2. Recommendations ...................................................................................................126

References ............................................................................................................................129

List of Figures

Figure I: GDP growth by country, 2018.................................................................5
Figure II: Average net inflows of foreign direct investment in Southern Africa, 2014-2019 (Percentage of GDP) ................................................................. 11
Figure III: Challenges and constraints faced by micro-, small and medium-sized enterprises in Southern Africa ........................................................................... 13
Figure IV: Percentage of African businesses facing certain obstacles, by company size .......................................................................................... 14
Figure V: Credit to the private sector, 2014-2019 (Percentage of GDP) ........ 16
Figure VI: Master plan for an integrated agro-industrial park in Ethiopia ..........23
Figure VII: Distribution of special economic zone firms in the United Republic of Tanzania by development status ......................................................... 48
Figure VIII: Employment in the Chambishi Multi-facility Economic Zone .... 74
Figure IX: Distribution of special economic zone companies by sector in the United Republic of Tanzania ............................................................................ 76
Figure X: Trends in capital invested in special economic zones in the United Republic of Tanzania ........................................................................ 77
Figure XI: Trends in exports generated by special economic zones in the United Republic of Tanzania ........................................................................ 77
Figure XII: Trends in employment generated at special economic zones in the United Republic of Tanzania ........................................................................ 78
Figure XIII: Investment in special economic zones and total private investment in Mozambique (millions of United States dollars) ........................................ 82
Figure XIV: Average time required for customs clearance of imports through a major seaport (in days) ................................................................................. 91
Figure XV: Zambian model of a strategic economic zone for copper materials at the subregional, regional and global levels ................................................. 96
Figure XVI: Network of multilateral regional groupings in Africa and the Middle East ........................................................................................................... 97
Figure XVII: Industrial revolutions .............................................................................116
Figure XVIII: Foreign direct investment vulnerability score for Southern African countries, 2020 .......................................................... 122
Figure XIX: African responses to the socioeconomic impact of COVID-19 .... 123
List of Tables

Table 1: Sources of information on special economic zones, by country ..............4
Table 2: Sectoral contributions to subregional GDP, by country, 2010–18 (Percentage) ...........................................................................................................6
Table 3: Investment promotion agencies ..................................................................................9
Table 4: Net foreign direct investment inflows, by country (Percentage of GDP) 10
Table 5: Contribution of micro-, small and medium-sized enterprises to GDP and private-sector development in Southern Africa .........................14
Table 6: Interventions to support micro-, small and medium-sized enterprises in Southern African countries ........................................................................ 15
Table 7: Policy options and governance framework for ownership and development of special economic zones ....................................................28
Table 8: Effects of special economic zones on an economy: the case of South Africa ........................................................................................................ 29
Table 9: Special economic zone types, activities and incentives in Southern Africa ...............................................................................................................32
Table 10: Establishment of special economic zones in Zimbabwe ..................................38
Table 11: Special economic zones established in South Africa ........................................ 40
Table 12: Status of multi-facility economic zones in Zambia, as of 2019 .......................42
Table 13: Summary of special economic zone development in Zambia .........................43
Table 14: Trends in the number of economic processing zone firms in Malawi 44
Table 15: List of currently operational zones in the United Republic of Tanzania ..........48
Table 16: Key indicators for special economic zones in Mozambique .........................51
Table 17: Legal, regulatory and institutional frameworks for special economic zones in Southern Africa.................................................................................53
Table 18: Summary of roles and responsibilities in a typical special economic zone programme ............................................................................................55
Table 19: Assessment of the strengths, weaknesses, opportunities and challenges for the development of special economic zones in Southern Africa ........................................................................................................ 59
Table 20: Priority policy reforms for the effective development of special economic zones in Southern Africa .................................................................63
Table 21: Country experiences in harnessing special economic zones for private-sector development in the subregion ........................................ 65
Table 22: Overall contribution of special economic zones to economic and private-sector development .................................................................68
Table 23: Economic contributions made by special economic zones in Mauritius, 1971–2010 ..................................................................................72
Table 24: Overview of the economic contribution of special economic zones in Zambia in 2019 ..................................................................................... 73
Table 25: Comparison of Tanzanian firms inside and outside special economic zones ........................................................................................................ 79
Table 26: Performance of designated special economic zones that were operational in 2017/18 ......................................................................................80
Table 27: Investment by Malawian export processing firms in 2015 .................................84
Table 28: Export performance under the economic processing zone programme in Malawi ........................................................................................................ 84
Table 30: Share of employees with job benefits in free zones in Madagascar .86
Figure XIV: Average monthly downtime due to power outages (in hours) 90
Table 31: Factors influencing the decision to establish a firm in a special economic zone in the United Republic of Tanzania .................. 95
Table 32: Assessment of risks and challenges in leveraging special economic zones in Southern Africa ........................................ 101
Table 33: Summary of successful special economic zones at the global level 103
Table 34: Estimated impact of moving into a special economic zone – the case of the Kigali zone .................................................. 107
Table 35: Estimates of the impact of the coronavirus disease on African economies ........................................................................ 121
Table 36: Summary of measures taken by selected African countries (March to May 2020) ................................................................. 123

List of Box

Box 1: Potential development of cross-border economic zones .................. 21
Box 2: Sunway City special economic zone in Harare ................................ 89
Box 3: Linking micro-, small and medium-sized enterprises with special economic zones: the case of the Coega Special Economic Zone in South Africa ........................................................................ 93
Box 4: Provisions on special economic zones in the ................................ 112
Box 5: Key points from the coronavirus disease situational report and country responses in Southern Africa ........................................ 121
Acknowledgements

The present report was produced in the context of the United Nations Development Account twelfth tranche project, titled “Promotion and Implementation of Regional and National Industrialization Policies for Inclusive and Sustainable Development in Southern Africa”, which is being led by the Subregional Office for Southern Africa of the Economic Commission for Africa. The primary objective of the project is to strengthen the capacity of member States in the subregion to develop and implement industrialization policies and strategies that are consistent with the subregional industrialization and development frameworks, including through the development and empowerment of the private sector as both the driver and main beneficiary of the industrialization agenda. The report was completed under the overall guidance and leadership of the Acting Director of the Subregional Office, Sizo Mhlanga, and the Chief of the Subregional Initiatives Section, Isatou Gaye. The study was conducted and compiled with substantive assistance from the specialist consultant Josaphat Kweka, under the direct supervision and guidance of Koffi Elitcha of the Subregional Office, supported by Oliver Maponga, who has coordinated the execution of the Development Account project. The final report has benefited significantly from valuable comments and suggestions provided by participants at a review meeting held virtually on 27 and 28 May 2021. In particular, the discussant of the draft report, Cornelius Dube, and the chair of the breakout session on special economic zones, Gift Mugano, provided detailed and insightful contributions, which are gratefully acknowledged. Furthermore, the consultant would like to express appreciation for the excellent research assistance provided by George Temba and Fadhili Sooi, as well as the valuable support rendered by several member States.
Abbreviations

AfCFTA  African Continental Free Trade Area
COMESA  Common Market for Eastern and Southern Africa
COVID-19 Coronavirus disease
ECA  Economic Commission for Africa
EPZ  Export-processing zone
FDI  Foreign direct investment
GDP  Gross domestic product
MFEZ  Multi-facility economic zone
MSME  Micro-, small and medium-sized enterprise
SADC  Southern African Development Community
SEZ  Special economic zone
SME  Small and medium-sized enterprise
UNCTAD  United Nations Conference on Trade and Development
UNDP  United Nations Development Programme
UNIDO  United National Industrial Development Organization
VAT  Value added tax
Executive Summary

The term "special economic zones" (SEZs) is a generic term encompassing various forms of specially designated clusters of industrial and high-value-added activities whose operators receive incentives not received by other economic operators. SEZs can also be defined as geographically demarcated areas where economic laws are more liberal than in the rest of the country. As a result, they include a variety of forms and types. The key message of the present study for the Southern African subregion is that countries around the world are replacing old-fashioned, export-focused, rigid schemes with a broader, more flexible form of SEZ as an appropriate policy tool to support two key objectives: private-sector development (including that of micro-, small and medium-sized enterprises) and industrialization.

The Subregional Office for Southern Africa of the Economic Commission for Africa commissioned the present study to identify measures, policies, partnerships and institutional frameworks that will enable Southern African countries to harness SEZs to drive private-sector development (including that of micro-, small and medium-sized enterprises) and achieve sustainable industrialization. The study aims to improve our knowledge and understanding of how relevant and effective SEZs are as tools for private-sector development to inform policymaking.

To meet these objectives, the study provides a literature review; examines the conceptual framework, including the various forms and types of SEZs applicable in the subregion; describes the status of SEZ development; and assesses the role of the zones in driving private-sector development and industrialization in the subregion. Furthermore, it highlights the key emerging development issues and their implications for the development of the zones in the subregion. These include the Africa Continental Free Trade Area, the Fourth Industrial Revolution, green industrialization and the impact of the coronavirus disease (COVID-19) pandemic. The main findings are as follows:

a) Although countries have prioritized SEZs in their economic development policies and strategies, SEZ programmes in Southern Africa are largely still in the development stage. Implementing such programmes remains an enormous challenge, mainly because of relative weakness in capacity, policy coherence and government-wide commitments. As a result, most countries are grappling with setting up favourable policies and business environments to attract investment. Although SEZs have not kept up with best global and subregional practices (e.g., in China and Mauritius, respectively), their impact on trade, job creation and foreign direct investment has already been quite promising.

b) National and subregional policy strategies are needed to enhance the integration of micro-, small and medium-sized enterprises in SEZ programmes to support inclusive industrialization. Important as those enterprises may be, policies and initiatives to support their inclusion in
SEZs are inadequate. Their high level of informality and weak capacity have proved to pose significant challenges to promoting the desired linkages.

c) SEZs can play a critical role but should not be considered a panacea for harnessing significant opportunities in the subregion to support increased private-sector investment. The subregion is highly endowed with natural resources, especially minerals, natural gas and agricultural products. Notably, there is a need to tap into opportunities arising from subregional value chains and subregional supply chains to make Southern Africa a global leader or centre of excellence for products such as copper, precious minerals, agro-industrial activities and services. The subregion’s geographical position also gives it an exclusive advantage in providing logistics services to promote subregional and global trade gateways. More important, countries in the subregion could harness the diverse economic structures and the level of economic development to promote further private-sector growth and industrialization.

d) Southern Africa could be a natural champion for border economic zones (or cross-border development zones) to complement the existing development and transport corridor initiatives. It would be logical for subregional organizations and development partners to support these prospects. Border economic zones could harness the prevailing high demand for logistics services between coastal and land-locked countries and the significant potential for cross-border (intra-subregional) trade among countries to support mutual industrial and private-sector development.

e) While the effects of some of the emerging issues (e.g. COVID-19) are already harming economies, some solutions (e.g. the African Continental Free Trade Area and the Fourth Industrial Revolution) could provide real opportunities. Member countries should adopt a positive outlook and properly prepare to address the ultimate challenges. Clearly, some of the emerging issues require subregional solutions, in particular in terms of preparing guiding frameworks and funding certain public goods, such as access to and the use of information.

f) While moving from export processing zones (EPZs) to SEZs is a significant policy milestone, the diversity of economies and the various stages of development provide healthy ground for the cross-fertilization of learning within the subregion. However, the complex and heterogeneous environments in which the zone programmes operate indicate the need for a clear framework to guide SEZ development in Southern Africa. Such frameworks would be useful to facilitate a common and shared vision of how the subregion can attract, promote and facilitate investment from within and outside the subregion. Implementation challenges are bound to occur along the way, but having a broad blueprint in which member countries subscribe to a set of minimum conditions for making SEZs “special” nests will boost private-sector development and industrialization in the subregion.
Based on the findings, challenges and lessons from successful countries, the following policy recommendations are made at the country and subregional levels. Policy actions at the country level include the need for Southern African countries to:

- Harmonize policy frameworks, reform legal, regulatory and institutional frameworks, finance basic infrastructure, support implementation and implement lessons from good practices.

- Increase the financing of investments in basic infrastructure as one of the fundamental ways to attract domestic and foreign investment in SEZs.

- Provide sufficient space for the private sector to design SEZs and identify the best locations, based on economic advantages and demand considerations, to ensure sustainability and attractiveness.

- Involve high-level officials in promoting private investment in the zones to enhance investor confidence and support private investment (including FDI) in the country.

- Consider exploring potential opportunities emerging from the challenges of COVID-19, the Fourth Industrial Revolution, the digital transformation, green growth and the African Continental Free Trade Area. This includes embracing sustainable development aspects of SEZ development.

- Identify champions and share lessons learned. For instance, Ethiopia identified a champion whom the Government has empowered to make key decisions on SEZ development. It also facilitated learning from Mauritius and successful East Asian countries.

- Promote micro-, small and medium-sized enterprises through SEZs by focusing on developing products and services that provide opportunities for them to grow, to link with larger firms and to join industrial value chains.

- Promote SEZs within bilateral cooperation frameworks, such as with China under the Forum on China–Africa Cooperation, and seek cooperation with partners such as the World Bank and the African Development Bank to unlock financing for SEZ development.

- Emphasize promoting the new generation of SEZs, which take into account green industrialization, digitalized industrial manufacturing and the Sustainable Development Goals, rather than the old models, which focus on promoting exports without proper consideration for sustainable development.

At the subregional level, actions by regional economic communities, including the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), may include:
• Providing technical assistance to member States to enhance the integration of micro-, small and medium-sized enterprises in SEZ programmes;

• Supporting the priority policy reforms (actions) needed to turn SEZs into effective instruments for attracting private investment;

• Showcasing lessons learned from successful SEZ programmes, including those that have leveraged innovative financing for SEZ development;

• Promoting the development of border economic zones while facilitating the technical assistance required for their development.

The applicability and relevance of the identified recommendations may vary across countries, depending on the status of SEZ development in each one. Nonetheless, based on an analysis of strengths, weaknesses, opportunities and challenges, the report outlines specific priority policy actions for all selected countries, in the light of the major challenges that hold back SEZ development in each one.
Chapter I: Background and Information

1. Background

“Special economic zones” (SEZs) is a generic term that encompasses many forms of specially designated clusters of industrial and high-value-added activities, where operators receive incentives not available to other operators in the same economy. The main motivation for promoting these zones in most countries is that they can help to stimulate industrialization and structural transformation (Abdusharipovich, 2018). In the particular case of sub-Saharan African countries, these zones are being developed as an essential industrial policy instrument, based on the successful experiences of other countries (especially in East Asia), where the zones played an important role in attracting investment for industrial development, promoting manufactured exports, generating jobs and enhancing private-sector growth (Kingombe and te Velde, 2015). The literature, however, shows that only a handful of countries in sub-Saharan Africa (Kenya, Madagascar, Mauritius, South Africa, and, recently, Ethiopia) have managed to establish relatively successful SEZ projects (Farole, 2011; Kweka and te Velde, 2020).

The literature on the effectiveness of SEZs in Africa has focused on benchmarking performance to global best practices and identifying lessons from international and regional experiences. Key lessons include the need to create a conducive environment for the zones to attract domestic and foreign investors and the need to boost market competitiveness in the economy. Furthermore, a political commitment is required from the highest levels of Government, and the most successful zones involve well-executed public–private partnership policies.

Countries with successful SEZ programmes have adopted a gradual approach by investing in a few zones and building momentum. China started with only four such zones in very strategic locations (Zeng, 2015), South Africa started with two (Centre for Development and Enterprise, 2012) and Kenya started with only one (Athi River Export Processing Zone). The quality of the institutional and regulatory frameworks also shapes the success of programmes (Farole and Kweka, 2011). Furthermore, the literature shows that successful implementation depends on the design of the zones. However, policies and strategies need to be accompanied by additional policies covering various aspects of operations at the zones. Most importantly, SEZs are considered successful when they are an integral part of the overall government policy framework for promoting economic transformation and are designed to offer a special environment that attracts private investment.

The World Investment Report 2019 (UNCTAD, 2019) offers fresh insights, with more updated data on the global development of SEZs and their increasing role as key policy instruments for attracting investment for industrial development. The report concludes, albeit with caution, that the key challenge is to make the zones work for sustainable development in developing countries, by providing widespread benefit, rather than acting as enclaves. Looking ahead, the future of SEZs as a viable mechanism for propelling industrialization and structural transformation in the Southern African subregion will depend on how well countries can harness emerging opportunities.
and challenges in the global and regional economy and how well the programmes are managed and implemented so that they foster private-sector development and inclusive industrialization.

In view of the above, the Subregional Office for Southern Africa of the Economic Commission for Africa commissioned a study to examine the potential of SEZs for private-sector development and inclusive industrialization in Southern Africa. Southern African countries lag behind the rest of the continent with regard to growth in manufacturing value added, although South Africa and Mauritius possess relatively well-developed manufacturing bases. Estimated at about 17 per cent of gross domestic product (GDP), the share of the subregion’s manufacturing value added in gross output was still the highest on the continent in 2000, but dropped to approximately 11 per cent by 2019. The region was the worst performer over that period, despite its well-recognized industrial potential from its natural resources base. Industrial upgrading and diversification are common priorities for all countries in the region, as articulated in the industrialization strategies of SADC and COMESA.

Several Governments in the region have identified the establishment of SEZs as a strategy to boost economic growth and promote sustainable development (Mugobo and Mutize, 2019). The present study examines how successful these countries have been in implementing such a strategy and harnessing SEZs as effective policy levers for private-sector development to support industrialization and job creation in the subregion.

2. Objective

The main objective of the study is to identify measures, policies, partnerships and institutional frameworks that will enable Southern African countries to harness the potential of SEZs to drive private-sector development (including the growth of micro-, small and medium enterprises (MSMEs)) and achieve inclusive and sustainable industrialization by enabling enterprises to exploit opportunities that are inherent in subregional and global value chains. The study aims to improve knowledge and understanding of the relevance and efficacy of using SEZs as tools for private-sector development and industrial upgrading in order to inform and orient policymaking. Furthermore, the study offers a strategic and prospective view on the implementation of SEZs in the subregion, including issues, challenges and emerging opportunities for the private sector, and ultimately provides policymakers with a blueprint for maximizing the indirect or dynamic benefits of the zones. The study also highlights lessons that countries can learn from each other. Such information sharing and exchange of experiences can help to promote the development of coherent policies and frameworks for the zones across the subregion.

3. Approach and methodology

3.1 Analytical approach

This is essentially a desk study to collate key information and data for assessing the role of SEZs in industrialization, private-sector development and economic transformation in Southern Africa. As a result, the primary analysis is based on secondary data and
official information collated from various sources. The methodological approach is tailored to achieve the study objectives. However, the analytical framework encompasses both descriptive and diagnostic aspects, subject to the limitations outlined in section 1.4, and spans three key elements. First, it describes the scope, forms and performance of SEZs in the subregion. Second, it includes an analysis by thematic focus, which includes an assessment of the role and impact of the zones in the subregion’s economic transformation (mainly through private-sector development and industrialization). While the aim is to associate the progress achieved with the development of the zones in the subregion, it is important to note that some aspects of the association may be less direct than others and may reflect outcomes created by a combination of other economic development policies and strategies. Third, the analysis takes into account the broader context of emerging development policy issues that have a significant bearing on the economic transformation envisioned for the subregion. These issues include, for instance, the African Continental Free Trade Area (AfCFTA), the Fourth Industrial Revolution, the much-needed green industrialization and the coronavirus disease (COVID-19) pandemic. These issues are given cursory treatment in the analysis, mainly through brief updates on the corresponding debates and their implications for the subregion.

3.2 Types and sources of data
The types of data and information collated and analysed fall mainly into five categories. First, there is data on SEZ development in a particular country, such as the number, types and nature of SEZs and their impact on the economy, especially in terms of employment, investment, foreign exchange and tax revenue. The second category of data is information on private-sector investment and foreign direct investment (FDI), including the role of SEZs in promoting MSMEs. The third category is existing policy and regulatory frameworks at the national and subregional (mainly SADC) levels. The fourth category is data for macroeconomic variables that are useful for the study because they shed light on the broader economic context. The fifth and final category is qualitative data based on insights from the literature review and other sources. The present report collates and analyses these data categories at the country, subregional, regional and global levels, depending on the specific objective at hand.

As noted earlier, efforts were made to prioritize and optimize the availability of data and information from country sources. However, the study also draws on various international sources through desk research (including existing literature, Internet resources and global databases such as the World Development Indicators). Table 1 is a list of some of the data sources. It is important to note that, given restrictions related to the COVID-19 pandemic, it was not possible to conduct field missions to collect in-country data and carry out physical consultations that would have significantly supplemented and helped to verify the information obtained through desk research.

4. Scope and limitations
Conducting a subregional study using desk research and focusing on certain countries is challenging, given the limited scope of analysis due to a lack of adequate national-level data on the subject. As shown in table 1, the amount and quality of up-to-date data vary across the countries. Although efforts were made to optimize the data and information collected, the limited availability of data hindered somewhat the balance needed between an analytical and a descriptive approach. It is important to clarify that, because it is a subregional study, it focuses on Southern African countries, which
Thus, although the study generally looks at the subregion as a whole, it also includes analysis of individual countries. Finally, the study also looks at countries outside the subregion for lessons that Southern African countries could apply.

5. Structure of the report

The present report is divided into seven chapters. Following this introductory chapter, chapter 2 provides an overview of the macroeconomic context and discusses the performance of Southern African countries when it comes to economic transformation and industrialization. Chapter 3 describes the conceptual framework, defining and providing a detailed outline of various types of SEZs. Chapter 4 analyses the situation of SEZs and their performance in Southern African countries. Chapter 5 analyses the role of SEZs as a driver of private-sector development and industrialization in Southern Africa. Chapter 6 discusses the emerging issues and the future of SEZs in the subregion. Lastly, chapter 7 offers conclusions and summarizes key policy recommendations.
Chapter II: Macroeconomic context, industrialization and economic transformation in southern Africa

1. Macroeconomic performance

Southern Africa is a diverse subregion in which countries differ significantly in terms of the size and structure of their economies, resource potential, economic infrastructure, human capital, political environment and social and cultural systems. For instance, some countries, such as Angola and Zimbabwe, are less integrated in the global economy than others, such as Botswana and South Africa. While some countries are classified as middle-income economies (Botswana, Eswatini, Mauritius, Namibia and South Africa), others (Madagascar, Malawi, Mozambique and Zimbabwe) are considered “fragile”, as noted by the African Development Bank (2018).

The biggest economies in terms of GDP are Angola, South Africa and Zambia, which accounted for 81.9 per cent of subregional GDP in 2018. The smallest economies – Eswatini, Lesotho and Sao Tome and Principe – together account for 1.2 per cent. As shown in figure I, the five fastest growing economies in the subregion in 2018 were Madagascar (5.0 per cent), followed by Botswana (4.2 per cent), Mauritius (4.1 per cent) and Zambia (4.0 per cent). The five slowest growing economies were Angola (−0.7 per cent), Eswatini (−0.5 per cent), Namibia (−0.1 per cent), South Africa (0.7 per cent) and Lesotho (0.9 per cent) (African Development Bank, 2019). In 2019, prior to the COVID-19 pandemic, the African Development Bank projected that Madagascar would be the subregion’s fastest growing economy, followed by Malawi, Sao Tome and Principe and Mozambique. Growth in Madagascar was expected to be driven by strong performance in agriculture, services and the extractive sectors. South Africa was the subregion’s largest contributor to GDP (67 per cent), followed by Angola (14 per cent) and Zambia (4 per cent).

Figure I: GDP growth by country, 2018

Source: Author’s compilation based on data from World Development Indicators.
Growth in most Southern African countries still depends on improvements to rain-fed agriculture, macroeconomic management fundamentals, a recovery in global demand, commodity prices and reforms to boost FDI (African Development Bank, 2019).

The services sector dominates Southern African economies, especially in South Africa. The sector’s contribution to subregional GDP averaged around 60 per cent from 2010 to 2017. The next largest sectors were mining and quarrying, at 14.4 per cent, and manufacturing at 11 per cent. Industry’s contribution to subregional GDP has remained static at around 34 per cent since 2010. The sectoral characteristics suggest that Governments need to create greater structural transformation by promoting the role of the manufacturing sector to spur higher growth in value addition and job creation (Lopes, Hamdok and Elhiraika, 2017). For instance, the statistics for three countries (Angola, South Africa and Zambia) provide examples of manufacturing sectors in the subregion that have weakened (reference is made to table 2 for other countries). South Africa contributes the most to manufacturing output in the subregion, although its growth in manufacturing fell from 0.9 per cent in 2016 to –0.2 per cent in 2017, and its share of manufacturing output in the subregion fell from 77 per cent in 2010 to 67 per cent in 2018 (African Development Bank, 2019). Between 2010 and 2018, Angola increased its share of subregional manufacturing output from 6 to 10 per cent. The contribution made by Zambia increased from 2.4 per cent in 2010 to 3.7 per cent in 2017.

Southern Africa has a substantial agricultural sector and South Africa has historically been the largest contributor. However, the South African share declined from 34 per cent in 2010 to 23.2 per cent in 2018, while Angola has become the subregion’s largest contributor, at 26.4 per cent in 2018. In 2017, other countries that contributed relatively large shares to the subregion’s agricultural output were Mozambique, at 14.6 per cent, and Madagascar, at 9.9 per cent (African Development Bank, 2019). However, the sector is still largely dependent on variable weather, so investing in

Table 2: Sectoral contributions to subregional GDP, by country, 2010–18 (Percentage)

<table>
<thead>
<tr>
<th>Country</th>
<th>Manufacturing</th>
<th>Agriculture</th>
<th>Services</th>
<th>Electricity, gas and water</th>
<th>Mining and quarrying</th>
<th>Construction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>9.3</td>
<td>28.6</td>
<td>14.7</td>
<td>3.7</td>
<td>51.2</td>
<td>41.7</td>
</tr>
<tr>
<td>Botswana</td>
<td>1.4</td>
<td>1.2</td>
<td>2.6</td>
<td>0.0</td>
<td>3.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Eswatini</td>
<td>2.2</td>
<td>1.4</td>
<td>0.6</td>
<td>0.4</td>
<td>0.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
<td>0.9</td>
<td>0.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Madagascar</td>
<td>2.2</td>
<td>8.4</td>
<td>1.6</td>
<td>0.8</td>
<td>0.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Malawi</td>
<td>1.0</td>
<td>6.1</td>
<td>0.9</td>
<td>0.6</td>
<td>0.1</td>
<td>0.6</td>
</tr>
<tr>
<td>Mauritius</td>
<td>2.7</td>
<td>1.4</td>
<td>2.5</td>
<td>1.7</td>
<td>0.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.1</td>
<td>11.0</td>
<td>2.0</td>
<td>3.1</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Namibia</td>
<td>2.3</td>
<td>2.9</td>
<td>2.1</td>
<td>1.7</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>70.4</td>
<td>26.3</td>
<td>65.6</td>
<td>78.7</td>
<td>35.5</td>
<td>40.3</td>
</tr>
<tr>
<td>Zambia</td>
<td>2.9</td>
<td>6.1</td>
<td>3.9</td>
<td>4.4</td>
<td>4.4</td>
<td>7.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>2.9</td>
<td>6.1</td>
<td>3.0</td>
<td>3.9</td>
<td>1.8</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: African Development Bank Socioeconomic Database.
climate-smart agriculture to enhance agriculture-based industries and food security is ever more important. Mining and quarrying are dominated by Angola, followed by South Africa, Zambia and Botswana. The four countries accounted for about 96 per cent of output in 2017. The presence of Angola and Zambia in the sector has gradually increased since 2010, while the contribution of Botswana has remained stable and that of South Africa has declined.

2. **Industrial policies, investment promotion and economic transformation**

The SADC Industrialization Strategy and Roadmap was launched in 2015 and aims to promote structural transformation and enhance the competitiveness of the entire subregion. It is anchored in industrialization as a driver of competitiveness and economic transformation. Clearly, one of the ways to promote an integrated industrial base is to develop and strengthen subregional value chains and promote investment in value addition to enhance export competitiveness. A recent study reviewing the industrialization policies of countries in the subregion identified several areas with huge opportunities for the private-sector investors to add value to subregional value chains (ECA, 2017b). These areas include fruit, coal, gold, diamonds, copper, cotton, crude oil, iron ore, platinum, marine products and natural gas.

Establishing SEZs is critical to enhancing the development of such value chains and tapping the resource endowments and comparative advantages. These zones can attract FDI in high-technology sectors, while incubation centres provide effective mechanisms for nurturing MSMEs so that they can participate in value chains. The key question is how countries in Southern Africa could develop successful SEZs that would achieve these objectives. The bottom-line assertion is that building a successful SEZ to support national economic transformation requires a sustained and coordinated package of incentives, infrastructure, services and a clear vision of the country's development agenda to build a consensus.

To promote private-sector development, countries such as Botswana and South Africa have taken a more direct route to support the integration of MSMEs into value chains, by establishing incubation centres. In South Africa, the Small Business Connect programme, funded by the Department of Trade and Industry, established 14 incubation facilities. In addition, South Africa has been at the forefront of promoting SEZs, with the number totalling eight by 2018. The zones have played a significant role in attracting FDI and promoting exports and value addition. Malawi, the United Republic of Tanzania, Zambia and Zimbabwe, have also established SEZs, but with a less explicit focus on MSMEs.

Eswatini, Lesotho, Madagascar and Namibia do not yet have functional SEZs, but are at different stages of development. The Government of Lesotho issued a tender in 2018 for a feasibility study on setting up SEZs, including a strategy for their development, a transparent legal and regulatory framework, and provisions for linkages to local industries and the local economy, as well as high-level leadership and inter-agency coordination. Based on the assessment, the Government intended to recommend a suitable park or SEZ to support diversification into agro-industry and non-apparel
manufacturing. The study also sought to advise on the operationalization of SEZs and whether there were any enabling factors, and it sought to identify critical stakeholders and their respective roles in establishing the zones. The study was financed by the African Development Bank, but no further information is available on its outcomes.

The fact that SEZs act as nests that attract private and some public investment (especially FDI) indicates that they drive industrialization and private-sector development. It is therefore instructive to assess how well Southern African countries have leveraged the zones as a tool or as nests for attracting domestic and foreign investment. Table 3 provides information on investment promotion agencies in various countries in the subregion. Almost all countries have a specific agency for promoting investment, albeit with differing mandates. An examination of the various features and the quality of the investment climate and policies in these countries reveals the key areas in which policies can be improved.

To improve industrialization in the subregion, Southern African countries adopted the “SADC Industrialization Strategy and Roadmap: 2015 – 2063” in April 2015. The key theme was “SADC strategy for economic transformation: Leveraging the region’s diverse resources for sustainable economic and social development through beneficiation and value addition”. The theme reflects the urgent need for the subregion to improve its investment performance by leveraging its abundant and diverse resources (especially in agriculture and mining) to attract investment in beneficiation and value addition. To operationalize the theme in the SADC subregional integration agenda, SADC countries have resolved to develop an industrialization strategy and roadmap to transform the subregional economy and create a conducive environment for promoting investment.

Despite the determined efforts to boost investment and trade within the subregion through the SADC Free Trade Area, the value of intraregional trade has remained very low, at only 17 per cent of total SADC trade (World Bank, 2018). Exports from the subregion are dominated by unprocessed or minimally processed products, mainly from the agricultural and mineral sectors, thus providing very low value returns. Such low levels of intraregional trade clearly indicate that the emphasis on removing tariffs has not had the intended significant impact on the economy. Furthermore, to underscore the important issue of value addition, Mlambo (2019) noted that, despite its massive resource endowments, the subregion is not adding enough value, hence the limited performance of trade and investment.

As shown in table 4 and figure II, there have been unfavourable fluctuations in net FDI inflows in Southern Africa. The subregion continues to export unprocessed agricultural produce, earning approximately 10 per cent of the potential value of the products (World Bank, 2018), despite the agricultural sector being the leading contributor to total GDP.

Reflecting the subregion’s diversity of economic structures and strengths, there are marked differences in countries’ economic environments and their ability to attract FDI. The data in table 4 and figure II suggest, for instance, that Malawi is among the top performers for FDI inflows, which may be partly explained by the effective implementation of its National Development Plan (1997–2020). The lesson that
can be drawn from the Malawian experience is that a country’s overall investment performance, especially FDI inflows, depends on its ability to formulate and implement targeted economic policies for attracting foreign and domestic investors, such as well-designed SEZs.

### Table 3: Investment promotion agencies

<table>
<thead>
<tr>
<th>Country</th>
<th>Agency</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>National Private Investment Agency</td>
<td>The agency promotes private investment by Angolan and foreign citizens in established economic activity sectors and in developing areas. It works within a legal framework that provides financial incentives for investment and seeks to assist investors in streamlined application procedures.</td>
</tr>
<tr>
<td>Botswana</td>
<td>Botswana Investment and Trade Centre</td>
<td>This integrated investment and trade promotion authority has a mandate to promote and attract investment and to promote and develop exports, including management of “Brand Botswana”.</td>
</tr>
<tr>
<td>Eswatini</td>
<td>Eswatini Investment Promotion Authority</td>
<td>This organization’s mission is to promote, coordinate and facilitate foreign direct and domestic investment and trade with the objective of creating the wealth necessary to enhance the social and economic development of the country and its people.</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Lesotho National Development Corporation</td>
<td>This organization is charged with implementing the country’s industrial development policies, and its role is to promote Lesotho as an attractive investment location for foreign and indigenous investors.</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Economic Development Board of Madagascar</td>
<td>The board’s mission is to facilitate investment by making the business climate conducive to companies. It acts as an interface between the private sector and the Administration by collaborating with a network of technical units within the ministries.</td>
</tr>
<tr>
<td>Malawi</td>
<td>Malawi Investment and Trade Centre</td>
<td>This centre is geared towards promoting the production and marketing of Malawian goods and services to complement the functions and resources (both human and financial) of the pre-existing institutions.</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Mauritius Board of Investment</td>
<td>The national investment promotion agency has a mandate to promote and facilitate investment in the country. It is the first point of contact for investors exploring business opportunities in Mauritius and the subregion. The board also assists investors to grow, nurture and diversify their business.</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Mozambique Investment Promotion Centre</td>
<td>This centre aims to attract and retain substantial domestic and foreign direct investment to boost economic growth and wealth creation, including the promotion of public–private partnerships for economic and infrastructure development.</td>
</tr>
<tr>
<td>Namibia</td>
<td>Namibia Investment Centre</td>
<td>In line with the mandate of the Ministry of Trade and Industry, the centre’s vision is to market Namibia as the preferred investment destination in the subregion by attracting and retaining both foreign and local investment.</td>
</tr>
</tbody>
</table>
The department’s core theme of trade, export and investment focuses on increasing the levels of international trade, FDI and economic cooperation at the subregional, continental and international levels. Within this thematic area, it also aims to boost the global competitiveness of exports and the beneficiation of products and to expand market access and develop programmes to encourage trade and investment activities.

This centre is the Government’s main agency for coordinating, encouraging, promoting and facilitating investment in the United Republic of Tanzania and for advising the Government on investment policy and related matters. The agency deals with all enterprises with minimum capital investment not less than $300,000 if foreign owned or $100,000 if locally owned.

This agency is responsible for fostering economic growth and development in Zambia through promoting trade and investment and an efficient, effective and coordinated private sector-led economic development strategy.

The Authority is the country’s investment promotion body, set up to promote and facilitate both FDI and local investment. Its mission is to contribute to sustainable economic development and growth through the timely promotion and facilitation of value-added investment.

**Source:** Author’s compilation from various national and official sources.

### Table 4: Net foreign direct investment inflows, by country (Percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>−3.9</td>
<td>−2.7</td>
<td>−1.1</td>
<td>−5.2</td>
<td>2.5</td>
<td>8.6</td>
<td>−0.2</td>
<td>−6.1</td>
<td>−6.4</td>
<td>−4.3</td>
</tr>
<tr>
<td>Botswana</td>
<td>1.7</td>
<td>1.9</td>
<td>1.1</td>
<td>0.5</td>
<td>3.2</td>
<td>2.6</td>
<td>0.8</td>
<td>1.0</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Eswatini</td>
<td>3.1</td>
<td>2.0</td>
<td>0.5</td>
<td>1.8</td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td>−1.3</td>
<td>0.7</td>
<td>2.9</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.4</td>
<td>2.3</td>
<td>2.2</td>
<td>2.1</td>
<td>3.8</td>
<td>8.7</td>
<td>7.4</td>
<td>5.1</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Madagascar</td>
<td>9.1</td>
<td>7.1</td>
<td>7.0</td>
<td>4.6</td>
<td>4.4</td>
<td>2.9</td>
<td>4.6</td>
<td>3.5</td>
<td>4.4</td>
<td>1.6</td>
</tr>
<tr>
<td>Malawi</td>
<td>1.4</td>
<td>10.2</td>
<td>−0.1</td>
<td>8.2</td>
<td>9.9</td>
<td>4.5</td>
<td>2.1</td>
<td>1.4</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Mauritius</td>
<td>4.3</td>
<td>3.8</td>
<td>5.0</td>
<td>2.4</td>
<td>3.6</td>
<td>1.9</td>
<td>3.1</td>
<td>3.6</td>
<td>2.6</td>
<td>3.3</td>
</tr>
<tr>
<td>Mozambique</td>
<td>11.4</td>
<td>25.5</td>
<td>34.5</td>
<td>39.5</td>
<td>28.2</td>
<td>24.3</td>
<td>26.2</td>
<td>17.5</td>
<td>18.2</td>
<td>14.6</td>
</tr>
<tr>
<td>Namibia</td>
<td>2.6</td>
<td>6.5</td>
<td>8.0</td>
<td>6.5</td>
<td>3.6</td>
<td>7.2</td>
<td>3.5</td>
<td>2.9</td>
<td>1.4</td>
<td>−0.3</td>
</tr>
<tr>
<td>South Africa</td>
<td>1.0</td>
<td>1.0</td>
<td>1.2</td>
<td>2.2</td>
<td>1.7</td>
<td>0.5</td>
<td>0.7</td>
<td>0.6</td>
<td>1.5</td>
<td>1.3</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>5.7</td>
<td>3.5</td>
<td>4.5</td>
<td>4.6</td>
<td>2.8</td>
<td>3.2</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Zambia</td>
<td>8.5</td>
<td>4.7</td>
<td>6.8</td>
<td>7.5</td>
<td>5.6</td>
<td>7.5</td>
<td>3.2</td>
<td>4.3</td>
<td>1.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.0</td>
<td>2.4</td>
<td>2.0</td>
<td>2.0</td>
<td>2.4</td>
<td>2.0</td>
<td>1.7</td>
<td>1.1</td>
<td>3.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

**Source:** World Economic Forum statistics.
3. Role of micro-, small and medium-sized enterprises and private-sector development

According to the World Bank (2018), MSMEs provide around 45 per cent of manufacturing jobs and 29 per cent of manufacturing GDP in developing countries, compared with 67 per cent and 49 per cent, respectively, in industrialized countries. At a global level, estimates suggest that more than 95 per cent of enterprises around the world are MSMEs, accounting for approximately 60 per cent of private-sector employment (Abisuga-Oyekunle, Patra and Muchie, 2020). The literature underscores that Southern African subregion should put in place a policy environment that is conducive to promoting MSMEs and private-sector development to spur industrial and economic growth.

Countries around the world consider that promoting MSMEs and, more generally, private-sector development, are effective strategies to address the socioeconomic challenges of poverty, unemployment and food insecurity (SARDC, 2015). In this regard, industrialization in Africa would achieve the dual objective of growth on the one hand and equity and collective empowerment on the other if MSMEs were fully part of growth policies. The SADC industrialization agenda, for instance, has made the development of these enterprises one of its major components and assigned it an important role in placing the subregion’s economies along sustainable economic and human development paths. Available data underscore the vital role of the MSME sector to Southern African economies, since it accounts for 90 per cent of all businesses in the subregion and provides more than half of the subregion’s employment and GDP (World Bank, 2018).

Because these enterprises are so important, the Economic Commission for Africa recently conducted a study (ECA, 2020a) on enhancing their effective participation in economic transformation by focusing on agriculture and natural resource-led
industrialization, in line with the priorities identified in the SADC Industrialization Strategy and Roadmap. The study provides a wealth of information regarding the profile and characteristics of MSMEs in the subregion, the challenges they face and the opportunities available to them. Furthermore, the study proposes an action plan with interventions to strengthen these enterprises. One of the recommended interventions is the establishment of innovation hubs close to SEZs that would give the enterprises access to opportunities and help them identify the innovations needed by companies in the zones.

Based on the study, table 5 shows the contribution that MSMEs make to each country’s GDP and the proportion of companies that belong to this category. Looking at the limited number of countries in the subregion for which data were available, these enterprises contributed an average of 30.1 per cent of GDP and comprised an average of 83.6 per cent of all enterprises. The contribution and size of the MSME sector varies dramatically across countries, making it impossible to identify a systemic pattern, but the variation emphasizes the mixed picture of the roles of the sector and the contribution it makes to private-sector development in the subregion. It is not clear whether a larger contribution to GDP indicates a more inclusive economy or a weaker economy. Although their share of total enterprises provides some indication of the size of the informal economy and the extent to which they contribute to job creation, it does not explain the variation that exists among countries. In any case, despite that variation, the statistics show that MSMEs are a significant part of the private sector in these countries.

The distribution by sector indicates that agriculture is a dominant activity for MSMEs in all countries in the subregion except South Africa. While manufacturing, wholesale trade and retail trade are among the top five activities in all countries, there is a small amount of variation in the sizes of other sectors. For instance, in respect of the top five activities in each country, mining and quarrying appears only for Mozambique; community and household services appears only for Eswatini and South Africa; transport and storage appears only for Mauritius and Lesotho; finance and business services appears only for South Africa and the United Republic of Tanzania; and utilities (electricity and water) appears only for Angola.

Almost all countries in the subregion have developed policies to use established institutional frameworks to nurture and develop the private sector and MSMEs, albeit to varying degrees. While some countries develop the MSME sector through policies and strategies specifically geared towards them, others do so under broader industrial development policies and strategies. Table 6 shows national initiatives that provide financial and technical support to MSMEs for selected Southern African countries. As a result of those initiatives, the sector has played a much more critical role in some countries than in others (see table 5). For instance, the 2012 Zimbabwe FinScope MSME Survey (Research Continental-Fonkom and FinMarkTrust, 2012) estimated that the MSME sector in Zimbabwe employed 5.7 million people, including 2.8 million business owners (aged 18 and over) and 2.9 million employees. Furthermore, the MSME sector accounts for an estimated 60 per cent of GDP and approximately 50 per cent of jobs. In South Africa, over 91 per cent of formal enterprises are small.

---

2 For instance, Botswana formulated an industrial development policy and an MSMEs policy, and created the Citizen Entrepreneurial Development Agency, all with the goal of supporting private enterprise development.
and medium-sized enterprises. However, despite their potential, MSMEs in Southern Africa face a number of common constraints and challenges that limit their prospects for further growth. These are summarized in figure III. The lack of financing is the biggest challenge they face, followed by the lack of business management skills (or training opportunities), obsolete technology, insufficient work premises and limited access to markets.

The sector faces some unique challenges not faced by large enterprises. Based on the World Bank Enterprise survey data, a report by ECA (2020b) identifies challenges faced by companies of different sizes, as shown in figure IV.

**Figure III: Challenges and constraints faced by micro-, small and medium-sized enterprises in Southern Africa**

- Lack of financing
- Obsolete technology
- Lack of access to markets
- Limited access to information
- Natural disasters/Bad weather
- Cash flow
- Too much red tape
- Absence of production infrastructure

*Source: Economic Commission for Africa (2020b).*
Figure IV: Percentage of African businesses facing certain obstacles, by company size

Table 5: Contribution of micro-, small and medium-sized enterprises to GDP and private-sector development in Southern Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Contribution to the country’s economy (Percentage of GDP)</th>
<th>Percentage of total enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>20.5</td>
<td>31.9</td>
</tr>
<tr>
<td>Botswana</td>
<td>20.0</td>
<td>N/A</td>
</tr>
<tr>
<td>Comoros</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Dem. Rep. of the Congo</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Eswatini</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Lesotho</td>
<td>15.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Madagascar</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Malawi</td>
<td>15.5</td>
<td>98.0</td>
</tr>
<tr>
<td>Mauritius</td>
<td>40.0</td>
<td>N/A</td>
</tr>
<tr>
<td>Mozambique</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Namibia</td>
<td>30.0</td>
<td>N/A</td>
</tr>
<tr>
<td>Seychelles</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>South Africa</td>
<td>13.2</td>
<td>N/A</td>
</tr>
<tr>
<td>United Rep. of Tanzania</td>
<td>27.0</td>
<td>99.5</td>
</tr>
<tr>
<td>Zambia</td>
<td>70.0</td>
<td>97.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>50.1</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Economic Commission for Africa (2020a,b).
Although policies and strategies are in place to promote MSMEs and private-sector development, the key issue is how effectively they could be harnessed to contribute more systematically and significantly to industrialization and economic transformation. Insights from the literature review and from country profiles suggest four key areas that would be effective entry points for policy reforms and government action:

- Creating a conducive business-operating environment, including favourable tax policies and predictable economic policies
- Enhancing inclusive finance to improve access to affordable credit
- Investing in physical and soft infrastructure to improve access to and the use of such infrastructure, thus enhancing market access and reducing operational costs
- Creating business incubators to build MSME capacities and mentor them to facilitate or expand market access and enable productivity improvements

The policies and strategies used to promote the development and growth of MSMEs are clearly geared towards private-sector development for growth and job creation in the subregion. It is therefore important to understand to what extent such policies have actually translated into private-sector growth in general, and job creation in particular. An important globally used indicator of private-sector development is trends in credit to the private sector as a share of GDP. Figure V shows the subregional
pattern for this indicator over five years (2014–2019). Mauritius, Namibia, South Africa and Botswana are the leading countries, with Malawi, Madagascar, the United Republic of Tanzania and Zambia at the bottom.

**Figure V: Credit to the private sector, 2014-2019 (Percentage of GDP)**

*Source: World Development Indicators.*
Chapter III: Conceptual framework and literature review

The conceptual framework underlying SEZs in terms of definitions and their various forms or types is presented in the present chapter. Key issues from the literature review are also highlighted.

1. Conceptual framework: definition and types of special economic zones

1.1 Definition

SEZs can be defined as geographically designated areas that can be physically secured and have more liberal economic laws than in the rest of the country (Zeng, 2016). Some are single-factory units, with one firm being designated as a zone if it is considered strategic to do so to achieve the country’s development objectives. These single-factory zones are entitled to the same incentives normally enjoyed by those located in geographically designated areas.

As will be shown later in the section, not only do SEZs have different definitions, but they also take a variety of forms. The present paper refers to SEZs with two different meanings: as an overarching concept (or term) used to describe the “special” nature of their various forms or types, and as a tool for industrial policy (an area). In other words, in addition to being a concept (or term), an SEZ is also a geographically delimited area with underlying distinctive features. Several important aspects need to be considered.

First, the SEZ is a broad concept to describe various forms or types, depending on the purpose for which they are established (i.e. the nature of the activities) and the distinctive features or respective requirements.

Second, the SEZ is a tool used for industrial policy (a geographical area). Certain types and forms of special zones are considered old-fashioned (traditional) models (e.g. free trade zones, EPZs and free ports), whereas SEZs are a more recent phenomenon, and consist of larger, more flexible zones that include manufacturing, logistics and commercial and residential activities. The category of SEZ popularly referred to as an “industrial park” is an even more recent development. It refers to an area of land developed as a site for factories and other industrial businesses, i.e. “an industrial estate”.

Third, although SEZs differ from one another, they all share certain hallmarks that make them “special”: they consist of a geographically delineated area, usually physically

3 The history of SEZs dates back to 1959, when the first modern industrial SEZ was established in Shannon, Ireland. In the 1970s, East Asian and Latin American countries began establishing such zones. Initially, most were in the form of export processing zones (EPZs), the aim of which was to encourage exports by attracting FDI in labour-intensive manufacturing sectors (Farole, 2011).
secured; each zone has a single management or administration; they offer benefits to investors physically located within the zones; and they have a separate customs area (with duty-free benefits) and streamlined procedures (Foreign Investment Advisory Service, 2008).

Fourth, depending on its level of economic development and its core policy objectives for promoting SEZs, each country defines its SEZ development model to help achieve those objectives. Nonetheless, the most common policy objectives in the majority of developing countries, including those in Southern Africa, are to attract investment (especially FDI), promote industrialization for job creation and value addition, promote exports to generate foreign exchange, and foster private-sector development (including growth of MSMEs). Achieving these objectives will require a more harmonized framework for Southern African countries to promote the use of SEZs as a concept and a policy tool. A unified approach would also help SEZs and investment promotion authorities in their marketing and promotion strategies, since such zones are closely associated with the type of incentives offered to attract investment.

### 1.2 Types and forms

Although there are many types of SEZs, three are particularly common. The first is free trade zones, which are fenced-in, duty-free areas offering warehousing, storage and distribution facilities for trade, trans-shipment and re-export operations. The second is EPZs, which are industrial estates that can be either geographical zones or an individual firm that is eligible. EPZs offer special incentives and facilities for manufacturing and related activities that are geared primarily at export markets. The third type is special economic zones as a policy tool, which are geographically concentrated fenced-off areas with infrastructure and investment incentives, tax incentives, streamlined customs and other regulatory rules. The latter sometimes include specialized zones or industrial parks specializing in a particular area or sector, such as petrochemical clusters and science and technology parks. The section below provides a more comprehensive description of the various types of SEZs.

#### Special economic zones

The present section refers to SEZs not as an overarching concept, but as a policy tool for promoting industrial development and high value-addition activities that is more encompassing and flexible than other types. In other words, SEZs are also part of the conceptual family of special economic zones. As a policy tool, one key feature distinguishing these zones from other forms is that they are delimited areas with a much broader mix of industrial and supporting amenities. In other words, they are flexible in terms of the nature of the activities and markets. UNCTAD (2019) defines these zones as "geographically delineated areas within which governments facilitate industrial activity through fiscal and regulatory incentives and infrastructure support". They are a more contemporary form of industrial-policy instrument, whose fiscal and regulatory incentives aim to provide a more conducive business environment, thereby enabling better industrial infrastructure and services than available in the rest of the economy. In recent years, the number of SEZs around the world has exploded,

---

4 It may seem confusing to refer to SEZs as a type of special economic zone. However, it is important to note that the term is used both as an overarching concept and as a policy tool or area.
reaching 5,383 across 147 economies (UNCTAD, 2019). They are particularly popular in East Asia (e.g. China, Malaysia and Republic of Korea) and Latin America (e.g. Costa Rica and Dominican Republic), where they have been successfully leveraged as a factor for industrial development (Bost, 2019).

Export processing zones
EPZs are industrial estates created primarily to target foreign markets by providing their firms with free trade conditions and a liberal regulatory environment. Some are general; others only allow specialized sectors or products. Since the zones provide an effective policy instrument for promoting exports and FDI, they have become increasingly popular as countries have shifted from import-substitution policies to export-led growth policies. They have been particularly successful in most Asian countries. The economies of China; Hong Kong, China; Taiwan Province of China; and Singapore were propelled by policies that promoted the creation of special investment regimes and EPZs. However, attempts in Africa to replicate the successful zones of Asia to kick-start industrialization and diversify economic bases have generally been less successful, notable exceptions being Mauritius and, more recently, Ethiopia. Several factors, including inadequate infrastructure, limited entrepreneurial capacity, institutional challenges, a weak policy, regulatory and political environment, and even investor uncertainty have made implementation of most zone programmes less effective.

Eco-industrial parks
Eco-industrial parks are industrial networks characterized by symbiotic interactions among firms located in a single bounded geographic area. The industries located in the parks share or exchange inputs and outputs (such as raw materials, products, waste processing and water), thus forming an industrial version of an ecosystem (Chertow, 2000). The United Nations Industrial Development Organization (2016) recently reviewed practices at parks in 12 countries and noted a lack of experience, awareness, supporting regulations and enforcement of regulations in the development and implementation of such parks in Africa. One particular challenge with their establishment is that they require complex institutional, legal and policy support systems that are absent in many African countries (Boons, Spekkink and Mouzakitis, 2011).

Border economic zones
Border economic zones or border development zones are a specific type of special zone situated at borders. The zones explicitly target the development of cross-border trade and investment to encourage the economic and social development of an area along the border between two countries. Experience from China shows that these can be located in a town close to a border or at the border itself with a neighbouring country. The zones facilitate the movement of goods and people across the area, allowing each one to have its own customs administration and avoiding the complex red-tape involved in managing multiple trade regimes. In addition, the zones can also be established along the border, with sections in both countries. Such cross-border zones require coordination between Governments and reconciliation of two different legal, fiscal and labour-market regimes (see Wood and Siziba, 2015).

5 Cambodia, China, Colombia, Costa Rica, Egypt, El Salvador, India, Morocco, Peru, Tunisia, South Africa and Viet Nam.
Governments are increasingly acknowledging that border economic zones can optimize the use of the two bordering countries’ resources and the sharing of benefits by creating a separate customs area. Karambakuwa and others (2020) caution that, although border economic zones and border development zones can bring countries closer together, especially on trade and knowledge-sharing, their effectiveness is limited by poor or outdated legal, regulatory and institutional frameworks for SEZs in Southern Africa. Nonetheless, as explained in box 1, the potential for cross-border economic zones already exists and can be further developed in the subregion, which can benefit from the lessons learned from successful experiences in East Asia and elsewhere.

Few border economic zones currently exist in the subregion. The Government of Namibia has developed three: Oshikango, a cross-border zone in the northern town of Helao-Nafidi, near the Angolan border, to support and boost trade with Angola; Katima Mulilo, near the north-eastern borders with Botswana, Zambia and Zimbabwe; and Katwitwi, near the Angolan border in the Kavango region. In South Africa, there are zones in the towns of Mafikeng, by the Botswana border, and Musina, by the Zimbabwean border (Karambakuwa and others, 2020). The design of the Tunduma-Nakonde one-stop border post between Zambia and the United Republic of Tanzania is a good example of how a border economic zone can allow a border township to flourish.

Outside Southern Africa, there are many border economic zones. Along the frontier between the United States of America and Mexico, for instance, Mexico provides low-cost labour with few regulatory restrictions, while the United States provides a booming consumer market (Sargent and Matthews, 1999). Several border economic zones and border development zones have been developed as cross-border corridors on the China-Viet Nam border.

**Free trade zones**

A free trade zone can be defined as an area of variable size in which authorized companies are exempt from the normal customs and taxation regime that is applied in the host country. In return for this concession and other benefits, countries expect these companies to create large numbers of jobs, stimulate exports and help diversify the economy by introducing new streams of activity (Bost, 2010). Usually, free trade zones are characterized by a separate customs territory, thereby offering their users reduced or no customs duties for goods that are manufactured or assembled in the zones or those in transit. In the past, free trade zones were tools that Governments used to obtain commercial power by promoting a more liberal trading regime than the standard ones, which were constrained by various trade barriers, such as tariffs and quotas. For centuries, secure trade hubs like Singapore, Gibraltar, United Kingdom and Hamburg, Germany have been operating citywide free zones and entrepots that have free storage and exchange guarantees. Unlike SEZs and EPZs, free trade zones may be established on a smaller piece of land.

Bonded or warehouse zones are a special type of free trade zone with unique arrangements for import and export duties and various logistics and management

---

6 EPZs can also be considered a specific type of free trade zone.
Border areas face multiple economic and social challenges. They are often located far from the national capital and regional economic centres, which reduces the economic opportunities available locally. The formation and development of border economic zones and cross-border economic zones is not only an opportunity for the border regions, but also an engine for developing the supply chain and the production network through border connectivity (Nguyen, Huong and Nguyen, 2019).

Through its technical assistance programmes, the Asian Development Bank has championed the establishment and operationalization of a joint cross-border economic zone along the border between Pingxiang in China and Dong Dang in Viet Nam as one of the flagship corridor initiatives under the Greater Mekong Subregion programme. The development of cross-border economic zones requires a holistic approach – from coordinating strategies to streamlining policies and regulations at the borders (e.g. through one-stop border posts and a single window) and possibly harmonizing investment plans and taking social and environmental implications into consideration. One of the lessons learned through the Asian Development Bank technical assistance project is that it is important to embrace both top-down approaches (e.g. demonstrating political commitment at senior levels) and bottom-up approaches (e.g. soliciting support from border communities and local governments) to support the design and establishment of a cross-border economic zone in order to ensure its successful operationalization.

These zones have great potential for advancing initiatives in Southern Africa to improve transport and economic corridors (e.g. north–south corridors). ECA and other development partners can champion the operationalization of such zones by offering technical assistance similar to that provided by the Asian Development Bank in East Asia. UNCTAD (2019) has noted that border special economic zones could significantly enhance intercontinental trade and economic cooperation in Africa. An example of this is the Musina–Makhado Special Economic Zone in South Africa, which is strategically located close to the border between South Africa and Zimbabwe, on a main south–north route into the rest of the Southern African Development Community. The literature shows that such initiatives have already taken place in Namibia and through the one-stop border posts championed by TradeMark East Africa and other development partners, including the Japan International Cooperation Agency and the World Bank. Furthermore, the cross-border trade (whether planned or spontaneous) that has flourished across many regions in Africa, including Southern Africa, has triggered dramatic growth of townships, which is starting to have economic and social ramifications (see Kweka and Michael, 2018). Burgeoning townships like Tunduma on the border between Zambia and the United Republic of Tanzania have led to clusters of economic activities that may be harnessed into cross-border economic zones.
approaches. For example, foreign goods can enter without being subject to duties, as they remain bonded. Manufacturing and trade inside the zone can be excluded from VAT and sales taxes. Bonded zones are the most advanced kind of special customs supervision areas and they play an important role in boosting foreign trade, facilitating transit trade, attracting foreign investment, enabling industry and promoting the development of the targeted areas.

**Technology (or science) parks**

The International Association of Science Parks defines a technology park (also called a science park) as a property-based initiative that has formal and operational links with universities or other higher-education institutions or major research centres. They are designed to encourage the formation and growth of knowledge-based industries or high value-added firms, which are normally based on site. Technology parks have a steady management team that is actively engaged in fostering the transfer of technology and business skills to tenant organizations. The term “technology park” usually indicates a focus on technology and innovation, with tenant companies being involved in applied science (Petree, Petkov and Spiro, 1997).

Technology parks are designed to ease and facilitate the production and commercialization of advanced technologies by facilitating interaction among research centres, education institutions and technology-based companies. Tenants of technology parks are usually small companies at an infant development stage pursuing an ambitious growth strategy based on the incubation of new ideas. To facilitate the successful adaptation and take-up of these ideas in the marketplace, technology parks support scientific research institutes and laboratories by cooperating in research and development; providing financial, professional, technical, administrative and legal assistance; and offering information and communications technology services as part of a supportive business infrastructure (Petree, Petkov and Spiro, 1997). Experience in the United States shows that most science and technology parks are built around universities. This facilitates internships and collaboration; provides the parks with access to university facilities, proprietary technology and intellectual property; and allows the parks to offer on-site, customized training and education.

**Agro-industrial parks**

Agro-industrial parks are spatially demarcated hard and soft infrastructure platforms created to support firms and other stakeholders engaged in agroprocessing and related activities. Their aim is to provide a mechanism to link agricultural production to markets by bringing together farmers, processors and retailers to maximize value addition, minimize wastage, increase farmers’ incomes and create employment opportunities, in particular in rural sectors. In other words, an agro-industrial park can be described as an integrated clustering model that combines different agricultural production chains, thus maximizing operational synergies, economies of scale and income-generation activities for the community in which it is located (UNIDO, 2019).

African Governments are developing agrizones to promote food security and shift from subsistence farming to agro-industrial development (UNCTAD, 2019). Such zones are created under initiatives to develop agricultural corridors, agrobased

---

7 https://www.ftz-shanghai.com/Regulations/What_is_Bonded_Zone.html.
clusters, agro-industrial parks and agro-incubators (International Institute for Sustainable Development, 2017). They range in size from a few hectares in urban areas to tens of thousands of hectares across regional, national and supranational areas. The benefits they offer range from infrastructure and customs facilitation to advantageous regulatory frameworks. Dube AgriZone, which is part of the Dube TradePort SEZ in South Africa, is one such example. The zone hosts the subregion’s largest climate-controlled, glass-covered growing area and also includes packhouses, a central packing and distribution centre and a laboratory.

An agro-industrial park supports a network with three strategic functions: a rural transformation centre to collect and store produce, with rural development services; an agroproduction and processing centre for production, processing, collection, research and development, trade and community outreach; and a consolidation centre that regularly serves a market in a consumer-responsive manner. The main purpose of agro-industrial parks is to implement an agro-industrial strategy to support economic development and employment-generation, especially in rural areas (Rao, 2006). Experiences from other countries show that an agro-industrial park can create 2,000 to 4,000 direct and indirect jobs and can raise the incomes of smallholder farmers by integrating them and small-scale processors into value chains (UNIDO, 2019).

Ethiopia has created integrated agro-industrial parks (see figure VI) and cluster agro-industrial parks. While industrial parks have been used in other sectors for many years, they are relatively new in the agricultural sector, in particular in Africa. Industrial parks have the potential to enhance value addition, increase exports and drive industrialization in the agribusiness sector. In Africa, renewed attention is being given to agro-industrial parks at the regional level, as described in Agenda 2063: The Africa We Want, of the African Union. The African Union Commission has introduced a programme for establishing common African agroparks to promote investment for

**Figure VI: Master plan for an integrated agro-industrial park in Ethiopia**

![Master plan for an integrated agro-industrial park in Ethiopia](image)


*Abbreviations:* QA, quality assurance; QC, quality control; R&D, research and development.
establishing commodity-specific transboundary agro-industrial parks. Nevertheless, implementation of the agro-industrial parks on the continent has been limited by several challenges, including the absence of a critical mass of skills, weak links between businesses and knowledge institutions, weak governmental and institutional support, resource depletion, resources that do not meet international standards and increased global competition. In its Industrialization Strategy and Roadmap, SADC describes such parks as one of the effective mechanisms for addressing the lack of standardized products, post-harvest losses, inadequate marketing and infrastructure facilities, and insufficient market information.

Egypt, Ethiopia and South Africa are among the African countries to have successfully established agro-industrial parks. In the Democratic Republic of the Congo, however, projects have been greeted with suspicion and significant resistance from civil society organizations, which have demanded that development partners (the African Development Bank in particular) end their support. The main reason for the resistance was the fear that the parks could promote plantation-based agricultural support at the expense of smallholder farmers and food security. The experience from the collapse of the Bukanga Lonzo park is useful for the future design and development of such parks in Africa, including in Southern Africa.

1.3 Modalities for developing and financing special economic zones

The operationalization of investment in SEZs can take various forms, depending on a country’s investment policy, specific arrangements between Government and investors, and available financing modalities. There are three main SEZ modalities: public, private and joint ventures. Several other forms that are a hybrid of these three are also used, reflecting specific investment financing provisions in government–investor agreements. Below are brief descriptions of these modalities.

Public special economic zones

Public SEZs are developed, owned and managed by the Government. Such models are used where SEZs are being developed for strategic reasons (e.g. to develop strategic sectors such as oil and gas or to support nascent industrialization), rather than for profit. However, Public SEZs are not the preferred option in many countries because they drain public finances. Besides, Governments often lack the technical expertise needed to run them effectively. Furthermore, there are potential conflicts of interest, which are common when a government institution runs a commercial undertaking, a problem that can hamper the ability of public SEZs to deliver their intended outcomes. Nonetheless, most zones in China, Malaysia, the Republic of Korea and Singapore are publicly owned (Foreign Investment Advisory Service, 2008). In China, public ownership has been decentralized to the local level, and competition between local authorities has provided strong market incentives for the zones to maximize their economic success.

Private special economic zones

In this model, private entities are responsible for all aspects of an SEZ except regulation. Private entities own, develop and operate the zone and keep all the operating revenue. Some of these zones are owned, developed and operated by a
single private company. At others, the owner subcontracts the development work or operations to another private company. Private zones are the most common model in most countries because the private sector is often best placed to maximize economic returns. The risk, however, is that private entities might emphasize profit over benefits to the economy at large. In India, for instance, it was reported that, owing to limited public accountability, private SEZs were using land acquired for SEZs for other, self-serving purposes (Khandelwal and Teachout, 2016).

**Joint ventures**

In a joint venture, a host Government enters into an agreement with another Government or a private company (either domestic or foreign) to run an SEZ. In some zones, the joint-venture entity is responsible for development and operations; in others, the entity may decide to outsource these roles through a public–private partnership model. Therefore, unless the development and operation of the zone is outsourced to a private company, the Government may be partly involved in all aspects of the zone (i.e. regulation, ownership, development and operations). Joint-venture SEZs might be used when a Government is unable to attract enough private investment to finance the development of a zone, such as when private investors do not want to bear the full risk of ownership due to political uncertainty (Mangal, 2019). In such cases, a joint-venture model can result in a strong commitment, guaranteeing government support throughout the development life cycle. Joint ventures might also be used when a Government wants to retain some control over ownership of the zone while benefiting from private-sector expertise. The involvement of multiple agencies in a joint venture, however, could lead to coordination problems, causing the development of the zone to stall. For instance, in 2013, the Lekki Free Trade Zone in Nigeria attracted $ 76 million through a joint-venture approach, but miscommunication between the Nigerian and Chinese investors over the terms of their partnership hindered the development of the zone.

In addition to the three main modalities described above, other modalities also exist, as described below (Mangal, 2019).

**Build-own-operate-transfer models**

Build-own-operate-transfer models are used to finance a specific project rather than an entire infrastructure system. In this model, a private company owns an SEZ for a specified period of time, then hands over ownership and all operations to the Government. This model is used when the Government wants to engage a private company to run a zone on its behalf but does not want to give up ownership permanently. It is not a popular method, since the eventual transfer to the Government can be problematic, as most countries (especially low-income countries) do not have the necessary expertise to operate an SEZ.

**Concessions**

Unlike build-own-operate-transfer schemes, concessions usually include the development of an entire infrastructure system, rather than a single project. They are often used to rehabilitate old infrastructure projects, usually with a long-term contract (20–30 years). The concessionaire pays the Government a fixed fee and keeps all operating revenue. Ownership of all assets, including those purchased by
the concessionaire, returns to the Government after the agreement elapses. Similar to the build-own-operate-transfer model, the concession model is used when the Government wants to leverage private-sector expertise to develop and operate an SEZ but does not want to give up ownership permanently. Further, the model is most useful when the Government is willing to engage with the private sector over a significant period of time. Examples include the Panamá Pacífico SEZ in Panama and the Aqaba International Industrial Estate in Jordan. Concessions may deter investors, since ownership is eventually transferred to the Government.

Leases
Unlike in build-own-operate-transfer and concession models, in lease agreements, the Government is responsible for developing the SEZ, which it merely leases to a private company to operate it. The private company takes on a substantial risk, since its revenues are linked to the zone’s operating revenue. The private company pays the Government a fixed fee and keeps the rest of the income. Contracts are usually for 3 to 5 years. The lease model is used when no private investor is interested in developing an SEZ but the Government wants the zone’s operations to benefit from private-sector efficiency. Que Vo Industrial Park, in Viet Nam, is an example of this model. Since the model makes the Government responsible for developing the zone, the private sector may not have full confidence in its commercial viability.

Operator/management contracts
These contracts are generally shorter than lease and concession agreements. Like in a lease agreement, the Government is responsible for developing the zone, but it engages a private company to operate it. The operator does not take on much risk and is not responsible for the zone’s assets. Unlike in a lease agreement, where the private company pays the Government a fee, in management contracts, it is the Government that pays the private company, either as a fixed fee or on a performance-related basis. This model is used when a Government does not want to give up control over its assets but wants to engage the private sector on a short-term basis to improve a zone’s performance. Industrial City Abu Dhabi in the United Arab Emirates is an example of this arrangement. Under this model, if the fees paid to the operator are not tied to revenue, the operator may not have sufficient incentive to perform. In addition, operator/management contracts usually last for less than three years, which can create uncertainty about operations in the minds of investors.

2. Literature review
The literature on the role of SEZs in promoting private-sector development and industrialization has focused mainly on drawing key lessons from country-specific experiences (Zeng, 2016). Similarly, Aggarwal and others (2007) noted that the role of SEZs in driving export diversification has varied by country across sectors and products. Across the various studies, the role of SEZs in private-sector development and industrialization is mainly seen through their impact on attracting investment (especially FDI). The World Investment Report 2019 (UNCTAD, 2019) provides significant evidence on how countries and regions have performed in this aspect. The report notes that SEZs in some countries have either failed to attract significant investment or have attracted mainly domestic investors rather than FDI. However, as
noted by Curran and others (2009), existing research on SEZs extensively covers their economic impact in Asian countries, but it is unclear whether the lessons learned are applicable to countries in sub-Saharan Africa.

One of the insights from the literature pertains to the challenge of measuring the impact of the zones on private-sector development (Zeng, 2019), mainly due to the lack of firm-level data, but also because it is difficult to find suitable enterprises that can serve as controls for comparisons. As a result, most assessments use indirect measures, such as the effect that the zones have on exports, investment, employment and spillovers to firms outside the zones. Nonetheless, successful SEZs can attract many multinational companies and domestic firms and can make a notable impact on private-sector development through their contributions to such variables. As a result, the focus of most existing studies is on articulating the successes and failures of SEZs at the global level. Several studies exist that are relevant to the present study.

In a case study of six Southern African countries (Mauritius, Namibia, South Africa, United Republic of Tanzania, Zambia and Zimbabwe), Dube, Matsika and Chiwunze (2020) identified three factors at play in countries with successful SEZs. First, the zones had been developed in the local context and were designed in a way that took critical factors into account (e.g. the requisite infrastructure), with dedicated policies, laws, strategies and institutions for their development. Second, the regulatory and development functions were separate from each other. And third, the designation of zones was based on proper economic justification. The authors recommend that countries ensure that these critical design attributes are properly in place before licensing a location as an SEZ. Furthermore, the authors identified weak legal frameworks and a lack of technocrats specializing in private-sector constituencies as other key factors explaining the poor performance of the zones in Africa.

Aggarwal (2019) studied the success factors and development outcomes of SEZs and argued that countries ought to adopt a well-structured approach towards the zones, in line with their broader development strategy. Zeng (2021) provides the most up-to-date account of SEZs, which are prevalent across the globe, albeit with varying performance levels and varying effects on the economy and on structural transformation. The keys to a successful zone are a strategic location, integration of the strategy with the country’s overall development strategy, an understanding of the market and comparative advantages, a business-friendly environment, a sound legal and regulatory framework, and sustainability and resilience to external and exogenous shocks, such as the COVID-19 pandemic.

Karambakuwa and others (2020) offer an assessment of SEZ performance in Southern Africa relative to global best practices. They conclude that most of the zones in Southern Africa have failed to bring enough growth and employment due to weaknesses in institutional, operational and evaluation frameworks. Kweka and te Velde (2020) noted that the chief factors hindering the development of SEZs in Africa were poorly designed zones (including inappropriate locations), the lack of complementary policies (such as sectoral and logistics strategies) and limited spillover benefits.
One of the most central issues discussed in the literature on SEZs and private-sector development is the extent to which their functions are fundamentally geared towards private investors (both local and foreign). Based on table 7, several options are discussed below concerning the governance and ownership structure of SEZs and the implications for Southern African countries.

Zones developed and owned exclusively by Governments have been less successful than those with shared ownership models (Karambukuwa and others, 2020). Bräutigam and Xiaoyang (2011) and Zeng (2016) make the case for shared ownership. On the financing of SEZs, the general position in the literature is that, although funding for the development of the zones often comes from Governments, growth is usually driven by private investment. According to Karambukuwa and others (2020), almost all Southern African SEZs are entirely government-owned. Zambia, for example, has three multi-facility economic zones (MFEZs), one of which is managed and developed by the government share-holding company Industrial Development Corporation, while the other two SEZs are managed and developed by a Chinese State-owned company (Zeng 2016). The literature clearly attests that the most successful SEZs have been established through public–private partnerships and are designed to interlink with local businesses and industries. One of the emerging recommendations in the ownership debate is that Southern African countries should encourage engagement by the private sector in owning and managing SEZs to lower the risk of failure.

The impact of SEZs on private-sector development and economic transformation has also been assessed by estimating linkages and spillover effects on the domestic economy. Based on a study by Cheesman (2012), table 8 describes the effects of the

**Table 7: Policy options and governance framework for ownership and development of special economic zones**

<table>
<thead>
<tr>
<th>Options</th>
<th>100% publicly owned, developed and operated</th>
<th>Public–private partnerships, including purely private zones</th>
<th>100% privately owned, developed and operated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Suitability</strong></td>
<td>Low: The zones are likely to be less well developed and operated, less efficient and less demand-driven.</td>
<td>High: SEZs can benefit from higher efficiency, investment and expertise brought by private-sector developers and operators.</td>
<td>Medium: Some zones with a low financial rate of return but a high economic rate of return will not be developed.</td>
</tr>
<tr>
<td><strong>Feasibility</strong></td>
<td>Medium: The zones create a very high financial burden on Government but allow for full control.</td>
<td>Medium: Less public finance is required to develop zones, but a strong legal, regulatory and institutional framework is necessary.</td>
<td>Medium: Less public finance is required to develop the zones, but if they are not well developed, they may create a burden on the Government at a later stage.</td>
</tr>
<tr>
<td><strong>Acceptability</strong></td>
<td>Low: The private sector will be unable to participate in a major commercial opportunity.</td>
<td>High: The private sector will be able to participate in the development of the zones, in line with the country’s public–private partnerships policy.</td>
<td>High: The private sector will be able to participate in the development of the zones, in line with the country’s public–private partnerships policy.</td>
</tr>
</tbody>
</table>

*Source: United Nations, Economic and Social Commission for Asia and the Pacific (2019).*
zones and how they lead to structural change in a domestic economy. For instance, the zones may affect the domestic economy through increased investment, jobs and exports, enhancement of human capital, capital upgrading and access to a wide array of goods and services.

Much of the literature has focused on underscoring the importance of SEZs as the epicentre for reforms that ultimately improve the business environment for the private sector. Most of the studies have examined the role of the zones in promoting industrialization and economic transformation. In doing so, they have emphasized the need for developing countries (including in Africa) to learn from global best practices, especially in terms of lessons on the approaches and models that could be applied in a particular region, subregion or specific countries. Global best practices provide a benchmark against which to assess the performance of SEZs in those regions and countries.

Other studies have addressed the role of SEZs in the economy more broadly. For instance, Obeng-Odoo (2020) notes that SEZs are an important instrument for stimulating structural transformation and industrialization through trade and public–private partnerships, but only when properly implemented. Empirical findings show that countries in Asia, the Americas and Europe have been global leaders in the successful development of SEZ programmes, while countries in Africa are still struggling (World Bank, 2019). These findings stir up debates about the justification and rationale for implementing SEZs as a key tool for sustainable economic development in the region.

Aritenang and Chandramidi (2020) identify factors such as the limited preferential policies and reduced institutional autonomy of SEZ authorities as reasons that have limited the power of the zones to promote private-sector development in Africa. Such preferential policies inevitably encourage companies to invest in SEZs (Grant, 2020). Preferential policies to promote SEZs include duty-free imports of raw materials, tax exemptions on exports, the option to repatriate profits and capital investments, tax breaks, inexpensive land and rapid customs clearance.

The legal framework in most Southern African countries has promoted EPZs rather than SEZs. However, SEZs are considered more flexible and effective in enhancing

<table>
<thead>
<tr>
<th>SEZ effect</th>
<th>Intermediary</th>
<th>Effect on structural change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New activity/jobs</td>
<td>Increased income</td>
<td>Increased demand for higher-level goods and services</td>
</tr>
<tr>
<td>Knowledge spillover</td>
<td>Skills formation; human capital</td>
<td>Increased supply of higher-level labour</td>
</tr>
<tr>
<td></td>
<td>upgrading</td>
<td></td>
</tr>
<tr>
<td>Technology spillover</td>
<td>Capital upgrading</td>
<td>Increased productivity, especially in higher-level activities</td>
</tr>
<tr>
<td>Backward linkages</td>
<td>Increased income; demand for</td>
<td>Diversification; greater productivity; skills upgrading</td>
</tr>
<tr>
<td></td>
<td>higher-level production</td>
<td></td>
</tr>
<tr>
<td>Forward linkages</td>
<td>Access to higher-level goods and</td>
<td>Greater productivity; support for diversified activity in both</td>
</tr>
<tr>
<td></td>
<td>services</td>
<td>production and consumption</td>
</tr>
</tbody>
</table>

Source: Cheesman, (2012, p.26)
private-sector development and accelerating economic transformation. Furthermore, existing frameworks have not sufficiently promoted the inclusion of domestic firms that would unleash spillover effects on the economy (Kweka and te Velde, 2020).

Empirical studies have also tended to focus on the role of FDI in creating the employment opportunities, output and labour productivity associated with SEZs (see, for instance, Adu-Gyamfi and others, 2020). Such studies have highlighted that cheap labour, complementary investment policies with good incentives and adequate infrastructure are important to attract investors to the zones. However, Atiang and Nafula (2020) provide evidence that SEZs in Southern Africa have not attracted capital investment and technologies, nor have they enhanced manufacturing capacity or generated learning opportunities or spillover effects, partly due to limited inflows of good-quality FDI.

While subregional integration is generally considered to be an effective mechanism to boost trade and investment performance, the relationship between SEZs and subregional integration appears to be complex. Woolfrey (2013) summarizes the literature on the subject, noting that the establishment of a subregional trade agreement significantly affects the trading environment for the zones. The main issue is that deeper subregional integration through a customs union turns subregional exports into domestic sales due to the strict rules of origin limitations, thus contradicting somewhat the policy objectives of the zones and of subregional integration. Furthermore, Farole (2011) noted that SEZ incentives to attract investment can result in a "race to the bottom" among partner States, thus jeopardizing integration.

Lastly, the impact of the AfCFTA Agreement, the COVID-19 pandemic and the Fourth Industrial Revolution has also featured (albeit sparingly) in recent literature on the role and effectiveness of SEZs in private-sector development and industrialization. The overarching argument is that these phenomena could unintentionally enhance or weaken the effectiveness of SEZs. For instance, a survey conducted by UNCTAD (2020) shows that some stakeholders view the zones as a key instrument for expanding the manufacturing sector, while others are concerned about AfCFTA rules of origin that could promote unfair competition. The report also raises concerns regarding the proliferation of non-tariff and technical barriers to trade. Nevertheless, the share of manufactured goods in intra-African trade is expected to increase significantly if the agreement is effectively implemented.

Although a considerable number of studies focus on gauging the impact of COVID-19 on various dimensions (e.g., the economy, health systems, community well-being), there is little to no focus on SEZs. Burmazovic (2020) estimates the economic impact of the pandemic on SEZs due to the fall in trade, which could potentially affect the zones’ development and operations across Africa. He reports that the pandemic has held back activity in the zones, mainly owing to the fall in investment flows. Given the rise of digitalization and the effect of the pandemic on global supply chains, countries need to innovate to attract further investment in the zones. Amodu (2020) argues that SEZs could help the economy to rebound from the impact of the pandemic if they were exempted from lockdowns. He notes that the enclave nature of the zones could serve as a coping mechanism in the pandemic and that Governments could leverage the zones to produce essential goods. As an example, India has exempted activities such as agriculture, e-commerce, manufacturing and information technology services from the lockdown to mitigate hardships.
Chapter IV: Characteristics and performance of special economic zones in Southern Africa

The present chapter consists of a situational analysis of SEZ programmes in Southern Africa, in which their salient features, characteristics and performances are examined. The main objective is to show how and to what extent the prevailing SEZ policies and designs are consistent with the zones’ intended role as nests for promoting and attracting investment (including FDI) to spur industrialization in the subregion.

1. Forms of special economic zone development in Southern Africa

A key component of this study is that it contains an examination and identification of the various forms of SEZ development in the subregion. Understanding the applicable forms is critical, since it determines the nature of incentive regimes used by countries to attract investment. As shown in table 9, different countries have slightly different forms of SEZs. Some have promoted a single type of SEZ (e.g. EPZs in Malawi, Namibia and Zimbabwe), while others have developed multiple types, including combinations of SEZs and EPZs (e.g. United Republic of Tanzania), SEZs and free zones (e.g. Mauritius, Mozambique and South Africa), and SEZs and industrial parks (e.g. Zambia). Most zones in Mozambique are SEZs.

The provision of applicable incentives is also based on the role of investors in developing SEZs. SEZ developers are offered incentives that differ from those offered to SEZ enterprises (also known as SEZ operators). Investors in the development of the zones in Mozambique and the United Republic of Tanzania, for instance, are offered incentives that differ from those offered to the enterprises based in the zones. This is because investors must deal with much more complex issues, such as land ownership and infrastructure development. As a result, the two groups are subject to different licensing requirements.

Some countries have distinct investment incentives for different sectors or types of activities, whereas most offer broadly the same incentives across all sectors or activities. In general, manufacturing-based activities receive many more incentives than services-based and light-processing activities. Mining is one of the sectors that appear to have received different incentives. Although the present report cannot fully address the nature and scope of incentive frameworks, it contains some general observations that show that countries provide very different incentives. This is an important issue, because it is a critical component of the business climate that eventually determines success in attracting sustainable investment. As indicated in table 9, some countries appear to have simple incentive regimes (e.g. Malawi, Madagascar, South Africa and United Republic of Tanzania) while others seem to have more complex ones (e.g. Mozambique and Zambia).
### Table 9: Special economic zone types, activities and incentives in Southern Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Types of zones</th>
<th>Main zones and year established (if known)</th>
<th>Activities/sectors</th>
<th>Incentive structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>SEZs</td>
<td>Luanda-Bengo SEZ, 2009</td>
<td>Industry, agriculture and mining</td>
<td>Infrastructure and services</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Free zones</td>
<td>Various free zones, 2008</td>
<td></td>
<td>Exemption from corporate tax for up to 15 years; income tax of not more than 30 per cent for expatriates; no VAT on imports</td>
</tr>
<tr>
<td>Malawi</td>
<td>EPZs</td>
<td>Malawi Investment and Trade Centre, 1995</td>
<td>Garments and apparel; agroprocessing; call centres; relief supplies; gemstones; macadamia nuts; warehousing; storage and break bulk; ship building, repair and maintenance; storage, maintenance and repair of empty containers; export and re-export-oriented airport- and seaport-based activities; labelling, packing and repackaging; light assembly/processing; quality-control services; sorting, grading, cleaning and mixing; freight services; seafood hub</td>
<td>Exemption from corporate income tax and from withholding tax on dividends; no duty on capital equipment, machinery and raw materials; 0 per cent VAT</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Free zones, EPZs and SEZs</td>
<td>Mauritius Free Port, 1992; Sameer Industrial Park EPZ, 1990</td>
<td></td>
<td>0 per cent corporate tax for trading activities; 15 per cent tax for processing activities; reduced port handling charges for re-export; full foreign ownership allowed Access to local market at 50 per cent of re-export value; preferential market access Exemption from customs duties on all goods imported into the free port zones Free repatriation of profits</td>
</tr>
<tr>
<td>Country</td>
<td>Types of zones</td>
<td>Main zones and year established (if known)</td>
<td>Activities/sectors</td>
<td>Incentive structure</td>
</tr>
<tr>
<td>---------------</td>
<td>----------------</td>
<td>-------------------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Mozambique SEZs |                | Nacala SEZ, 2007; Mocuba SEZ, 1998; Beluluane industrial free zone, 1998; Manga-Mungassa SEZ, 2012; Crusse and Jamali Integrated Tourism Zone, 2013 | Textiles and confection; leather; construction materials, cement and iron; ceramics; assembly; commercial agriculture, aquaculture and agroprocessing; mineral processing; lumber; livestock and dairy products; companies servicing Moza; light manufacturing; heavy manufacturing; aluminium conversion and processing; service industries; packaging and labelling; services such as health, legal and business services, training, stockpiling, clearing and forwarding; value addition; tourism and entertainment | For SEZ developers: Income tax exemption for the first five years; 50 per cent reduction in income tax from the sixth to the tenth year; 25 per cent reduction in the rate of income tax for the remaining life of the project  
For SEZ enterprises: Income tax exemption for the first three years; 50 per cent reduction in income tax from the fourth to the tenth year; a 25 per cent reduction from the eleventh to the fifteenth year.  
For industrial free zone developers and enterprises: Income tax exemption for the first 10 years; 50 per cent reduction in income tax from the eleventh to the fifteenth year; 25 per cent reduction in income tax for the remaining life of the project  
For isolated free zone enterprises: Income tax exemption for the first 10 years; 50 per cent reduction in income tax from the sixth to the tenth year; 25 per cent reduction in income tax for the remaining life of the project |
<table>
<thead>
<tr>
<th>Country</th>
<th>Types of zones</th>
<th>Main zones and year established (if known)</th>
<th>Activities/sectors</th>
<th>Incentive structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namibia</td>
<td>EPZs</td>
<td>Walvis Bay EPZ, 1996</td>
<td>Mining value addition (diamond cutting and polishing operations); textiles and garments; plastic products; automotive parts; fisheries</td>
<td>Exemption from corporate income tax, customs duties and VAT on machinery, equipment and raw materials (10 per cent withholding tax on dividends and personal income tax are still payable) EPZ enterprises are allowed to hold foreign currency accounts at commercial banks and repatriate capital and profits Incentives apply indefinitely or for the lifetime of the approved project</td>
</tr>
<tr>
<td>South Africa</td>
<td>SEZs</td>
<td>Coega industrial development zone, 1999; East London industrial development zone, 2003; Saldanha Bay industrial development zone, 2013; Richards Bay industrial development zone Dube Trade Port industrial development zone, 2014</td>
<td>Agroprocessing; automobiles; outsourcing; chemicals; energy; logistics; metals; pharmaceuticals; information and communications technology and business process outsourcing; renewable energy; logistics; aquaculture; general manufacturing; oil and gas; marine engineering; agroprocessing; aerospace and aviation; agriculture; electronics; clothing and textiles</td>
<td>For industrial free zones: Duty-free import of production-related materials; zero VAT on materials sourced from South Africa; right to sell in South Africa upon payment of normal import duties on finished goods For SEZs: Reduction in corporate tax from 28 per cent to 15 per cent; dedicated internal customs controlled area to expedite customs clearance; VAT exemptions for supplies procured in South Africa; employment tax incentive, subject to requirements; accelerated depreciation allowance on capital equipment and assets</td>
</tr>
<tr>
<td>Country</td>
<td>Types of zones</td>
<td>Main zones and year established (if known)</td>
<td>Activities/sectors</td>
<td>Incentive structure</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>----------------</td>
<td>--------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>EPZs, SEZs</td>
<td>EPZs and SEZs (2002): Millennium Business Park, Hifadhi EPZ, Kisongo EPZ, Kamal Industrial Estate EPZ, BWM SEZ, Global Industrial Park</td>
<td>Textiles and garments; agroprocessing; leather and leather products; fish processing; wood products; agriculture and agro-industry; tourism; commercial forestry; information and communications technology; banking and financial services</td>
<td>For EPZs: Exemption from taxes and duties for capital used in development; exemption from corporate tax for 10 years; exemption from withholding tax on rent, dividends and interest For SEZs: Similar incentives, but no 10-year exemption from corporate taxes</td>
</tr>
<tr>
<td>Zambia</td>
<td>Chambishi MFEZ (2007/2008) Lusaka East MFEZ (2009) Lusaka South MFEZ (2012) Sub-Saharan Gemstone Exchange Industrial Park Roma Industrial Park (2011)</td>
<td>Copper smelting; household appliances; manufacture of bars, wires, electric cables and motor parts; agroprocessing; light manufacturing; provision of services such as conference facilities and hotel accommodation; warehousing and storage; light industry; oil refinery; residential services; gemstone processing; light industries; offices</td>
<td>0 per cent corporate tax for the first five years; 50 per cent for years six to eight; 75 per cent for years nine and 10; For first five years: 0 per cent tax on dividends; 0 per cent import duty on raw materials, capital goods and machinery Deferment of VAT on machinery and equipment for investment in MFEZs</td>
<td></td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>EPZs</td>
<td>EPZs (1996)</td>
<td>Mining; agroprocessing</td>
<td>Tax holiday for the first five years, then 25 per cent corporate tax rather than the normal rate of 35 per cent; duty-free importation of raw materials and capital equipment for EPZs No tax on capital gains from the sale of capital invested; reduced corporation tax of 20 per cent for mining activities; import duty exemption on imported capital goods</td>
</tr>
</tbody>
</table>

Source: Various (see table 1), including country officials, websites and literature review.  
Note: The list is not exhaustive. The missing countries were considered but information on SEZs was not yet available at the time of compilation.
2. Status of special economic zone development by country

2.1 Overview

Driven mainly by the successful experiences of Mauritius and South Africa, several countries in the subregion launched SEZ programmes in the mid-2000s, although most initially focused on industrial parks and EPZs (Hanauer and Morris, 2014). However, with the exception of Mauritius and the partial successes of Lesotho, Madagascar and South Africa, Southern African countries have not developed SEZ programmes at a scale that would attract significant investment, boost trade and create jobs (Frick, Rodríguez-Pose and Wong, 2019). According to a study by Mwansa and others (2020), Mauritius was successful at using SEZs to promote economic transformation and build an industrial economy. Elsewhere, however, even where such zones had some initial success, the quality of employment and investment has often been limited due to the weak sustainability of the zone programmes, political instability, limited spillover effects and poor linkages with the domestic economy. As an example, recent political chaos in Madagascar caused thousands of job losses at SEZs and led to the country’s suspension from the African Growth and Opportunity Act scheme (Nesmashnyi and Nikitina, 2020).

Another possible reason for the failure of most Southern African SEZs could also be poor timing (World Bank, 2019). The success in East Asia was thanks largely to an unprecedented period of globalization, strengthened by the emergence of manufacturing production networks at the global level. Southern African countries, however, launched their zones later and faced more conventional global competition. Farole (2011) contends that the lack of MSME inclusion, inadequate physical and social infrastructure, regulatory uncertainty, policy instability, weak implementation capacity and a lack of institutional coordination have resulted in the limited success of SEZs in the subregion. Based on the evidence from a limited sample of three African countries (Kenya, Rwanda and United Republic of Tanzania), Kweka and te Velde (2020) conclude that the limited impact of SEZs in sub-Saharan Africa emanates mainly from their poor design, and that there is little to no evidence that the zones were integral parts of the countries’ economic transformation road maps.

The question therefore arises as to what determines whether an SEZ in the subregion will be successful. This question can only be answered by looking at basic information on the zones in the subregion, including their age, size and type and the policies and strategies adopted by individual countries. Country-specific information varies significantly depending on the availability of reliable data and existing case studies. Based on the review of the literature and the performance of various countries, the present report indicates the commonly acknowledged success factors for SEZs in the subregion.

Given that Southern African economies are so diverse, with different strengths, the level of SEZ development has varied markedly across the subregion. It would therefore be useful to discuss SEZ dynamics individually for each country. However, given the limited scope of the present study and the limited availability of relevant information, only selected countries are studied.
2.2 Zimbabwe

The Government of Zimbabwe established the country’s first SEZs in 1987 through the Export Processing Zones Act. It managed and administered the zones through the Export Processing Zones Authority. The Government repealed the act in 2016 and passed the Special Economic Zones Act, which introduced SEZs in designated areas within the large cities of Bulawayo, Victoria Falls, Beitbridge, Harare, Mutare and Norton (Karambakuwa and others, 2020). The SEZs in Zimbabwe are of two types: single-sector (having only one type of good or service) and multi-sector (involving two or more types of goods or services). The zones may be publicly or privately owned. Private investors who own and develop land for establishing SEZs must apply to the Government for the zones to be designated. Table 10 shows that the zones are located in six places in Zimbabwe and focus on the industrial, agricultural, mining and services sectors.

Zimbabwe developed SEZ programmes as part of its broader economic recovery policy under the first economic blueprint after hyperinflation (the Short-Term Emergency Recovery Programme). It implemented the policy between 2011 and 2013, deeming the zones to be vital instruments for economic growth. It then developed the Zimbabwe Agenda for Socio-Economic Transformation (2013–2018), which paved the way for the establishment of SEZs in the country. The Zimbabwe National Industrial Development Policy (2019–2023) highlights industrial parks and SEZs as pillars that shape the ongoing phase of industrialization, in which industries can come together, network, create new linkages and develop multi-sectoral synergies. Notably, the Zimbabwe MSME policy (2020–2024) identifies SEZs as a tool that can be leveraged to attract more domestic investment.

Although the country does not have an explicit SEZ policy, it does have the SEZ Act (2016), which guides the development of the zones, including the institutional set-up and the incentives framework applicable to SEZs. The Zimbabwe Special Economic Zones Authority was the institution initially mandated to design, promote and oversee the development of zones in the country. This institution recently merged with the Zimbabwe Investment Authority to form the Zimbabwe Investment and Development Agency, which now oversees SEZs, among other things.

Exporters located in SEZs pay 0 per cent tax on income arising from their exports for the first five years, and 15 per cent thereafter. A special initial depreciation allowance on capital equipment is also allowed, at a rate of 50 per cent of cost in year one and 25 per cent in years two and three. Specialized expatriate workers benefit from zero capital gains tax and a flat-rate income tax of 15 per cent. Investors are also exempt from paying non-resident tax on royalties and dividends, import duties on capital equipment and machinery, and import duties on inputs, including raw materials, provided they are not produced locally. The Government generally requires foreign capital to comprise a majority of the investment in an EPZ-designated company and, as is the case with many countries in the subregion, it requires the company to export at least 80 per cent of its output. It appears that the latter requirement has constrained foreign investment in the zones.

According to Rusare (2015), seven SEZs had been gazetted in Zimbabwe as of 2015. The zones’ main activities are diamond cutting and polishing in Mutare, manufacturing
in Bulawayo, petroleum and information technology in Harare, chemical and gas production in Lupane, tourism in Gwayi-Victoria Falls, agroprocessing in Norton and textile processing in Kadoma.

### 2.3 South Africa

As part of its economic recovery and reconstruction plan, South Africa is using SEZs to drive accelerated manufacturing-led industrialization. The history of SEZs in South Africa dates back to 2000, when the Department of Trade and Industry introduced the Industrial Development Zones Programme through the Manufacturing Development Act of 2000 (Nyakabawo, 2014). The requirement at the time for industrial development zones to be located adjacent to a seaport or international airport (South Africa, Department of Trade and Industry, 2012) proved to be very restrictive, preventing regions with no seaport or international airport from unlocking their industrial potential. Other deficiencies in the design of the programme included a lack of coordinated planning arrangements, insufficient guidance on governance arrangements, the dependence on government funding, a lack of targeted investment promotion measures and inadequate coordination across government agencies (South Africa, Department of Trade and Industry, 2012).

The programme was reviewed and revised in 2007 and became the Special Economic Zones Programme, which is more inclusive of diverse subregional development needs and contexts (South Africa, Department of Trade and Industry, 2012). The new programme was also motivated by new national economic policies, namely, the New Growth Path and the Industrial Policy Action Plan, which outlined the Government’s industrial agenda and critical jobs drivers, prioritized industrial sectors and set out a range of interventions required to accelerate economic growth, create jobs and fight poverty and underdevelopment (South Africa, Department of Trade and Industry, 2018). Developments in the global economy, such as the formation of the BRICS group (Brazil, Russia, India, China and South Africa), additional global competition for FDI and the modest performance of the Industrial Development Zones Programme were other factors that led to the revision.
South Africa is one of the few countries in the subregion that has a specific policy for SEZ development. Following the passing of the Manufacturing Development Act, all industrial development zones became SEZs from 2016 and all new SEZs were established in line with the provisions of the Special Economic Zones Act No. 16 of 2014 (South Africa, Department of Trade and Industry, 2014). When the SEZ regime was governed mainly by industrial development zones, SEZs were located mainly in coastal areas (see table 11). As a result, coastal provinces tended to dominate. For instance, the Eastern Cape and KwaZulu-Natal provinces had two SEZs each, whereas the only inland industrial development zone was the one at O.R. Tambo International Airport. Following policy reforms, more areas began to attract interest for SEZs, resulting in an increase in the number of applications for different locations. Furthermore, the SEZ Programme is supported by a specific and clear policy framework for the development, operation and management of a wide array of SEZs.

In 2012, the Government formulated a policy on the development of SEZs in the country. The policy was engineered to promote balanced industrial development to build the full potential of all regions. In addition, the policy encouraged MSMEs to be part of subregional and global value chains through the provision of technical assistance such as training and information on potential business opportunities. The general objective of the SEZ policy is to accelerate industrial development through domestic and foreign investments and to develop industrial capabilities (South Africa, Department of Trade and Industry, 2012).

Given the longer-term funding constraints, the SEZ Act and draft strategy encouraged the private sector to play an active role in the programme. The act envisages public–private partnerships in the development and operation of the zones. This offers the potential for a number of different models involving: assembly of land parcels with secure title and development rights by the Government for lease to private zone development companies; build-operate-transfer and build-own-operate-transfer approaches to zone infrastructure and facilities, with government guarantees and/ or financial support; and the private management of government-owned zones or the lease of government-owned assets by a private operator. The objective is to leverage capital for infrastructure development, to secure financial and advisory support from third parties, to demonstrate feasibility, and to ensure competitiveness and sustainability (SEZ Advisory Board, 2019).

Between the inception of the Industrial Development Zones Programme in 2002 and 2017/18, the Ministry of Trade and Industry apportioned more than R8.4 billion for infrastructure development in the zones. Project-based financing is used, with an Adjudication Committee assessing each project and making funding decisions based on their merit, in accordance with the committee’s guidelines and industrial-policy imperatives. The Department of Trade and Industry then entered into funding agreements with the operators for each approved project. The large investments in infrastructure development have provided an opportunity for MSMEs and large businesses to grow, thus showing the power of SEZs to drive private-sector development.
### Table 11: Special economic zones established in South Africa

<table>
<thead>
<tr>
<th>Name of SEZ</th>
<th>Province</th>
<th>Year designated</th>
<th>Year permit issued</th>
<th>Main activities/sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coega Development Corporation</td>
<td>Eastern Cape</td>
<td>2001</td>
<td>2007</td>
<td>Agroprocessing; automotive; aquaculture; energy; metals; logistics; business process services</td>
</tr>
<tr>
<td>O.R. Tambo Airport</td>
<td>Gauteng</td>
<td>2002</td>
<td>2010</td>
<td>Light, high-margin, export-oriented manufacturing (precious and semi-precious metals)</td>
</tr>
<tr>
<td>East London</td>
<td>Eastern Cape</td>
<td>2002</td>
<td>2007</td>
<td>Automotive; renewable energy; aquaculture; agroprocessing; manufacturing; information and communications technology and electronics</td>
</tr>
<tr>
<td>Richards Bay</td>
<td>KwaZulu-Natal</td>
<td>2002</td>
<td>2009</td>
<td>Manufacturing and storage of minerals and products</td>
</tr>
<tr>
<td>Saldanha Bay</td>
<td>Western Cape</td>
<td>2013</td>
<td>2013</td>
<td>Oil and gas, maritime manufacturing and repair industries and related support services</td>
</tr>
<tr>
<td>DubeTradePort</td>
<td>KwaZulu-Natal</td>
<td>2016</td>
<td>2017</td>
<td>Logistics and manufacturing infrastructure; airport-related activities, including cargo operations; warehousing; agriculture; commercial real estate</td>
</tr>
<tr>
<td>Maluti-a-Phofung</td>
<td>Free State</td>
<td>2017</td>
<td></td>
<td>General manufacturing</td>
</tr>
<tr>
<td>Musina-Makhado</td>
<td>Limpopo</td>
<td>2017</td>
<td>2018</td>
<td>Light industrial and agroprocessing clusters; metallurgical/mineral beneficiation; petrochemical industries</td>
</tr>
<tr>
<td>Nkomazi</td>
<td>Mpumalanga</td>
<td>2018</td>
<td>..</td>
<td>Agroprocessing; trade hub</td>
</tr>
<tr>
<td>Atlantis</td>
<td>Western Cape</td>
<td>2018</td>
<td>..</td>
<td>Renewable energy/green technology hub</td>
</tr>
<tr>
<td>Wild Coast: Mthatha</td>
<td>Eastern Cape</td>
<td>..</td>
<td>..</td>
<td>Agroprocessing development; tourism hub</td>
</tr>
<tr>
<td>Gauteng Science and High-Tech Hub</td>
<td>Gauteng</td>
<td>..</td>
<td>..</td>
<td>Science and high-tech industries</td>
</tr>
<tr>
<td>Tubatse</td>
<td>Limpopo</td>
<td>..</td>
<td>..</td>
<td>Platinum-group metals beneficiation; mining input supplier park</td>
</tr>
<tr>
<td>Bojanala</td>
<td>North West</td>
<td>..</td>
<td>..</td>
<td>Platinum-group metals beneficiation; mining input supplier park</td>
</tr>
<tr>
<td>Upington</td>
<td>Northern Cape</td>
<td>..</td>
<td>..</td>
<td>Solar manufacturing hub</td>
</tr>
</tbody>
</table>

SEZ development is also pursued in the context of broader national development policies, including:

a) **National Development Plan 2030**: This policy was developed to guide the country’s economic and social situation in order to meet specific targets, such as maintaining fiscal discipline and macroeconomic stability, promoting market competitiveness and reducing unemployment levels. Moreover, one of the economic solutions in this policy was the strengthening of SEZ capacities by focusing on the industrial and mining sectors.

b) **National Industrial Policy Framework**: To tackle industrial development challenges, the Government of South Africa initiated this policy to promote public–private partnership schemes in industrial arenas. The policy has facilitated the development of new industrial hubs and SEZs and strengthened existing ones (including Gauteng, eThekwini-Pietermaritzburg and the Cape Peninsula). The policy has enabled SEZ development in the country to address key economic-policy objectives, including employment, export promotion and industrial knowledge management.

c) **New Growth Path**: This policy was introduced to strengthen public and private investment in infrastructure. The policy recognizes SEZ development as one of the critical tools to achieve the Government’s strategic objectives of industrialization, regional development, job creation and export promotion. The policy has facilitated the development of new SEZs in South Africa, which has improved the country’s industrial competitiveness.

Although the South African SEZ Programme began only in 2014, the new zones have attracted many more investments to the country for a much greater value. The rapid growth of the Coega, East London, Dube Trade Port and Tshwane Automotive SEZs shows the important role that the zones play in South Africa.

2.4 **Zambia**

Most SEZ developers in Zambia are Chinese investors, often linked with Chinese aid to the country. Curran and others (2009) note that China has been involved in multiple aid projects in Zambia since relations between the two countries began in 1967. In 2006, an agreement between the two countries set up an SEZ in Chambishi, in the Copperbelt Province, where the China Nonferrous Metal Mining Group built a copper smelter at the mine with the goal of exporting copper products. Mining operations were halted in 2008 in response to a global dip in metal prices, but subsequent reforms of SEZs have enabled the development of MFEZs as part of the Government’s development and economic transformation strategies. These strategic frameworks include:

a) **Seventh National Development Plan**: This successor to the revised Sixth National Development Plan aims to create a diversified and resilient economy for sustained growth and socioeconomic transformation, driven by agriculture, among other sectors. The plan acknowledges the importance of MFEZs as a key policy for promoting growth and transformation.
b) **Vision 2030:** The vision defines the long-term national strategy to make Zambia a prosperous middle-income country by 2030 through measures such as strengthening the inclusion of MSMEs in the domestic market through MFEZs, thus promoting market competitiveness and a higher standard of living.

c) **Economic Stabilization and Growth Programme:** The programme was introduced to promote fiscal stability in the country, which could send a good signal to the private sector and enable the development of strong business linkages between foreign and domestic firms. At the centre of the programme is the role of MFEZs, which are considered key platforms for achieving such linkages and could enhance technology transfer and industrial capabilities. The programme promotes the integration of MSMEs in the domestic economy as a strategy for increasing the number of domestic players in value chains and strengthening the industrial capabilities of firms.

Table 12 shows some basic data on the development of SEZs in Zambia, of which there are currently six in operation: four MFEZs and two industrial parks. The Government has earmarked six additional areas to be designated as SEZs and it plans to extend them to all provinces. All zones except Lusaka South MFEZ, which opened in 2010, are owned and managed by the State.

Located 10 km south of central Lusaka, the 2,100 ha\(^8\) Lusaka South MFEZ focuses on attracting investment in industry and on commercial and residential buildings, recreational facilities, research and development, and logistics. By March 2015, Lusaka South MFEZ Ltd. had invested about $40 million in the zone, and 11 companies had signed agreements to invest about $120 million. The zone is already operational, with some temporary utility services in place. By its completion, it is expected to create 100,000 jobs and 30,000 housing units. These figures are long-term projections to be achieved over five development phases up to the year 2030.

Table 13 highlights the key features and impacts of SEZs developed in Zambia. Chambishi MFEZ is the largest zone opened so far. Although recent data are not

### Table 12: Status of multi-facility economic zones in Zambia, as of 2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chambishi MFEZ</td>
<td>Operational</td>
</tr>
<tr>
<td>Lusaka South MFEZ</td>
<td>Operational</td>
</tr>
<tr>
<td>Lusaka East MFEZ</td>
<td>Operational</td>
</tr>
<tr>
<td>Roma Park</td>
<td>Operational</td>
</tr>
<tr>
<td>Subsahara Gemstone Exchange Industrial Park</td>
<td>Operational</td>
</tr>
<tr>
<td>Lumwana MFEZ</td>
<td>Operational</td>
</tr>
<tr>
<td>Chibombo MFEZ</td>
<td>Not operational</td>
</tr>
<tr>
<td>Californian Beverages</td>
<td>Not operational</td>
</tr>
</tbody>
</table>

*Source: Zambia Development Agency (2019).*

---

\(^8\) Local and foreign investors had expressed interest in investing in the zone by March 2015 (Lusaka South MFEZ interview).
available, by 2014 the zone had attracted over $1.2 billion in investment from 28 companies and created 8,735 jobs. The total revenue of companies in the zone had reached $7.8 billion by 2013. The zone’s focus is on copper mining and smelting, mining equipment and services, construction vehicles and materials, chemicals, logistics and banking. The zone developer has invested $155 million and only expects to make profits in the long run. In 2014, the Zambia–China Economic and Trade Cooperation Zone invested $19 million in Lusaka East MFEZ and had 10 enterprises that created 125 jobs within the zone. The zone aims to attract investment in the processing and manufacturing industries and the logistics and real-estate sectors. It has invested around $30 million in infrastructure development at Lusaka East MFEZ and has more than 20 enterprises, which have created 300 jobs for the local community (Kasoma, 2019).

Table 13: Summary of special economic zone development in Zambia

<table>
<thead>
<tr>
<th>Name</th>
<th>Size</th>
<th>Focus</th>
<th>Number of jobs</th>
<th>Number of companies</th>
<th>Amount of investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chambishi Multi-Facility Economic Zone</td>
<td>1,158 ha</td>
<td>Copper mining and smelting; construction vehicles and materials; mining equipment and services; chemicals; logistics; banking</td>
<td>8,735</td>
<td>38</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Lusaka East Multi-Facility Economic Zone</td>
<td>570 ha</td>
<td>Agriculture; pharmaceutical manufacturing; construction vehicles and materials; logistics</td>
<td>125</td>
<td>10</td>
<td>$19 million</td>
</tr>
<tr>
<td>Lusaka South Multi-Facility Economic Zone</td>
<td>2,100 ha</td>
<td>Pharmaceutical manufacturing; chemicals; plastics</td>
<td>No data</td>
<td>11</td>
<td>$120 million</td>
</tr>
<tr>
<td>Chembe Multi-Facility Economic Zone</td>
<td>3,462 ha</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Choma Multi-Facility Economic Zone</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Livingston Multi-Facility Economic Zone</td>
<td>No data</td>
<td>Tourism; manufacturing</td>
<td>No data</td>
<td>No data</td>
<td>No data</td>
</tr>
<tr>
<td>Roma Industrial Park (Lusaka)</td>
<td>104 ha</td>
<td>Residential and commercial real estate; warehousing; manufacturing</td>
<td>No data</td>
<td>No data</td>
<td>$54 million</td>
</tr>
<tr>
<td>Subsahara Gemstone Exchange Industrial Park (Ndola)</td>
<td>130 ha</td>
<td>Gemstone and oil processing; construction materials; chemicals; logistics; vocational training</td>
<td>No data</td>
<td>6</td>
<td>$15 million</td>
</tr>
</tbody>
</table>

2.5 Malawi

The EPZ regime was first introduced in Malawi in 1995 to attract export-oriented industries by offering more favourable investment incentives than those in the rest of the manufacturing sector. The Government established the EPZ scheme as part of a deliberate shift from inward to outward, export-oriented industrialization that involved producing goods and services that are competitive in the international market. As shown in table 14, however, the number of export processing firms under the EPZ regime (especially in the textile and apparel sector) has been decreasing. According to statistics, Malawi currently has only 11 export processing firms, down from the 40 initially registered in 1996. In 2011, three more firms opted not to renew their EPZ status after the Government began to levy 30 per cent corporate tax on export processing firms to finance its zero-deficit budget (Malawi, Ministry of Industry and Trade, 2015). This decline raised significant concerns among stakeholders, considering the huge resources spent by the Government in terms of forfeited tax revenue and other costs.

As occurred in several other countries in the subregion, the Government of Malawi promoted zones as part of several policies, strategies and initiatives to support economic transformation. Such policies and strategies include:

a) National Development Strategy (1997–2020): The strategy was launched in 1998 to eradicate poverty through industrialization. The vision target was achieved thanks to the EPZs being strengthened and the development of MSMEs being promoted. This strategy formed the basis of the development of EPZs in Malawi. However, owing to weak implementation capacity, the strategy did not result in the desired outcomes.

b) Malawi Growth and Development Strategy III (2017–2022): This medium-term strategy followed on from the previous two strategies. Its vision is to move Malawi towards becoming a productive, competitive and resilient country by opening up subregional markets and creating opportunities for intraregional trade and industrial development. The policy sets out a framework to revive SEZs in Malawi, focusing on the agricultural and industrial sectors to enhance job creation.

c) Malawi Poverty Reduction Strategy: Launched in 2002, this strategy was designed with the key goal of achieving sustainable poverty reduction through empowerment of the poor. As an integral part of the strategy, several initiatives were formulated to support MSMEs and attract them

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile and apparel</td>
<td>22</td>
<td>8</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Agroprocessing</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Horticulture</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mining</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Exotic leather</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>17</td>
<td>11</td>
<td>13</td>
</tr>
</tbody>
</table>

to EPZs. However, several shortfalls delayed achievement of the goals, in particular with respect to strengthening SEZs. For example, there was weak coordination among ministries, departments and agencies in implementing the private-investment policy to support SEZs in the targeted areas.

Malawian export processing firms are not based in a single designated area, in a typical zone. Instead, investors are allowed to locate their bonded entities anywhere in the country. EPZ licences are valid for five years and may be renewed biennially. The Malawian EPZ programme focuses not only on promoting export diversification to move away from traditional industries such as tobacco, tea, coffee and cotton, but also on attracting FDI, generating foreign exchange, creating employment and developing linkages between industries. EPZ firms generally enjoy the same infrastructure, utilities, employment and environment legislation as those available to non-EPZ firms, so the regime attracts investors mainly through fiscal incentives.

2.6 Namibia

Similar to the cases of Malawi and the United Republic of Tanzania, SEZs in Namibia mainly exist in the form of EPZs and are therefore geared towards promoting exports. The SEZ regime is regulated by the Export Processing Zones Act No. 9 of 1995 and consists both of geographically delineated areas and stand-alone single-factory units.

The zones or industrial parks are developed by the Namibia Industrial Development Agency and the Walvis Bay EPZ Management Company (the only privately owned company of its kind in the subregion). Based on information from the Namibia Investment Centre, the agency has so far developed five multipurpose industrial parks in different parts of the country, including in:

Oshikango, a cross-border zone in the town of Helao-Nafidi, near the northern border, to support and boost cross-border trade with Angola

- the capital city Windhoek
- Ondangwa, in the north
- Katima Mulilo, near the northeastern borders with Botswana, Zambia and Zimbabwe
- Katwitwi, at the Angola–Namibia border in the Kavango region

Several enterprises also obtained EPZ status as single-factory units and operate in areas outside those developed by the Offshore Development Company and the Walvis Bay EPZ Management Company. Owing to the limited nature of the EPZ regime, the Government of Namibia recently (in 2020) decided it would phase it out.

9 Although investors are at liberty to choose any location for their factories, no items may enter or leave the premises without the knowledge of Malawi Revenue Authority.
and replace it with the broader and more modern SEZ regime. The plan is to establish an SEZ project in the coastal city of Walvis Bay.\footnote{10 www.globaltimes.cn/content/1150365.shtml}

2.7 Mauritius

Mauritius became the first African country to establish EPZs when it passed the Export Processing Zones Act of 1970. It did so to try to emulate the successes achieved by India, Singapore, Taiwan Province of China and others (Farole, 2011). The country developed the concept of freeport zones in the early 1990s. Facilities were established at the port and airport under the Freeport Act 1992 (Sanspeur and Chellapermal, 1996), which was later repealed by the Freeport Act 2001, which in turn was repealed by the Freeport Act 2004 (Government of Mauritius, 2004). SEZs existed in the form of EPZs, which were mainly single-factory units and freeport zones. The Freeport Act 2004 designates 19 sites as freeport zones (Government of Mauritius, 2004). These sites are located close to airports and seaports so that they can easily access markets and raw materials through air cargo and shipping. Port Louis has docking and storage facilities for importing and handling large cargos imported via sea.

The Export Processing Zone Act No. 51 of 1970 provided investors in SEZs with several incentives, such as free repatriation of capital and dividends; guarantees against nationalization; duty-free importation of machinery, equipment, spare parts and industrial inputs; a nominal corporate tax of 15 per cent during the company’s lifetime; and tax holidays on corporate profits and dividends (Sacerdoti, 2005).

However, as shown in table 24, the SEZ programme experienced a slow start during the first 10 years, contributing only 21.3 per cent to manufacturing value added. In the following decade, SEZs experienced remarkable expansion thanks to a more stable macroeconomic environment and the effects of several incentives and reforms introduced between 1980 and 1985. These included the establishment of the Mauritius Export Development and Investment Authority in 1984, which promoted Mauritian exports and extended tax holidays from 10 to 20 years, with taxes imposed progressively from the tenth year (Chernoff and Warner, 2002). Incentives also improved during the second decade, with a reduced corporate tax rate of 15 per cent for the life of the company, non-taxation of dividends for 10 years, and infrastructure improvements.

After 1990, there was a fall in employment and investment in SEZs due to increased wages and factory closures. When the Multi-Fibre Arrangement expired, more firms shifted to neighbouring Madagascar and Mozambique in search of low costs and a high supply of labour. Over 60 firms closed during that period. In the late 1990s, however, employment, investment and exports started to grow again, partly due to political instability in the neighbouring countries, which shifted firms back to Mauritius (Kaplinsky and Morris, 2008). Post-2000, SEZ growth has been difficult in Mauritius due to labour shortages, rising labour costs, the abolishment of the Multi-Fibre Arrangement and the emergence of countries such as China in global manufacturing (Tang, 2019).
Nonetheless, Mauritius provided other incentives to SEZ investors, including providing factory buildings and fully serviced land and utilities at subsidized rates. In addition, the country implemented much laxer labour standards for workers at the zones and a lower minimum wage than most other African countries. Furthermore, the Government allocated investment capital by prioritizing a search for market information and favourable interest rates on loans and export bills (Frankel, 2010). Moreover, the availability of skilled and bilingual labour, peace, a stable political and social environment, good infrastructure, an efficient civil service (Sacerdoti, 2005) and diaspora links (Bräutigam, 2005) have provided a unique set of advantages that have attracted not only foreign investors but also local ones. More information on the performance and contributions of SEZs in Mauritius is provided in table 24.

2.8 United Republic of Tanzania

EPZs were first established in the United Republic of Tanzania in 2002 to promote and facilitate export-led industrial development. Subsequently, as part of the Mini-Tiger Plan to accelerate the Tanzanian aspiration of becoming a semi-industrialized economy, the Government enacted the Special Economic Zones Act of 2006 and established a model SEZ called Benjamin William Mkapa SEZ. Although it is designated as an SEZ, the firms that operate in it are EPZs (exporting at least 80 per cent of their output, as per the legal requirement), since the regulatory framework for SEZs is not yet functional. Since it was established in 2006, the Export Processing Zone Authority has gazetted eight zones in the form of industrial and commercial parks (most of which have supporting infrastructure). Half the zones are privately owned and half are government-owned. Only the government-owned Benjamin William Mkapa SEZ is fully developed and operational, with 19 factories (firms), of which six have started production, with 24,413 employees. The rest are in different stages of development.

The strategic role of SEZs in supporting the country’s industrialization is well defined in the Government’s key policy frameworks. These include the Tanzania Development Vision 2025 and the Second Five-Year Development Plan, both of which note that SEZs will be established to spearhead growth and development to achieve middle-income, semi-industrialized status. It is also defined in another key policy framework, the Sustainable Industrial Development Policy (1996–2020), which establishes EPZs as one of the strategic policy instruments for achieving export growth and diversification through trade in manufactured goods. The Second Five-Year Development Plan identified SEZs among a series of flagship projects. The SEZ projects include Bagamoyo SEZ, Mtwara SEZ, Kigoma SEZ, Ruvuma SEZ, Kurasini Trade and Logistics Centre and Dodoma Trade and Logistics Centre (associated with the development of the Central Transport Corridor with a standard-gauge railway line).

In order to operationalize the legal framework for SEZs, new regulations were adopted in 2011 to distinguish between the roles of the zone developer and the zone regulator. The regulations also set forth selection criteria for developing SEZs, with emphasis on economic and social outcomes and guidance on the process of issuing and regulating licences for developing the zones and operating in them. Furthermore, the regulations have encouraged private-sector participation in the development, operation, maintenance and promotion of SEZs through public–private partnerships.
Another important reform relates to the implementation of a one-stop service centre for SEZ investors, which the Government has successfully established in the Benjamin William Mkapa zone. This initiative has significantly streamlined the administrative procedures for zone investors, especially in the areas of licences, taxes, customs, work permits, visas, residence permits and land matters. The average time needed for operators to obtain a licence in the Benjamin William Mkapa zone after meeting all the requirements has decreased considerably: in 2011, it took 2 to 3 months, but by 2015 it took just three days.

The SEZ/EPZ programme is for new (greenfield) investments. This means that an investor cannot convert an existing manufacturing company into an SEZ/EPZ investment. Both EPZ and SEZ investors are required to obtain a licence from the

Table 15: List of currently operational zones in the United Republic of Tanzania

<table>
<thead>
<tr>
<th>Currently operational special economic zones (industrial parks)</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Star City SEZ</td>
<td>Morogoro</td>
</tr>
<tr>
<td>Hifadhi EPZ</td>
<td>Dar-es-Salaam</td>
</tr>
<tr>
<td>Kisongo EPZ</td>
<td>Arusha</td>
</tr>
<tr>
<td>BWM SEZ</td>
<td>Dar-es-Salaam</td>
</tr>
<tr>
<td>Kamal Industrial Estate</td>
<td>Pwani</td>
</tr>
<tr>
<td>Global Industrial Park</td>
<td>Pwani</td>
</tr>
<tr>
<td>Tanga Economic Corridor</td>
<td>Tanga</td>
</tr>
<tr>
<td>Bagamoyo SEZ</td>
<td>Pwani</td>
</tr>
</tbody>
</table>

Source: Economic Processing Zone Authority.

Figure VII: Distribution of special economic zone firms in the United Republic of Tanzania by development status

Source: Author’s compilation based on data from the Economic Processing Zone Authority (2020).
EPZ Authority. Three licence categories are available: developer, operator and service provider. As of 2019, the authority had licensed a cumulative total of 17 SEZs, of which nine were private and eight government-owned. The eight zones listed in table 15 are operational. Three are located in the Pwani Region, in proximity to Dar-es-Salaam, with a port. The six zones other than Benjamin William Mkapa and Hifadhi are at varying degrees of operationalization.

So far, 173 companies have been licensed as SEZ firms or operators under the restrictive EPZ regime. Of these, about 120 are operational, the majority (80 per cent) of which are single-factory units (stand-alone factories). While the latter is allowed under the EPZ law, it is less favourable overall. Figure VII shows the distribution of these companies by development status.

Despite its successful set up as a pilot scheme, the Benjamin William Mkapa SEZ has not been replicated in other zones, mainly because of a lack of financing to develop earmarked land into viable areas for attracting private investment. Given its limited size (28 ha), the Benjamin William Mkapa SEZ is fully occupied, with no space remaining for new investors. The factories operating in existing zones have grown quickly and are looking to expand further. The Tooku Co. Ltd grew from 300 employees in 2009 to 4,000 in 2020. MAZAVA fabrics, a stand-alone EPZ in Morogoro, expanded from 200 employees in 2009 to 2,000 in 2020. The factory, however, is currently shut down due to the impact of COVID-19, which has dramatically affected demand for the products (Wrangler jeans).

Recently, the EPZ Authority has also made progress in licensing more operators in specific zones. As of May 2019, 11 new companies have been licensed for Bagamoyo SEZ, with one fully operational (Africa Dragon Enterprises Limited) and most at various stages of development. More information is required to better present profiles of these zones and the companies operating therein, including the nature of activities, economic contribution, financing scheme (e.g. public–private partnerships or build-operate-transfer schemes) and current implementation status. Even in the absence of detailed information, a general conclusion can be drawn that the progress made so far by the United Republic of Tanzania indicates that there is huge potential for SEZs to play a more dramatic role in the country’s industrialization.

2.9 Madagascar

Following the loss of several international trade privileges after the 2009 coup, Madagascar began rebuilding its economy with the goals of improving the business environment and embracing a private-sector-led growth strategy. To achieve these objectives, the country has announced a new special economic zone (SEZ) strategy, broadly modelled after the schemes used by Mauritius. Our description of the SEZ programme is mainly based on information from the World Bank report *Benchmarking Madagascar’s Free Zone Competitiveness* (World Bank, 2020d).

According to the World Bank report, the Government of Madagascar began drafting legislation on SEZs in 2015 to improve the country’s competitiveness. The Special Economic Zones Act (No. 2017-023) was passed by Parliament in December 2017. The new law also aimed to promote SEZs beyond the current focus on free zones.
 Nonetheless, although the free-zone regime is considered a success story, it has limited the opportunity to leverage SEZs for inclusive development, as has been the case for most countries in the subregion. Firms in the free zones were required to export 95 per cent of their total output. The new (SEZ) regime was introduced to promote economic growth, industrial diversification, job creation, poverty reduction, large-scale economic zones, greater flexibility in export quota requirements and increased value-added production, by taking advantage of modern sectors. In addition, the SEZ regime intended to create a more level playing field for foreign and domestic companies in Madagascar.

The previous free-zone regime had licensed 249 companies as of March 2019. The primary investors in the zones were France (46 per cent of total investment), Mauritius (28 per cent), Madagascar (11 per cent) and Asian countries (7 per cent). Over 60 per cent of firms in the zones were textile factories. There were also a few food-processing plants and information and communications technology companies.

The World Bank programme supported Madagascar in developing the new programme by providing technical assistance (through Locus Economica). The main focus of the programme is the development of the 400 ha Ehoala Park SEZ at Ehoala Port through a public-private partnership arrangement with Rio Tinto. The exact number of SEZs established so far is unknown. The World Bank report showed that only one SEZ project was being proposed, but information from the Madagascar Export Processing Zone Association shows that four SEZs had been established as of 2019. Furthermore, the African Development Bank is currently supporting Madagascar in implementing a project for the development of an agro-industrial processing zone in southwestern Madagascar. This new initiative might be replicated at the national level to ensure greater processing of agricultural products.

2.10 Mozambique

Just like the United Republic of Tanzania, Mozambique operates two zone schemes: SEZs and industrial free zones. The latter are like EPZs, but they only promote manufacturing industries. Investors in industrial free zones are legally required to export at least 70 per cent of total production, whereas SEZ investors may choose their sector of activity and benefit from the domestic and export markets, with different incentives and conditions. The SEZ scheme was established much later (in 2007) than the scheme for industrial free zones. Its main objectives are to support private-sector development, make Mozambique more attractive, diversify exports, support job creation and create pilot areas for innovative policies. The zones are spread all along the vast Mozambican coastline, including in Beluluane (Maputo Province) in the south, Manga-Mungassa (Sofala) and Mocuba (Zambézia) in the centre, and Nacala (Nampula) in the north.

SEZ companies generally benefit from a corporate income tax exemption for the first three years of operation, a 50 per cent reduction from the fourth to the tenth year, and a 25 per cent reduction from the eleventh to the fifteenth year. Companies at SEZs and industrial free zones are exempt from customs duties on imports of construction material, machinery, equipment, accessories, spare parts and other goods essential to the pursuit of the licensed activity. This exemption is extended to value added tax (VAT), including on acquisitions in the internal market and within the zones. Transfers
3. Policy and regulatory environment

SEZ-specific policies and laws are critical factors that influence the outcomes of a zone programme. Enabling policies and legal and regulatory frameworks create an operating environment that is distinct from that of the rest of the economy. Nevertheless, the idea is for the benefits of a successful SEZ programme to eventually reach beyond that environment thanks to inter-firm linkages and spillover effects. In Africa, however, the key issue is that there are few such frameworks, and those that do exist are inadequate.

Table 17 is a summary of information on the existence of policy, legal, regulatory and institutional frameworks governing SEZs in different countries in Southern Africa. As shown in the table, although most countries have enacted specific laws to regulate the functioning of the zones, few countries have a policy specifically for SEZs. Instead, the SEZ policies of most countries are set out within broader economic transformation and industrialization policies. Except in the cases of Madagascar, Mauritius, South Africa and the United Republic of Tanzania, information on the policy, legal and institutional frameworks was either non-existent or difficult to obtain.

---

An SEZ policy is a government document that sets out the country’s broad objectives and strategies for developing special economic zones. It guides zone development and operations in the country from a strategic point of view and identifies statements or components of zone programmes that are critical to their success. Rwanda is a good example of a country that has developed a specific policy on SEZs. This policy underpins the SEZ Act. Together, the policy and the act guide the development of the zones and the operations that take place at them. The overall aim of the policy is to ensure the successful development of current and future zones so that they can contribute significantly to the country’s development goals.

---

Table 16: Key indicators for special economic zones in Mozambique

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of projects approved for special economic zones and industrial free zones</th>
<th>Investment (in millions of United States dollars)</th>
<th>Percentage of total investment</th>
<th>Jobs</th>
<th>Percentage of total jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>12</td>
<td>152</td>
<td>96.1</td>
<td>5,307</td>
<td>86.8</td>
</tr>
<tr>
<td>2010</td>
<td>27</td>
<td>187</td>
<td>90.4</td>
<td>3,114</td>
<td>86.5</td>
</tr>
<tr>
<td>2011</td>
<td>11</td>
<td>281</td>
<td>11.0</td>
<td>5,478</td>
<td>8.3</td>
</tr>
<tr>
<td>2012</td>
<td>28</td>
<td>1,620</td>
<td>65.4</td>
<td>8,868</td>
<td>67.5</td>
</tr>
<tr>
<td>2013</td>
<td>48</td>
<td>374</td>
<td>86.4</td>
<td>3,329</td>
<td>93.5</td>
</tr>
<tr>
<td>2014</td>
<td>14</td>
<td>95</td>
<td>100.0</td>
<td>1,217</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Office for Accelerated Development Economic Zones (GAZEDA).
The policy thrust for developing SEZs differs from one country to another. While some countries in the subregion have fully embraced the potential role of SEZs in spearheading their economic transformation (Mauritius, South Africa, Zambia and Zimbabwe), others (Malawi and United Republic of Tanzania) are still grappling with the transition from the limited EPZ focus to a more flexible SEZ regime. A clear indication that a Government is committed to the zones is if it has a policy or legal framework designed to provide an enabling environment for them to operate in.

Although Malawi changed its legal and regulatory frameworks to support the development of SEZs, in practice, there is nothing special about Malawian SEZs, which offer little to no value to prospective and current zone investors.

The United Republic of Tanzania does have a clear legal framework, but the direction of its policies might send mixed signs to investors, since it promotes both EPZs and SEZs, the only distinction between the two being the tax incentives available. Furthermore, institutional misalignment and overregulation of businesses in the country indicate that the Government is not strongly committed to supporting programmes for the zones.

In Zambia, the legal framework for SEZs is part of a broader law (the Zambia Development Agency Act, 2006), so there is no stand-alone legislation governing the zones. The legislation also addresses other issues not related to MFEZs. Although the act makes the Zambia Development Agency responsible for SEZs, it also confers other functions, unrelated to MFEZs, on the agency. The legal framework for SEZs in Zambia might therefore impose certain limitations on the success of the SEZ regime.

In summary, in addition to the operational and financial challenges that exist, an assessment of the policy, regulatory and institutional environments of SEZs in Southern African countries also shows that the prospects are grim for harnessing SEZs as an epicentre for reform and a policy tool for private-sector development and economic transformation in the subregion.
Table 17: Legal, regulatory and institutional frameworks for special economic zones in Southern Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>SEZ-specific or related policy</th>
<th>Legal and regulatory framework</th>
<th>Institutional framework</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Industrial development policy</td>
<td>SEZ legal regime, Decree No. 6-15, 2015 Presidential Decree No. 50/09 on the creation of the Luanda-Bengo SEZ</td>
<td>SEZ under the Ministry of Economy</td>
</tr>
<tr>
<td>Eswatini</td>
<td>Investment and industrial policies</td>
<td>SEZs Act (2018)</td>
<td>Eswatini Investment Promotion Agency</td>
</tr>
<tr>
<td>Lesotho</td>
<td>Industrial development policy</td>
<td>Work in progress</td>
<td>Lesotho National Development Corporation</td>
</tr>
<tr>
<td>Malawi</td>
<td>Industrialization policy</td>
<td>EPZs Act No. 4 of 1995</td>
<td>SEZs under the Ministry of Industry and Trade</td>
</tr>
<tr>
<td>Mozambique</td>
<td>Investment policy</td>
<td>EPZs Act (2007)</td>
<td>Agency for the Promotion of Investment and Exports, under the Ministry of Industry and Trade</td>
</tr>
<tr>
<td>Namibia</td>
<td>Trade policy (investment promotion framework)</td>
<td>EPZs Act 9 of 1995</td>
<td>EPZs under the Ministry of Industrialization, Trade and SME Development</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Economic reforms and recovery programmes</td>
<td>SEZs Act (2016)</td>
<td>Zimbabwe Investment and Development Agency</td>
</tr>
</tbody>
</table>

Source: Author’s compilation from various sources.
4. Institutional framework and coordination

4.1 Overview

SEZ programmes require extensive regulatory and institutional coordination. The ability of SEZ authorities to address the coordination challenge and harness institutional synergies increasingly depends on how much the central Government prioritizes SEZ development (e.g. the budget it allocates) and what institutional powers and autonomy are granted to the SEZ authority. The efficiency of the agency in terms of the competency of its management and its capacity to deliver are also vital factors, which depend on the amount of human and financial resources allocated for its operations and projects.

Using the United Republic of Tanzania as a case study, Farole and Kweka (2011) provide a detailed analysis of the regulatory and institutional challenges faced when setting up zone programmes, which may affect the efficiency and effectiveness of zones. Key challenges include the conflicting roles that occur when an SEZ authority, a regulator, and an operator report under a line Ministry (usually the Ministry of Industry and Trade), making it difficult for them to act with authority and to coordinate effectively across relevant ministries, departments and agencies.

Based on the literature review, Farole and Kweka (2011) propose four key principles for designing an effective institutional framework for SEZs, namely: clear roles and responsibilities; autonomy and inclusivity; authority and coordination; and resources and capacity. These principles are outlined below.

4.2 Key principles for designing an effective institutional framework for special economic zones

(i) Clear roles and responsibilities

The roles involved in SEZ operations include zone owner, zone developer, zone manager, zone operator/tenant, and zone regulator. Until the 1990s, when most zone programmes were fully government-owned, a single government body usually carried out most of these roles simultaneously. With the growing participation of the private sector in SEZ programmes, this traditional approach increasingly became problematic due to the conflict of interest whereby the Government was responsible for both regulation and promotion. This meant that the Governments were self-regulating, leading to perceptions of bias by the private sector, creating a significant barrier to attracting private investment. Except in South Africa and Mauritius, zone authorities in Southern Africa still act as both regulator and developer.

The best approach is to separate the regulatory role as much as possible from the roles of owner, developer and operator, though an operator may still be a developer or under a contractual agreement with the owner or developer. Separating the roles allows the regulator to remain fully independent from individual zones. As part of this process, it is important for the SEZ policy to clearly outline the specific responsibilities of the different parties shown in table 18. It is important to note that the owner of
an SEZ may or may not also be the developer, and in most cases the developer (government or private) may hold a share of the ownership. In any case, it is important to ensure that the regulatory activity is conducted at arm’s length.

Experiences from other countries provide lessons that are clearly useful. The free-zone programme in Ghana, under the authority of the autonomous Ghana Free Zones Board, is a good example of a programme that clearly separates these roles. The board is responsible for planning, regulating and promoting the free zones, as well as for packaging sites for development (through leases to private developers). Ever since the programme began in 1995, the board has been restricted from involvement in developing and managing the free zones. This is in contrast to the situation in Lesotho, the United Republic of Tanzania, Zambia and Zimbabwe, where the public developer of industrial parks also acts as promoter, regulator and administrator. In Bangladesh, where a single authority is responsible for developing, managing and regulating SEZs, the first privately developed zone languished for eight years pending approval of its operating licence, and since then, the zone has struggled to perform.

In addition to clear roles, an effective institutional framework also requires a clearly defined relationship between the State and companies, as well as measures to capitalize on the strengths of private enterprises. For example, the Government of Ethiopia adopted an interface that is midway between the top-down and the bottom-up approaches, allowing the private sector (demand side) to drive the process. The Government provides facilitative and enabling policy, regulatory and institutional frameworks. It took a long time for consensus to be reached on the first industrial zone in Ethiopia – the Chinese-developed Eastern Industrial Zone – but the pace picked up quickly when the Government realized the strategic importance of putting private enterprise in charge of planning, implementing and operating the zone.

**Table 18: Summary of roles and responsibilities in a typical special economic zone programme**

<table>
<thead>
<tr>
<th>Primary responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
</tr>
<tr>
<td>• Conduct strategic planning.</td>
</tr>
<tr>
<td>• Select site(s) and package land; establish land use guidelines.</td>
</tr>
<tr>
<td>• Conduct initial feasibility studies.</td>
</tr>
<tr>
<td>• Select developer and enter development agreement.</td>
</tr>
<tr>
<td>• Develop offsite infrastructure.</td>
</tr>
<tr>
<td>• Training/workforce development and social services.</td>
</tr>
<tr>
<td>• Regulate and administer the SEZ programme (see below).</td>
</tr>
</tbody>
</table>
Regulator

- Designate special economic zones: Designate public and private land as special economic zones and public or private land owners or their agents as SEZ developers/operators.
- Facilitate government services: Facilitate licensing, permitting and regulatory services within the special economics zones, particularly relating to land use, business licensing, environmental permitting, building permitting, labour regulation (including foreign work permits) and inspections; may also include business registration, utility regulation and dispute resolution. The regulator may set fees commensurate with the cost of service delivery in these areas.
- Monitor compliance: Monitor compliance with the legal framework for special economic zones, including policies, standards and requirements, and enforce compliance through appropriate penalties independently from other public agencies.

Developer

- Land use planning: Create a final land-use master plan and prepare the land accordingly (grading, levelling and other preconstruction activity).
- Provision of infrastructure: Internal road networks, drainage and sewerage, and conduits and infrastructure for utilities. Note that in most cases offsite infrastructure is the responsibility of the government.

Operator

- Facility leasing: Manage lease and rental agreements with investors and assume responsibility for the main services of the zone (e.g. maintenance and security).
- Utilities provision: Ensure provision of onsite utilities (electricity, gas, water, telecommunications) through own provision or via domestic providers.
- Provision of other value added services: May include a wide range of services, such as business and training centres, medical and child care services, transport and recruiting.
- Marketing: Experienced private developers often have a network of multinational clients across a range of industries to which they can market new special economic zone opportunities. Note that the special economic zones authority/regulator and other parts of government (a national or local investment promotion agency) typically carry out some marketing activities.


(ii) Autonomy and inclusivity

Autonomy (or independence) and inclusivity is a principle that ensures that a zone authority has sufficient powers to compel other agencies and institutions to support the zone programme. In the context of African countries, most zone authorities are established and operated as agencies reporting to a line ministry (typically the one responsible for trade and industry). Across the globe, a wide variety of institutional arrangements have been adopted, including government authorities or corporations, departments within specific ministries, zone-specific management boards and (less often) investment promotion agencies. Where the regulatory agency operates as a unit within a line ministry, there is usually no structure for private-sector participation, which also makes cross-ministerial coordination problematic.
The best practice is to establish the regulator as an autonomous agency (as is the case in the United Republic of Tanzania) under a board of directors that includes both public- and private-sector members. Some of these government agencies have become corporate entities, primarily to enable them to operate without some of the civil service restrictions that can hinder their effectiveness (e.g. in terms of recruiting, hiring, compensating staff and managing budgets).

Although under such arrangements the SEZ authority is governed by a board, its composition determines its inclusivity in terms of ensuring adequate representation of the private sector. For instance, under the current institutional arrangement, the governance structure of the Economic Processing Zones Authority in the United Republic of Tanzania allows for limited private-sector membership. Best practices indicate that a regulator is most effective when its board reports to the highest possible level of government, such as the presidency or the prime minister’s office, rather than a line ministry. In Ethiopia, Kenya, Mauritius and Senegal, for example, SEZ regulators report directly to the highest authority (the president or prime minister). Such a structure also ensures that the regulator has sufficient authority to coordinate actions across other ministries, departments and agencies. It is important, however, to ensure that the central authority does not end up micromanaging the programme or undervaluing its urgency, given the range of other pressing issues of national interest.

(iii) Authority and coordination

Cross-agency coordination is important for marketing and promoting SEZs. In most countries, marketing and promotion is mainly the responsibility of the zone authority, while a separate national investment promotion authority performs the same roles for the country as a whole. Both institutions typically operate as autonomous agencies, often with both reporting to the same ministry.

Except in the case of large SEZ programmes, building internal capacities to deliver all the regulatory and administrative functions required from the SEZ authority would be an inefficient and expensive approach. One way to address this problem would be for the SEZ authority to oversee operations, providing guidance to other ministries, departments and agencies responsible for implementing the regulatory functions. Under this coordinated approach, some staff members from each relevant agency would normally be based at the SEZ authority one-stop shop. To make such arrangements effective, a memorandum of understanding would be reached with all agencies on how staff would be deployed and who would be responsible for each task.

Such a programme was put in place in Lesotho a year after the initial launch of its one-stop shop, after management found they were unable to deliver effectively on their mandate due to a lack of any day-to-day management control over the staff from the various agencies. This is another reason why placing the zone authority under a central government ministry is generally a more effective institutional approach. Regardless of the institutional arrangements, maintaining good relations with other government ministries, departments and agencies is crucial to ensure that an SEZ authority delivers effectively on its mandate. In Ghana, for example, the Chief Executive Officer of the Ghana Investment Promotion Centre and the head of the
Export Promotion Council are both non-voting members of the Ghana Free Zones Board, and both bodies are core stakeholders in the Ghana Gateway project, a key pillar in the country’s strategy to promote export-oriented investment.

(iv) Resources and capacity

To ensure that a zone regulator is effective, the Government needs to give the zone authority enough competent human resources and enough funding. In some countries in the subregion, such as the United Republic of Tanzania, budgets for SEZ authorities are allocated from a line ministry’s resources. This means that the funding of the SEZ authority is insufficient and unpredictable, often because attention is given to other issues of national or political interest. For instance, during its early years, the Export Processing Zones Authority in the United Republic of Tanzania operated with bare minimum staff levels, which prevented it from properly promoting the EPZ programme, including the setting up of a one-stop shop, which significantly affected the experiences of the first wave of EPZ investors.

The best practice is to link the budget to revenues earned through the zone programmes. Although the zones can be important revenue sources, they usually do not generate enough to fully cover an authority's budget. Furthermore, expectations of self-sufficiency can lead to excessive administrative charges, which deter investors. In Ghana, for instance, investors complain that they must pay the zone authority $50 for a permit every time they import a consignment. The best practice, as implemented for example in China, is to set up a formula to determine the annual budget, including giving the authority a share of taxes generated in the zone, thus providing an incentive for zones not to compete on tax holidays.

Finally, one of the most critical and underappreciated roles of zone authorities is that they monitor and evaluate the performance of zones across a wide range of outcome indicators. This role links back to the overall strategy and objectives of the SEZ programme and should shape decisions on investment in the programme. The SEZ authority should ensure there are mechanisms in place to collect the necessary data to monitor progress against these measures on an ongoing basis. In the Dominican Republic, for example, an important task for the regulator, in addition to evaluating performance, promoting investment and providing customer services, is to compile and disseminate statistics related to the free-zone programme. Critically, these results should provide inputs to a regular policy dialogue with the Government and the private sector regarding the strategic development of the zone programmes.

5. Strengths, weaknesses, opportunities and challenges of special economic zone programmes

5.1 Assessment

Although Africa has a long history of developing SEZ and EPZ programmes, the conclusions reached in most assessments have generally not been optimistic, with recommendations centred on the need to learn from best practices without weighing up weaknesses and strengths. On that basis, the present study contains an analysis of the strengths, weaknesses, opportunities and challenges of the SEZ programmes in
Southern Africa based on the mainly qualitative and anecdotal information available. The assessment is reported in table 19, which also indicates the level of importance (high, medium or low) of each item in determining the success of SEZ programmes.

The main strengths of the SEZ programmes are: zone programmes have been successfully integrated into countries’ broader development-policy frameworks; all countries provide some fiscal and non-fiscal incentives to attract investors; and most SEZs are located in economically advantaged areas. The major weaknesses are that policy uncertainty is common and SEZ monitoring and evaluation frameworks are absent or inadequate. Various government departments need to work in unison to provide feedback on the progress made in facilitating private investment and industrialization. Thus, from an analysis of strengths, weaknesses, opportunities and challenges, it can be interpreted that the identification of SEZs as a policy lever for private-sector development and industrialization in the subregion is appropriate despite the many challenges facing the programmes. For instance, although availability of land is a core strength, heavy investment and improvements in land ownership rights are needed to create viable investment options for the private sector.

Some key opportunities for SEZ programmes in Southern Africa include the subregion’s high growth trajectory, its comparative advantages (especially natural resource endowments) and a sizeable middle class. In addition, further opportunities will emerge as regional integration increases with the implementation of the Agreement Establishing the African Continental Free Trade Area and the tripartite free trade arrangement between SADC, the East Africa Community and COMESA.

The nature of the challenges will determine the future of SEZ programmes. There is a need to prevent identified risks and optimize the advantages provided by the available opportunities (e.g. growth of exports and deeper regional integration). The main challenges identified fall into three key areas: an unfavourable business environment, inadequate infrastructure, and weak capacity to facilitate development of the zones.

Table 19: Assessment of the strengths, weaknesses, opportunities and challenges for the development of special economic zones in Southern Africa

<table>
<thead>
<tr>
<th>Item</th>
<th>Recommendations</th>
<th>Importance (high/medium/low)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good locations to service different projects in the subregion, close to large cities, which provide natural markets, or in coastal areas, which provide access to the sea</td>
<td>Prioritize a few of the most attractive locations to increase momentum, rather than multiple locations.</td>
<td>High</td>
</tr>
<tr>
<td>A range of incentives to attract private investors, including fast-tracked approvals, tax incentives and exemption from duties/fees (all countries)</td>
<td>Since fiscal incentives are not the main magnets for private investment, combine or replace them with investment in non-fiscal incentives, such as the business and infrastructure amenities that are most attractive to serious investors.</td>
<td>Medium</td>
</tr>
<tr>
<td>Item</td>
<td>Recommendations</td>
<td>Importance (high/medium/low)</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Strong support for the zones as part of broader government policies and plans (in most countries, but most efficiently in Mauritius, South Africa and Zimbabwe) for enhancing competitiveness, and support for local manufacturing</td>
<td>Match policy aspirations with a real time, high-level government commitment to leveraging the zones as a tool for development.</td>
<td>Medium</td>
</tr>
<tr>
<td>Weaknesses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of effective monitoring and evaluation in most of the zone programmes</td>
<td>Make monitoring and evaluation participatory by providing investors with performance targets aligned with incentives.</td>
<td>High</td>
</tr>
<tr>
<td>Policy uncertainty and weak government commitment to promoting the zones and private investment, for instance in Malawi, Namibia and the United Republic of Tanzania</td>
<td>Embrace a special economic zones regime, which provides more power than an economic processing zones regime to support economic transformation; this should be explicitly articulated in the policy and regulations as the fundamental guide for attracting private investment in the zone programmes.</td>
<td>High</td>
</tr>
<tr>
<td>Low prioritization of the zones in resource-constrained environments (as is the case for the United Republic of Tanzania)</td>
<td>Select a demonstration zone and provide an environment for growth and expansion by private investors.</td>
<td>High</td>
</tr>
<tr>
<td>Weak autonomy of the zone authorities, except in Mauritius</td>
<td>Place the zone authorities under the presidency or the prime minister’s office and provide interministerial autonomy; create a public–private committee to address emerging issues.</td>
<td>High</td>
</tr>
<tr>
<td>Opportunities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expansion of networks through subregional integration thanks to the promotion of transnational, cross-border and border development zones</td>
<td>Transform transit into development corridors, given that border and transnational special economic zones are so relevant in Southern Africa, with its mix of coastal and landlocked countries.</td>
<td>High</td>
</tr>
<tr>
<td>Growth of exports</td>
<td>Incorporate export markets and the growing domestic markets into marketing strategies to attract investors, but with the emphasis on special economic zones, not economic processing zones.</td>
<td>Medium</td>
</tr>
<tr>
<td>Higher income per capita (and therefore higher effective demand)</td>
<td>See above.</td>
<td>Medium</td>
</tr>
<tr>
<td>Mobility of factors of production (technology transfer within the subregion)</td>
<td>Deepen subregional integration and cooperation in promoting the zones; relax immigration restrictions and caps on hiring foreign experts.</td>
<td>Low</td>
</tr>
<tr>
<td>Challenges</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal, regulatory and institutional frameworks (e.g. in Malawi, Mozambique and Zambia)</td>
<td>Learn from global best practices by reviewing these frameworks and enhancing the special nature of this type of zone to ensure that it enables, rather than deters, private investment.</td>
<td>High</td>
</tr>
<tr>
<td>Item</td>
<td>Recommendations</td>
<td>Importance (high/medium/low)</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------</td>
</tr>
<tr>
<td>Poor business environment (Madagascar, Malawi, Mozambique United Republic of Tanzania and Zimbabwe are the lowest scoring Southern African countries in the World Bank ease of doing business ranking)</td>
<td>Devise pragmatic solutions, including listening to prevailing and prospective investors.</td>
<td>Medium</td>
</tr>
<tr>
<td>Lack of strategic planning and lack of a demand-driven approach in all countries except Mauritius and South Africa</td>
<td>Ensure that Governments establish the zones with a strategic view of self-sustenance and a clear-cut, commercially focused governance system.</td>
<td>High</td>
</tr>
<tr>
<td>Inadequate infrastructure, except in Mauritius and South Africa</td>
<td>Find innovative financing solutions, including promoting real-estate companies to provide basic infrastructure; recoup from rents.</td>
<td>High</td>
</tr>
<tr>
<td>Low capacity for management and operational know-how, except in Mauritius and South Africa</td>
<td>Hire global experts in the initial planning and set-up stages, including the use of investment and marketing agencies to promote the development of the zones.</td>
<td>Low</td>
</tr>
<tr>
<td>Land issues (property rights and resettlement issues), except in Mauritius and South Africa</td>
<td>Review land policy and regulation to create property rights that are specific to special economic zones, including derivative rights and long-term leasing.</td>
<td>Medium</td>
</tr>
</tbody>
</table>

**Source:** Author’s compilation based on the literature review and country official information.

### 5.2 Policy constraints and recommended priority reforms by country

Countries in the subregion face different challenges in developing fully fledged SEZ programmes and harnessing their full potential. While some challenges are common across almost all countries (e.g. land, infrastructure and capacity constraints), some are more country-specific. One of the common strengths across all countries in the subregion is that they have embraced SEZs as an effective tool to support economic transformation that aligns with their broader development agendas. Several countries, however, are still stuck in the transition from the traditional EPZ regime to a more flexible and modern SEZ regime. Going forward, countries looking to effectively implement their programmes for the zones will generally need to take certain policy actions to address key bottlenecks. Based on the foregoing discussion and the analysis of strengths, weaknesses, opportunities and challenges, priority policy actions for selected Southern African countries are shown in table 20.

Although some bottlenecks are country-specific, prioritized actions are not necessarily exclusive to a particular country, but reflect the relative emphasis on how critical the action is compared with other challenges either in the same country or in other countries in the subregion.

Zambia, for example, has taken great steps to give more room for its zones to be developed and operated by the private sector (Chinese investors) in partnership with
the Government, but power and water shortages hold back the potential of SEZs (especially the Lusaka East SEZ) to have a transformative impact. Mauritius has had great success in leveraging its zones to transform the economy, but the future of its zones will depend on actions taken to address the imminent loss of competitiveness due to rising wages, including the need to move to higher innovation and knowledge-intensive products. South Africa needs to fix governance issues in its institutional framework. The United Republic of Tanzania needs to consolidate its programme by moving from having two schemes (EPZs and SEZs) to an overarching scheme (SEZ regime), and it needs to address the prevailing business environment challenges. Malawi cannot leverage agglomeration benefits or even demonstrate the functionality of the SEZ concept because of its unusual SEZ programme, with single-factory stand-alone EPZs rather than geographically delimited zones. Lastly, except in Mauritius and South Africa, SEZ programmes across the subregion face different infrastructure and capacity challenges, most of which are a result of a failure to sufficiently leverage private-sector financing.

Given the diverse nature of the programmes in the subregion, with SEZs at various degrees of development, the likelihood of countries being able to leverage their zones to support private-sector development and economic transformation are largely contingent on the policy measures they adopt and the commitments they make. The measures listed in table 20 are a preliminary attempt to enhance prioritization, but in-country consultations with public- and private-sector SEZ stakeholders are needed to reaffirm specific reforms and to decide on the needs that should be supported going forward. Furthermore, the diversity and differences in the development of the zones provide a useful opportunity for countries to learn from each other.

5.3 Good practices for special economic zone programmes in the subregion: the case of South Africa

With the exception of Mauritius, which has harnessed the power of SEZs to promote industrialization, diversification and private-sector development, South Africa is the country with the best SEZ practices. Some of the practices that other countries could emulate are described below.

Although most countries have put in place either all the essential elements of an SEZ programme (i.e. policy, regulatory and institutional frameworks) or a mixture of some of them, strategic aspects are often underdeveloped or receive relatively little attention. South Africa has moved from an EPZ scheme to an SEZ scheme while ensuring that SEZs are aligned with the country’s comparative advantages in order to strengthen its competitive advantages.

The zones in South Africa are anchored in key priority industries, including the automotive, mining, oil and gas, precious metals, renewable energy, and light and medium manufacturing sectors. This is in contrast with most other Southern Africa countries, where the zones are designed and operate in a way that does not fully exploit comparative advantages (including strategic economic sectors). Furthermore, South African zones are developed and managed in a way that gives both the public and private sector clear roles in developing and operating the zones, including through the financing of key infrastructure. Nevertheless, South Africa limits firms’ use of the
zones’ assets as collateral for financing. Other countries in the subregion take minimal risks in financing development of their zones.

South Africa has the right infrastructure and fiscal incentives to attract investment, but most countries in the subregion struggle to improve the business environment for their SEZs, since they are unable to provide a reliable supply of power, water or off-site infrastructure, among other needs. In Zambia, for instance, despite successful reforms to establish modern SEZs, the zones (such as the Lusaka East MFEZ) cannot be considered world-class facilities owing to unreliable electricity and water supplies.

Lastly, South Africa has strategically designated SEZ areas to fully leverage location advantages, thus giving investors a more attractive market value. For instance, to ensure access to domestic, subregional and international markets, the Dube TradeZone and Coega SEZs are located in geographically advantageous areas that are well connected to national and international markets, including through rail connections and good access to major road networks, ports and international airports. Furthermore, the zones are relatively well integrated into urban areas, allowing close collaboration with key stakeholders and easy access to labour.

Table 20: Priority policy reforms for the effective development of special economic zones in Southern Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Priority policy actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>Reform the incentive framework to provide substantially better-value propositions and a greater degree of special treatment to investors; adopt a more holistic approach by designating geographically delimited areas to attract private investors to the zones, with less emphasis on single factories.</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Address the loss of competitiveness due to wage increases by gearing new zones towards innovation and knowledge clusters for high value-added products.</td>
</tr>
<tr>
<td>Namibia</td>
<td>Complete the transition from economic processing zones to special economic zones and promote the northern border areas as cross-border zones (border economic zones) to support subregional cross-border trade.</td>
</tr>
<tr>
<td>South Africa</td>
<td>Accelerate the institutional and governance reforms needed to complete the transition from industrial development zones to special economic zones.</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>Consolidate the economic processing zone and special economic zone schemes into one overarching special economic zone arrangement (including industrial parks); explore the potential for public–private partnerships to address financing and capacity constraints; tackle the business environment challenges that are a burden to current investors.</td>
</tr>
<tr>
<td>Zambia</td>
<td>Delineate the specific legal and institutional frameworks for supporting development of the zones; improve basic infrastructure, especially to address the power and water shortages at the Lusaka East Multi-Facility Economic Zone.</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Improve the macroeconomic environment and solicit technical assistance to review and prepare a country strategy (road map) to enhance the implementation of frameworks; address the impending challenge of land availability.</td>
</tr>
<tr>
<td>All countries</td>
<td>Promote sharing experiences and learning from success stories; leverage private sources to finance development of the zones and infrastructure; encourage private-sector ownership; prioritize a small number of viable zones that are attractive to investors and commit substantial funds to developing infrastructure.</td>
</tr>
</tbody>
</table>

Source: Author’s compilation based on the analysis of the strengths, weaknesses, opportunities and challenges of special economic zone programmes in Southern Africa.
Chapter V: Role of special economic zones as catalysts for private-sector development

The present chapter contains an assessment of how Southern African countries have leveraged SEZs as catalysts for private-sector development. The focus is on the benefits that the zones offer as nests for attracting private investment and the impact of the zones on private-sector development, especially through the growth of MSMEs, spillover effects and linkages between firms in the zones and the rest of the domestic economy. It also highlights the zones’ potential for promoting subregional integration and harnessing mutually beneficial partnerships.

1. Overview: expectations versus realities

Developing countries are promoting SEZs as nests for attracting private (especially foreign) investment, thereby helping to grow and expand the private-sector’s contribution to the economy. This focus on the private sector is primarily because the private sector is the main driver of economic growth. The Economic Commission for Africa (2017a) found that the private sector contributes a significant share (over 35 per cent) to economic growth in Southern Africa. It is estimated that the Southern African bloc has established more than 115 SEZs (Dube, Matsika and Chiwunze, 2020), which account for approximately 4 per cent of all such zones in the world. In this context, the subregion can use its zones as a platform to promote the domestic private sector, including by stepping up MSME involvement in developing the zones.

However, despite the noble role of the zones in promoting private-sector development, the realities on the ground are generally less encouraging. SEZs in the subregion have shown little evidence of promoting diversification, technological innovation or structural transformation beyond the limited focus on export promotion (in the case of EPZs), thus compromising the expected spillover and agglomeration effects on the respective economies. Indeed, some studies (e.g. Karambakuwa and others, 2020) have concluded that, outside Mauritius and South Africa, the zones in Southern African have had little success in fostering private-sector development.

From the literature review, it appears that the zones in Southern Africa have historically not promoted private-sector participation because, unlike in countries in other parts of the world with successful zones, almost all the ones in Southern Africa are entirely owned (and operated) by the Government (see Karambakuwa and others, 2020), and therefore have a high risk of failure. Although most EPZ laws in Southern Africa are friendly to the private sector, much still needs to be done to promote private-sector participation in developing the zones. One way to do this would be to further promote public–private partnership and joint-venture arrangements between the Government and private investors, including domestic and foreign entities. For instance, developers from China are already constructing SEZs in Africa, such as MFEZs in Zambia (Zeng, 2016) and industrial parks in Ethiopia.
Drawing on insights obtained from the literature, table 21 lists the key factors for success and summarizes country experiences in harnessing SEZs as a policy tool to promote private-sector development in the subregion. The table shows that Mauritius, South Africa and, more recently, Zambia have made significant strides in embracing key elements of success in their initial stages of building a strong private sector through SEZs; other countries lag behind. Relatively developed economies like Mauritius and South Africa have also undertaken reforms to improve the global competitiveness and sustainability of the zones, including through the promotion of knowledge and innovation products and environmental mainstreaming. Whereas several countries, such as Lesotho, Mozambique and the United Republic of Tanzania, are still stuck in the transition from EPZ schemes to a more comprehensive SEZ regime.

Table 21: Country experiences in harnessing special economic zones for private-sector development in the subregion

<table>
<thead>
<tr>
<th>Factor for success</th>
<th>Country experiences</th>
<th>Good practice</th>
<th>Not so good practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development and ownership</td>
<td>This factor is a serious setback for the development of special economic zones in Southern Africa, where countries are apprehensive and too cautious in allowing the private sector to lead the development of the zones. This occurs mainly because the zones are considered a strategic policy tool with potential for market failures, and because of sentimental concerns about letting land go to foreigners. Nevertheless, as has occurred in other successful countries, the Government is often the prime mover in making these zones attractive to investors, such that the envisioned public investments should be supported by public ownership. South Africa and Mauritius have leveraged many private-sector entities as leaders in developing its zones, which has been a successful strategy. Recently, Zambia partnered with Chinese investors to reform special economic zone development and operations by making the zones collaborative ventures involving the private sector.</td>
<td>Mauritius and South Africa</td>
<td>Almost all countries</td>
</tr>
<tr>
<td>Policy and regulatory reforms</td>
<td>Malawi, South Africa and Zimbabwe have led the way in reforming their legislation on economic processing zones to enable a transition to special economic zones. Other countries, such as the United Republic of Tanzania, are still aloof from this transition, with the Government promoting both types of zones and having an unclear incentive framework that is confusing to investors. In 2016, Zimbabwe repealed its almost three decades-old Economic Processing Zones Act and replaced it with the Special Economic Zones Act. Similarly, South Africa transitioned from industrial development zones to special economic zones in 2007.</td>
<td>Malawi, Mauritius, South Africa, Zambia and Zimbabwe</td>
<td>United Republic of Tanzania</td>
</tr>
<tr>
<td>Factor for success</td>
<td>Country experiences</td>
<td>Good practice</td>
<td>Not so good practice</td>
</tr>
<tr>
<td>--------------------</td>
<td>---------------------</td>
<td>--------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Location, infrastructure and amenities</td>
<td>Special economic zones have failed in Southern Africa, among other reasons, because of a lack of suitable infrastructure and amenities (Zeng, 2016). Malawi does not have delineated geographical areas (Karambakuwa and others, 2020). Most countries have zones located near the coast or in major towns, but the Governments need to adopt a more targeted approach, rather than spreading the zones too thinly. For instance, Mozambique has free zones spread all the way along its vast coastline, and the United Republic of Tanzania would like to establish SEZs in all of its regions.</td>
<td>Mauritius and South Africa</td>
<td>Mozambique and United Republic of Tanzania</td>
</tr>
<tr>
<td>Financing options</td>
<td>Apart from Zambia, Southern African countries rely solely on government funding (including, to an extent, donors) to develop special economic zones. This poses a challenge, given that public resources are so limited and substantial financial resources are required to effectively implement the zones. The literature (see Tyson, 2018) identifies some innovative financing options that Governments could consider to develop special economic zones. More varied and larger-scale private finance models are needed, for which access to capital markets and venture capital will be required, and further technical capacity-building will be necessary to support host Governments in developing and implementing such financing models.</td>
<td>Mauritius, South Africa and Zambia</td>
<td>Almost all countries</td>
</tr>
<tr>
<td>Governance structure</td>
<td>According to Farole and Moberg (2014), investors in special economic zones in Africa face governance and administrative hurdles that emanate from inadequate funding and weak capacity, as well as the issues associated with the conflicting roles of being both a developer and a regulator (Lesotho and United Republic of Tanzania).</td>
<td>Mauritius, South Africa and, recently, Zambia</td>
<td>Lesotho and United Republic of Tanzania</td>
</tr>
<tr>
<td>Policy focus/goal clarity</td>
<td>Southern African special economic zones fail to attain most targets, although their policies and strategies do mention specific goals. According to Karambakuwa and others (2020), the challenge is not so much how to design the zones as how to operate them. Malawi, Mozambique and Zimbabwe focus mainly on export promotion, whereas South Africa focuses on far-reaching economic transformation.</td>
<td>Mauritius and South Africa</td>
<td>Malawi, Mozambique, United Republic of Tanzania and Zimbabwe</td>
</tr>
<tr>
<td>Potential for other types of SEZs</td>
<td>According to Karambakuwa and others (2020), the most viable types of special economic zones, other than national ones, are transnational zones (or border special economic zones), given the transport development corridors that link coastal countries to landlocked countries and the bourgeoning border townships. However, only Namibia and South Africa appear to have embraced the idea.</td>
<td>Namibia and South Africa (border SEZs)</td>
<td>Almost all countries</td>
</tr>
</tbody>
</table>

**Source:** Literature review.
As noted earlier, although assessment of the efficacy of SEZs as tools for private-sector development is limited by the lack of available data, it is important to underscore the broad channels through which the zones could typically facilitate private-sector development in a developing subregion such as Southern Africa.

The first, and perhaps most fundamental, channel is the consideration of the zones as nests for attracting private investment (both local and FDI) that would otherwise not be forthcoming owing to the structural shortcomings in the economy and the infancy of the private sector. Section 5.2 contains details on the level of investment and other outcomes and benefits, such as exports and jobs, that SEZs have attracted in different countries. Governments can use the zones as a learning ground to improve their business environments and investment climates, which would encourage enterprises to grow their businesses or motivate new investments thanks to the lower perceived investment risks.

The second channel is through support for the MSME sector, which may take place in one of two ways. First, there can be a deliberate strategy to provide these enterprises with spaces in SEZs. This means that the zones address the workspace challenges of most MSMEs and allow them to benefit from the agglomeration effects of being located near large or foreign firms. More specifically, nurturing firm linkages among enterprises inside and outside the zones and between large and foreign firms on the one hand and small and domestic ones on the other could enhance the impacts of the zones on private-sector development. Most African countries, however, including those in the subregion, have failed to achieve these objectives, mainly owing to the weak designs of the zones and a limited policy focus (see Kweka and te Velde, 2020). Some countries have not realized that they can leverage the flexibility of SEZs to exploit both domestic and export markets, thereby enhancing linkages with the domestic economy.

Related to the above, the third channel is the role of SEZs in facilitating trade and access to markets. That is how most East Asian countries managed to grow quickly. They expanded from domestic to regional and global markets, which benefited domestic producers and led to high value-addition activities, higher incomes, more jobs and increased productivity. However, if a country develops SEZs as enclaves only for export markets, it is likely to miss the broader economies to be gained through agglomeration. In the future, the promotion of border SEZs is also likely to strengthen access to subregional, regional and international markets.

The fourth channel is through a sectoral and thematic focus, with the zones geared towards unlocking opportunities for the private sector in particular sectors, often in agriculture (with the development of agro-industrial parks in recent years) and tourism. Theme-specific zones include science and technology parks, eco-zones, freeport zones and border SEZs (transnational SEZs). These types of zones give the private sector access to technology and innovation, the opportunity to adopt cleaner technologies for green industrialization, efficient gateways to global markets and to supply chains through trade facilitation, and deeper subregional integration and cooperation.
The fifth and final channel is through the additional productivity, competitiveness and economic growth that they generate. The zones are considered epicentres of business environment reforms to catalyse sustainable economic growth. For instance, the effects of technology and skills transfers could significantly contribute to raising overall economic productivity (see McMillan and Rodrik, 2019). The special managerial and technical talent that investors bring from around the world into host countries can spur the growth of domestic enterprises and enhance human capital.

These channels are not mutually exclusive and, more important, some are more direct than others. Understanding estimates of the zones’ impacts on private-sector development would require further research, including interviews with foreign and domestic investors who invest in those zones. Finally, it should be emphasized that the effect of the zones on private-sector development is a process that could take some time to fully materialize. Some countries spent two decades developing SEZs before they achieved a vibrant private sector. More important, achieving such outcomes requires a significant role by Governments.

Table 22 contains a summary of how the zones contribute to economic and private-sector development from a general and global perspective. It shows that some of the contributions and benefits are direct while others are indirect. Performing country-level assessments therefore seems to be a more reliable approach to gauge the zones’ impacts on private-sector development. Nonetheless, promoting the important role of the zones in private-sector development does not limit or undermine the critical role of Governments. Table 23 provides examples of best practices for Governments.

Lastly, for analytical purposes, an interesting question is why Governments should use SEZs to develop the private sector. This is an important question, since in most African countries, especially those with a weak/nascent private sector, Governments opted to develop the zones on their own, with limited private-sector participation.

<table>
<thead>
<tr>
<th>Table 22: Overall contribution of special economic zones to economic and private-sector development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct benefits</td>
</tr>
<tr>
<td>Employment generation</td>
</tr>
<tr>
<td>Foreign exchange earnings</td>
</tr>
<tr>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>Government revenue</td>
</tr>
<tr>
<td>Export growth</td>
</tr>
<tr>
<td>Skills upgrading</td>
</tr>
<tr>
<td>Testing ground for wider economic reform and demonstration of the effects</td>
</tr>
<tr>
<td>Technology transfer and adoption of modern management practice</td>
</tr>
<tr>
<td>Export diversification</td>
</tr>
<tr>
<td>Enhancement of domestic firms’ trade efficiency</td>
</tr>
<tr>
<td>Cluster facilitation</td>
</tr>
<tr>
<td>Urban and regional development, including green growth</td>
</tr>
</tbody>
</table>

Source: Adapted from table 2 in Zeng (2016).
Based on insights from the literature review and expert knowledge, the following broad reasons explain why SEZs can be used to promote private-sector development.

First, they make it relatively easy to formulate and implement investment reforms. As evident in a number of the countries (especially Mauritius and South Africa), SEZs provide a conducive environment to develop implementable investment policies that are the cornerstone for attracting foreign and domestic investment to support private-sector development. In the literature, Mauritius is highlighted as an example to follow in terms of using the zones to boost private-sector development by implementing favourable investment and business environment reforms.

Second, they are inexpensive to set up and generate high productivity and economies of scale. A significant rationale for creating the zones is that they cost less than creating industrial infrastructure for the entire economy. Capital expenditures for developing the zones are often limited to basic off-site and on-site infrastructure. Additional costs, mostly borne by the private development firms, are normally incurred gradually as each zone attracts more investors (Thompson, 2019).

Third, they enhance industrial competitiveness. The zones remain an essential part of a country’s competitive investment promotion package, providing linkages between domestic and foreign firms. For instance, strong SEZ development policies in Mauritius reportedly raised competitiveness by 7 per cent a year (Tang, 2019). Competition among firms in the zones attracts sustainable investment (especially FDI), with skilled manpower, infrastructure and technology, thereby improving total factor productivity and the competitiveness of companies.

Fourth, they create an environment that is conducive to supporting MSME growth. The zones provide an important platform to support domestic MSMEs. Governments can encourage them to join the zones directly by lowering the entry costs, and MSMEs can become suppliers to larger firms located in the zones. One key way to support MSMEs is by establishing incubator programmes in the zones to directly build the enterprises’ capacity to engage in strategic value chains. The incubator programmes can be established within the zones as part of the SEZ design, but they may equally be outside the zones as part of government initiatives to improve the capacity of MSMEs to participate in business value chains and economic transformation processes.

Fifth, they play a fundamental role in attracting FDI, with the potential to enhance technology, skills and knowledge spillovers in an economy. One of their key roles is to support developing countries in attracting enough FDI to supplement domestic investment and achieve their policy aspirations. Without large-scale investment, it takes longer and is more difficult for a country to achieve the level of competitiveness needed to support private-sector development.
Table 23: Roles of Governments in leveraging special economic zones for private-sector development

<table>
<thead>
<tr>
<th>Best practice</th>
<th>How Governments attracted investors to the zones</th>
<th>Implications for Southern Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>Bangladesh made land cheap by providing a 50 per cent subsidy on land and factory leases.</td>
<td>Southern African Governments should make land ownership rights clear and transparent and should enact special provisions for investors in the zones.</td>
</tr>
<tr>
<td>China</td>
<td>China made serviced land available to investors, who could then lease land to other investors for 20–50 years (renewable). The Government facilitated links to coastal areas and access to international trade, and it provided world-class infrastructure and amenities at the zones.</td>
<td>Southern African Governments need to assure investors of long-term land tenure to facilitate long-term financing, since some of the large projects have long gestation periods.</td>
</tr>
<tr>
<td>India</td>
<td>The Government facilitated investment, innovation, intellectual property rights and infrastructure. It also provided free trade zones and warehousing zones.</td>
<td>The role of Governments should not be limited to setting policies and regulations and providing tax incentives. Governments in Southern Africa should make tangible investments to make special economic zones attractive to private investors.</td>
</tr>
<tr>
<td>Ireland (Shannon SEZ)</td>
<td>The Government of Ireland adopted a dynamic approach, transforming its focus on fiscal incentives to a focus on facilitating innovation and knowledge-driven SEZs once fiscal incentives come to an end. It also decided to strategically locate one of the zones adjacent to Shannon Airport.</td>
<td>Countries in the subregion should review and reform their incentive frameworks and move towards a business/commercial-oriented approach, with less emphasis on political considerations.</td>
</tr>
<tr>
<td>Paraguay</td>
<td>The South American country used its ports authority to create free trade port zones as a facility for managing the ports of neighbouring countries, such as Argentina, Brazil and Chile.</td>
<td>Coastal countries need to forge strategic cooperation/partnerships with land-linked and landlocked countries to promote transnational special economic zones that will facilitate (transit) trade.</td>
</tr>
<tr>
<td>Philippines</td>
<td>The Government built infrastructure for its zones and adjusted its SEZ policies to create knowledge-intensive clusters by establishing innovation-driven zones that focus on research and development and other high value-added activities.</td>
<td>Southern Africa is still in the initial stages of developing the zones. Key ingredients are clear policies and regulatory and institutional frameworks that are conducive to promoting private investment, and basic investments.</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Sri Lanka introduced exemptions on import duties for equipment, construction material and production inputs.</td>
<td>Such exemptions already exist in Southern Africa, but they need to be dispensed more efficiently and transparently.</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>Countries in the region leveraged their natural resources, infrastructure and consumer markets to attract investors to the zones.</td>
<td>Southern Africa is endowed with abundant natural resources, which are essential to attract foreign direct investment.</td>
</tr>
</tbody>
</table>
2. Economic contributions of special economic zones by country

2.1 Mauritius

Mauritian SEZs are considered successful because of the impact they have had on the country’s economic transformation. As shown in table 24, the effects of SEZs on the Mauritian economy include the creation of more businesses, jobs, investment, output and exports. One of the key factors behind the country’s success is its commitment to reforms that led to significant investment from the private sector. In addition to fiscal incentives and a relatively stable macroeconomic environment, Mauritius provided other facilities to investors in SEZs, including factory buildings and fully serviced land and utilities at subsidized rates. Moreover, it has provided much more flexible labour standards and a lower minimum wage than most other African countries.12 Furthermore, in allocating investment capital, the Government prioritized a search for market information and favourable interest rates on loans and export bills, among other strategies (Frankel, 2010). Other unique factors that have attracted foreign and local investors include the availability of skilled bilingual labour, peace, a stable political and social environment, good infrastructure, an efficient civil service (Sacerdoti, 2005) and links to the diaspora (Bräutigam, 2005).

Curran and others (2009) noted that, while critics of the EPZs in Mauritius have viewed them as an enclave for foreign investors and foreign asset accumulation, the zones were 50 per cent locally owned, a much higher ratio than for the free zones in other developing countries. Many experts regard SEZs in Mauritius as a success story because of their positive effects on wages, exports and jobs. They have been seen as a major instrument for reducing economy-wide unemployment.

12 Although lax labour laws and low wages are attractive to investors, the competitiveness of national SEZ programmes is becoming less reliant on those factors. To ensure that private-sector development is sustainable and decent work is promoted, countries should seek to attract investment through other competitive edges and comparative advantages, not just labour. This includes, for instance, more specialized locational advantages such as knowledge- and innovation-focused clusters that are associated with higher value addition.
<table>
<thead>
<tr>
<th>Years</th>
<th>Number of firms</th>
<th>Percentage change</th>
<th>Number of jobs</th>
<th>Percentage change</th>
<th>Investmenta</th>
<th>Percentage change</th>
<th>Real exportsa</th>
<th>Percentage change</th>
<th>Manufacturing as percentage of value added</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971–1980</td>
<td>63</td>
<td></td>
<td>12 331</td>
<td></td>
<td>4.6</td>
<td></td>
<td>27 763</td>
<td>21.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981–1990</td>
<td>351</td>
<td>+457.1</td>
<td>59 364</td>
<td>+381.4</td>
<td>13.9</td>
<td>+200</td>
<td>15 561</td>
<td>−44.0</td>
<td>43.5</td>
<td>+22.2</td>
</tr>
<tr>
<td>1991–2000</td>
<td>514</td>
<td>+46.4</td>
<td>86 141</td>
<td>+45.1</td>
<td>17.4</td>
<td>+30</td>
<td>330 885</td>
<td>50.3</td>
<td>50.3</td>
<td>+6.8</td>
</tr>
<tr>
<td>2001–2010</td>
<td>457</td>
<td>−11.1</td>
<td>69 632</td>
<td>−19.2</td>
<td>20.2</td>
<td>+20</td>
<td>332 617</td>
<td>42.7</td>
<td>−7.6</td>
<td></td>
</tr>
</tbody>
</table>


a Millions of South African rand.
2.2 Zambia

Based on data obtained from the Zambia Development Agency annual report for 2019 (Zambia Development Agency, 2019), SEZs in Zambia employed more than 12,591 people and attracted investment of more than $3.39 billion in 2019 (see table 25). Chambishi SEZ created the most jobs (8,830 employees) and had the highest investment value ($2.87 billion).

Detailed information on specific zones provides further evidence on the economic impact of SEZs in Zambia. For instance, according to a report by UNDP (2017), the management of Chambishi MFEZ and its subsidiary the China Nonferrous Metal Mining Group, which is operating in the zone, established a staff development programme for local workers that aimed to localize skilled jobs and management functions, including through the provision of training in China. As shown in figure VIII, the programme has been quite successful, with a decline in the number of Chinese workers after 2011 and a steady increase in the number of Zambian workers over time. Zambian regulations offer foreign workers two-year work permits, which are renewable subject to proof that skills were transferred to local workers within the permit period (UNDP, 2017).

**Table 25: Overview of the economic contribution of special economic zones in Zambia in 2019**

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Jobs</th>
<th>Investment (millions of United States dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chambishi MFEZ</td>
<td>Operational</td>
<td>8,830</td>
<td>2,870.00</td>
</tr>
<tr>
<td>Lusaka South MFEZ</td>
<td>Operational</td>
<td>2,381</td>
<td>410.00</td>
</tr>
<tr>
<td>Lusaka East MFEZ</td>
<td>Operational</td>
<td>539</td>
<td>69.64</td>
</tr>
<tr>
<td>Roma Park</td>
<td>Operational</td>
<td>691</td>
<td>41.20</td>
</tr>
<tr>
<td>Subsahara Gemstone Exchange Industrial Park</td>
<td>Operational</td>
<td>150</td>
<td>..</td>
</tr>
<tr>
<td>Lumwana MFEZ</td>
<td>Operational</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Chibombo MFEZ</td>
<td>Not operational</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Californian Beverages</td>
<td>Not operational</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

*Source: Zambia Development Agency (2019).*
Phiri and Manchisi (2020) discussed the integration of local MSMEs in value chains in Zambia. As highlighted in their study:

There is evidence of local MSMEs being integrated in the value chains of firms invested in the Lusaka South MFEZ. Agroprocessing firms are reported to have out-grower schemes with farmers. For instance, Zambian Breweries has a scheme with commercial farmers, and British American Tobacco has a scheme with local barley and tobacco suppliers located outside the zone, in other parts of Zambia. Furthermore, in partnership with the Citizens Economic Empowerment Commission, the zone will build an SME industrial park within Lusaka South MFEZ to promote linkages between zone investors and national suppliers.

Based on interviews conducted with SEZ investors and government officials in Zambia, three broad challenges were highlighted as factors that have constrained the performance and impact of SEZs (Zeng, 2016). The first challenge is the inadequacy of infrastructure. Although all zones had various constraints related to infrastructure, the challenge was considered most severe for the Lusaka East MFEZ. While the zone developers were responsible for all on-site infrastructure, the Government had promised to build the off-site infrastructure (power and water lines to the zone), but failed to deliver. In the end, the zone developers built the infrastructure themselves and paid the Government the permit fee and property tax. According to Zeng (2016), Lusaka East MFEZ lost more than 10 potential investors due to power shortages, thereby limiting its ability to grow.

The second set of challenges relate to weak linkages between the zones and local firms. Many firms in the zones, especially agribusiness firms, show interest in sourcing locally, but most local MSMEs would not be able to meet their requirements in terms of stable volume, quality and standards. This is because the MSME sector in Zambia is constrained by a myriad of challenges, which limits productivity (Aurick and others, 2017). In addition, some investors in the zones have found it difficult to secure the labour they need from the local market.

**Figure VIII: Employment in the Chambishi Multi-facility Economic Zone**

The final set of challenges relates to taxation and investment incentives. Investors within the zones and local MSMEs have complained that taxation policies are unstable and susceptible to change without proper consultations with private investors. For example, in terms of VAT, since 2015 the Government has required all exporting firms to provide proof of export in order to claim VAT. For most domestic firms (especially MSMEs), it is onerous to prepare and submit the required documents. According to the Zambia Export Growers Association, many MSMEs are severely affected by this policy and some have to close down their businesses. Investors in the zones were originally exempt from income tax for the first five years that they made a profit, but now, the five-year period starts as soon as they begin operating, which also adversely affects them.

### 2.3 United Republic of Tanzania

The United Republic of Tanzania has prioritized the development of SEZs as a critical lever to support industrialization and economic transformation. As noted earlier, it mainstreamed SEZs in its plans and strategy for enhancing growth and poverty reduction and, in 2012, it became the first country in East Africa to prepare specific regulations governing the zones, although the regulations are not yet functional. Furthermore, the Government has also earmarked land in several locations in the country to support SEZ development. However, actual progress in terms of the number of zones developed, the value of investment in current zones and their contribution to the economy has been less significant (Kweka, 2018).

In view of the need to build a robust private sector and the Government’s remarkable drive for industrialization, the United Republic of Tanzania has not fully leveraged SEZs as a transformative tool. On the contrary, the programme is facing various challenges affecting its performance. In addition to the inadequate financing to develop the zones, and despite the existence of policy, legal and institutional frameworks, the country is still far from achieving the needed consolidation of EPZs into SEZs, fearful that the export focus of EPZs might be lost. Nonetheless, much of the progress and impact of SEZ development has been driven by the stand-alone EPZ factories, which dominate. The scheme has attracted significant private investment, including FDI. A disaggregation of ownership patterns across SEZ and EPZ investments shows that 59 companies (42 per cent) are foreign, 19 companies (14 per cent) are joint ventures and 62 companies (47 per cent) are Tanzanian-owned. Based on data from the Economic Processing Zone Authority, total investment capital in these zones as of July 2017 was TSh 1.73 billion, which represents an 18.4 per cent increase on the 2016 figure of TSh 1.45 billion. The sectoral distribution of zone companies (figure IX) shows that agroprocessing, engineering, textiles and garments, and mineral processing are the dominant sectors.

Although the United Republic of Tanzania lags far behind peers such as Kenya and Ethiopia in its development of SEZs, statistics show that investments in EPZs and SEZs are making a positive contribution to the economy. The SEZ programme has generated about 60,000 jobs, exports with a value of $2 billion, and a roughly similar amount of investment. Figures X, XI and XII summarize the contribution that SEZs have made to total investment, exports and employment in the United Republic of Tanzania over the past decade. Annual foreign exchange earnings increased sharply from $22 million in 2008 to about $200 million in 2017. Job numbers more than
doubled during the same period, from 21,493 to 52,395 (an increase of 143 per cent).

From both the actual and comparative values, the three trends show that the SEZ programme is making a significant contribution to the Tanzanian economy. The zones have generated about 60,000 jobs, over $2 billion in export value, and about $2.4 billion in capital investment in 12 years (2007–2019). While these values may be far smaller than in countries that have had a much more successful experience with SEZs (such as Mauritius and, recently, Ethiopia), they reflect significant shares of national aggregate values. For instance, SEZ investments have averaged 11.3 per cent of total FDI. Moreover, the share was fairly stable at around 11 per cent between 2010 and 2017, but then rose sharply in 2018, presumably reflecting increased investment by two large firms (Tooku and Mazava) that produce textiles and garments for the African Growth and Opportunity Act market.

The export performance of SEZs has increased consistently over the years. Almost all goods produced in SEZs are exported, so the zones are reliable sources of exports for the United Republic of Tanzania. The share of EPZ exports to total exports of goods increased from 4 per cent in 2007 to almost half in 2019 (averaging 17 per cent a year). The dominance of SEZ exports in 2018 and 2019 was probably due to a fall in traditional exports such as cashews and a general weakening of global demand for gold. Similar to export performance, the contribution of SEZs to employment has increased consistently over the past decade. As noted earlier, employment in SEZ companies reached nearly 60,000 in 2019 (averaging 26,613 a year), providing around 9 per cent of total manufacturing jobs (annual average of 4.8 per cent).

The greatest impact of the SEZ programme in the United Republic of Tanzania appears to be its export performance, owing to the export requirement in the EPZ scheme. The
**Figure X:** Trends in capital invested in special economic zones in the United Republic of Tanzania

![Graph showing capital invested and percentage of total foreign direct investment over time.](Image)

*Source:* Author’s compilation based on investment data from the Economic Processing Zone Authority and foreign direct investment data from the Bank of Tanzania and the World Investment Report (2019).

**Figure XI:** Trends in exports generated by special economic zones in the United Republic of Tanzania

![Graph showing special economic zone exports and percentage of total goods exports over time.](Image)

*Source:* Author’s compilation. Data on special economic zone exports are from the Bank of Tanzania (various years).
impact on jobs, however, seems less dramatic. This suggests that investments made so far under the SEZ programme have been less labour-intensive, which underlines the need to promote more labour-intensive industries such as textiles and garments and to strengthen linkages with the domestic economy as a whole.

The SEZ and EPZ programmes have also encouraged some innovative collaboration with the Prime Minister’s Office to support training for industrial operatives as part of the Skills Development Levy to meet the demands of the garment manufacturing firm Tooku Ltd. The collaboration has been quite useful in facilitating private investment by reducing the transaction costs for sourcing skilled labour while enhancing the development and availability of the required industrial skills.

The zone programmes are still in their infancy and the country needs to carry out radical reforms to help the zones become game changers in attracting enough investment (including FDI) to have a transformative role. A critical emerging issue is whether the programmes offer value to attract serious investors. For instance, how differently are firms inside the zones treated from those outside the zones?

Data for 2015 from the National Bureau of Statistics Annual Survey of Industrial Production show that only 18 per cent of the 2,389 firms were located in the zones. That percentage increased in 2016 by only 0.4 percentage points. More importantly, the survey asked the 431 firms operating in the zone to indicate the main benefits of operating in a zone. Two benefits were appreciated by a majority of the firms: trade facilities, infrastructure and logistical services (62 per cent); and availability of cheap labour (52 per cent). Nearly half of the firms were attracted by cost advantages or co-location of establishments or suppliers.

**Figure XII: Trends in employment generated at special economic zones in the United Republic of Tanzania**

Source: Author’s compilation. Data on jobs in special economic zones is from the Economic Processing Zone Authority, and data on manufacturing jobs is from the Groningen Growth and Development Centre 10 Sector Database (https://www.rug.nl/ggdc/structuralchange/previous-sector-database/10-sector-2014) for 2007–2011, and from the National Bureau of Statistics for 2012–2018. Completing the trend, the employment data for 2019 is based on the author’s own projection.
Based on the same data set, table 26 shows some broad descriptive statistics comparing the characteristics of SEZ/EPZ firms with those of non-SEZ/EPZ firms. The results show that firms operating inside the zones are generally not statistically different from those operating outside. As noted earlier, the firms operating in the Tanzanian SEZs do not seem to benefit substantially from special provisions or treatment. In other words, unlike in the countries around the world with the best practices, and in other countries in the subregion where SEZs have been relatively successful, the zones in the United Republic of Tanzania have not (yet) become epicentres of business environment reforms.

Table 26: Comparison of Tanzanian firms inside and outside special economic zones

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean c</th>
<th>Standard deviation c</th>
<th>Mean c</th>
<th>Standard deviation c</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10–19</td>
<td>0.50</td>
<td>0.50</td>
<td>0.53</td>
<td>0.50</td>
</tr>
<tr>
<td>20–49</td>
<td>0.29</td>
<td>0.45</td>
<td>0.26</td>
<td>0.44</td>
</tr>
<tr>
<td>50–99</td>
<td>0.10</td>
<td>0.30</td>
<td>0.09</td>
<td>0.28</td>
</tr>
<tr>
<td>100–499</td>
<td>0.09</td>
<td>0.29</td>
<td>0.10</td>
<td>0.30</td>
</tr>
<tr>
<td>500+</td>
<td>0.02</td>
<td>0.15</td>
<td>0.02</td>
<td>0.13</td>
</tr>
<tr>
<td>Industry sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Firm exports production</td>
<td>0.09</td>
<td>0.29</td>
<td>0.07</td>
<td>0.26</td>
</tr>
<tr>
<td>Food-processing</td>
<td>0.40***</td>
<td>0.49</td>
<td>0.31***</td>
<td>0.46</td>
</tr>
<tr>
<td>Beverage and tobacco products</td>
<td>0.02</td>
<td>0.13</td>
<td>0.03</td>
<td>0.17</td>
</tr>
<tr>
<td>Textiles</td>
<td>0.02</td>
<td>0.13</td>
<td>0.02</td>
<td>0.13</td>
</tr>
<tr>
<td>Apparel, leather and footwear</td>
<td>0.01</td>
<td>0.11</td>
<td>0.02</td>
<td>0.14</td>
</tr>
<tr>
<td>Wood products</td>
<td>0.03**</td>
<td>0.17</td>
<td>0.05**</td>
<td>0.22</td>
</tr>
<tr>
<td>Paper products</td>
<td>0.02</td>
<td>0.14</td>
<td>0.03</td>
<td>0.18</td>
</tr>
<tr>
<td>Coke and refined petroleum products</td>
<td>0.00</td>
<td>0.05</td>
<td>0.00</td>
<td>0.04</td>
</tr>
<tr>
<td>Chemical products</td>
<td>0.03</td>
<td>0.16</td>
<td>0.02</td>
<td>0.15</td>
</tr>
<tr>
<td>Rubber products</td>
<td>0.04*</td>
<td>0.18</td>
<td>0.02*</td>
<td>0.14</td>
</tr>
<tr>
<td>Glass and cement</td>
<td>0.08</td>
<td>0.26</td>
<td>0.09</td>
<td>0.29</td>
</tr>
<tr>
<td>Iron, steel and other metals</td>
<td>0.04</td>
<td>0.21</td>
<td>0.05</td>
<td>0.22</td>
</tr>
<tr>
<td>Machinery</td>
<td>0.03</td>
<td>0.17</td>
<td>0.02</td>
<td>0.15</td>
</tr>
<tr>
<td>Furniture</td>
<td>0.06*</td>
<td>0.23</td>
<td>0.08*</td>
<td>0.28</td>
</tr>
<tr>
<td>Other manufacturing</td>
<td>0.01</td>
<td>0.11</td>
<td>0.02</td>
<td>0.14</td>
</tr>
<tr>
<td>Repair and installation</td>
<td>0.00</td>
<td>0.05</td>
<td>0.00</td>
<td>0.06</td>
</tr>
</tbody>
</table>


Notes: T-tests and chi-squared tests are used to test for statistically significant differences in means for each variable.

* p<0.10; ** p<0.05; *** p<0.01.

a These firms had mean annual sales of 7.889 billion Tanzanian shillings, with a maximum of 572 billion and a standard deviation of 45.4 billion.

b These firms had mean annual sales of 9.036 billion Tanzanian shillings, with a maximum of 1,100 billion and a standard deviation of 55.5 billion.

c In all cases, the minimum is “0” and the maximum is “1”.
## Table 27: Performance of designated special economic zones that were operational in 2017/18

<table>
<thead>
<tr>
<th>Name of SEZ</th>
<th>Year of designation</th>
<th>Total size (ha)</th>
<th>Operational investors</th>
<th>Operational investment (billions of South African rand)</th>
<th>Direct jobs created</th>
<th>Land allocation to date (ha)</th>
<th>Revenue (millions of South African rand)</th>
<th>Exports (millions of South African rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coega (Eastern Cape)</td>
<td>2001</td>
<td>9,259</td>
<td>42</td>
<td>6.20</td>
<td>8,210</td>
<td>388.0</td>
<td>275.30</td>
<td>363</td>
</tr>
<tr>
<td>East London (Eastern Cape)</td>
<td>2002</td>
<td>462</td>
<td>28</td>
<td>8.00</td>
<td>3,645</td>
<td>7.9</td>
<td>720.70</td>
<td>3,200</td>
</tr>
<tr>
<td>Richards Bay (KwaZulu-Natal)</td>
<td>2002</td>
<td>383</td>
<td>2</td>
<td>0.32</td>
<td>93</td>
<td>5.5</td>
<td>2.89</td>
<td>..</td>
</tr>
<tr>
<td>Dube Tradeport (KwaZulu-Natal)</td>
<td>2016</td>
<td>303</td>
<td>16</td>
<td>1.30</td>
<td>432</td>
<td>54.5</td>
<td>117.50</td>
<td>470</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-</td>
<td>10,407</td>
<td>88</td>
<td>15.82</td>
<td>12,380</td>
<td>455.9</td>
<td>1116.39</td>
<td>4,033</td>
</tr>
</tbody>
</table>

**Source:** Special Economic Zone Advisory Board (2018).

**Note:** Operational investors are those that have commenced trading operations in the zone. Direct jobs are those created and sustained in the zone since its inception (excluding construction jobs). Land allocation is the total land allocated to investors in the zone since its inception. Revenue is the total revenue raised in the financial year from land sales, rentals and services rendered to investors. Exports are the total annual export sales from the zones.
2.4 South Africa

The Government of South Africa seeks to harness SEZs as a strategic and effective instrument for industrial and economic development. The SEZ programme aims to increase FDI, jobs, exports and overall industrial development. Table 27 provides key characteristics and performance indicators for SEZs. At the end of the 2017/18 financial year, a total of 88 investors were operational in the four designated zones, with a total investment value of R15.5 billion, of which the Coega and East London zones had attracted a total of R14.2 billion (more than 90 per cent of the total operational investment). The automotive sector is the largest, with 29 investors across the SEZs, followed by logistics, agroprocessing and general manufacturing. The cumulative number of direct jobs that had been created in the zones was 12,380, with the Coega zone having created 8,210 of them (66 per cent). The East London zone accounted for R0.721 billion, or more than half of the total revenue (R1.115 billion) received during the 2017/18 financial year.

Despite their significant contributions, SEZs in South Africa face certain challenges that constrain the scale of their development. These include: capacity constraints and an inability to attract more investors; unhealthy competition among the zones, placing those located in less-developed or underdeveloped regions at a disadvantage; and a poor investment climate (Special Economic Zone Advisory Board, 2018). Furthermore, the transition from industrial development zones to SEZs poses several challenges with regard to their institutional and governance arrangements. Nonetheless, compared with most countries in the subregion, the development of SEZs in South Africa has taken on a more structured and inclusive approach, supported by deliberate financing provisions.

Typically, SEZs in South Africa are anchored in key industries such as automotive, mining, oil and gas, precious metals, renewable energy and light and medium manufacturing. The country has been successful at providing key infrastructure and the support services required to make the zones attractive to private investment. Furthermore, many of the zones are strategically located either in areas with access to seaports or adjacent to the coast, which gives them a huge comparative advantage. However, the usual concern with the development of SEZs in a developing country is their embeddedness in the host economies. The Foreign Investment Advisory Service calls for policies and reforms to improve the zones’ domestic capabilities and facilitate domestic linkages. Local content policies are largely ineffective because domestic suppliers provide less value for money than their foreign counterparts (Phiri and Manchishi, 2020).

South Africa has a much stronger, more diversified and more competitive economy than the rest of the countries in the subregion, which enhances the impact of SEZs on private-sector development. The country is endowed with diverse natural resources and is the biggest contributor to subregional GDP, FDI and manufacturing growth. Like Botswana and Mauritius, South Africa is more integrated in the global economy than other countries in the subregion and, as noted earlier, has more structured policies that allow a more direct link between the promotion of SEZs and private-sector development. For instance, through the incubation centres it has established in its zones, South Africa has provided significant support to the integration of MSMEs in value chains.
More important, the zones have played a significant role in attracting FDI and promoting exports and value addition. As noted earlier, MSMEs make up over 91 per cent of formal enterprises, which add to the transformative impact of their linkages with SEZ investment. In other words, since South Africa is highly connected to global markets, the benefits of investment in SEZs (including innovation and skills transfer) are more likely to flow to the domestic economy. The Dube AgriZone demonstrates that the country could be at the forefront of promoting agro-industrial parks in the subregion. As noted earlier, the Dube AgriZone is part of the Dube TradePort SEZ, which hosts the subregion’s largest innovative, climate-intensive agro-industrial park.

Given its significant role in subregional integration, South Africa is better positioned than other countries to drive the development of border SEZs, allowing it to have an impact on the private sector in neighbouring countries. There are cross-border zones in Mafikeng, near the border with Botswana, and Musina, near the border with Zimbabwe (Karambakuwa and others, 2020). Furthermore, the Musina/Makhado SEZ is strategically located close to the border between South Africa and Zimbabwe, along a principal north–south route into the rest of the SADC subregion.

### 2.5 Mozambique

The Mozambican economy has registered remarkable growth in the last decade, benefiting from substantial inflows of FDI into various sectors, especially agriculture and agro-industry, tourism, infrastructure development, energy, fisheries and aquaculture, industry, mineral resources (mainly coal and gas) and banking. SEZs in Mozambique have been attracting investment mainly in the trade, tourism and civil construction sectors. Initially, the purpose of Beluluane Industrial Park (the largest zone in Mozambique), in the south of the country, was to encourage links with Mozal SARL (the largest company in Mozambique). The Manga-Mungassa zone in the Beira Growth Corridor was a joint project involving the Mozambican authorities and the Chinese company, Dingsheng International Investment. Basic infrastructure and services were set up in a 217ha area near the port city of Beira. The Nacala zone was established in 2007 and, in the early years, was dominated by the development of infrastructure, including the construction of the international airport inaugurated in December 2014.

**Figure XIII:** Investment in special economic zones and total private investment in Mozambique (millions of United States dollars)

![Investment in special economic zones and total private investment in Mozambique](source: International Monetary Fund (2013)).
Figure XIII illustrates the amount of investment in SEZs and industrial development zones approved relative to total private investment (which is defined as all investment other than government investment). Over the period 2010–2013, approvals by the Office for Accelerated Development Economic Zones (GAZEDA) accounted for 18 per cent of total non-government investment in Mozambique.

Information from the literature (Santos, 2018) shows that the private sector in Mozambique is still developing, contributing about 65 per cent to GDP. It is characterized by low productivity and competitiveness. The sector is dominated by individual entrepreneurs and microenterprises, with few SMEs. Factor productivity is low and value addition is limited. Surveys point to companies’ low growth rates in manufacturing, with median labour productivity at levels below the minimum wage.

Nonetheless, Santos (2018) notes that FDI directed towards SMEs between 1992 and 2010 created 19 times more employment than FDI directed towards megaprojects. Businesses, especially agribusinesses, are generally constrained by high transport costs due to poor infrastructure (including low access to energy), inefficient ports, increased logistics costs and a costly business environment (e.g. taxes, corruption, administrative costs). Consequently, in the rapidly changing global market conditions, in which firms require flexibility and agility to adapt to economic fluctuations and volatility, an SEZ regime can provide more protection and a far superior business environment for both FDI and domestic investors than a free-zone framework (World Bank, 2020c).

For SEZs in Mozambique to effectively and significantly contribute to the structural transformation and diversification of the domestic economy, it will therefore be essential to address structural and infrastructural constraints that can foster productivity, competitiveness and access to markets, as well as to carry out legal and regulatory reforms and create a skilled and suitably trained workforce.

### 2.6 Malawi

According to a report by the Malawian Ministry of Industry and Trade (2015), the country is struggling to attract FDI and retain existing investors. For instance, the EPZ scheme attracted only five new companies between 2006 and 2015, but six companies left the programme during the same period. Njima (2017) observed that, although more than 20 foreign companies channelled their investment to Malawi during the 2010–2015 period, only three investors decided to operate within the EPZ regime, because the scheme was less attractive. Firms at EPZs in Malawi have export disincentives and do not enjoy the streamlined administrative processes or zoned infrastructure available to firms at the zones in other countries. Instead, they operate in the same business environment and face the same challenges as firms outside the EPZ regime, including an unreliable electricity supply, poor access to finance, unfavourable tax rates, difficulties accessing land and slow customs clearance (Njima, 2017).

In 2015, FDI inflows associated with the EPZ scheme amounted to $105 million (see table 28) of which 60 per cent went to the agroprocessing sector and the rest to textiles and garments (21 per cent), wood and wood products (17 per cent) and
Exotic leather (2 per cent). Exports from the zones declined from 4.7 per cent of total Malawian exports in 2006 to 2.9 per cent in 2015 (see table 29). In absolute terms, they initially increased from $31.3 million in 2006 to $43.2 million in 2011 (an 8 per cent rise), but then fell to $30.5 million in 2015, representing an 8 per cent decline, probably due to the number of export processing firms that left the scheme. In addition to the relatively poor business environment, the economic recession in the United States of America had a substantial effect on gross exports from the zones, in particular those from the textile and apparel sector, which saw reduced demand under the Africa Growth and Opportunity Act.

Economic processing zones have had a modest impact on employment. During the first decade (1996–2006), they created only around 10,000 jobs (Nkhoma, 2007), whereas in Lesotho, for instance, the textile sector created 38,000 jobs during a similar period, between 1999 and 2004 (UNCTAD, 2015). Notably, 78 per cent of the cumulative increase in job numbers was from the textile and apparel firms. The EPZ regime had established 22 firms in 1996, but, as noted earlier, the number began to decline in 2000, and by 2016 there were only two firms. Naturally, the decline had a substantial adverse effect on employment. In addition, the types of jobs created by firms in the zones are of poor quality in terms of pay, working conditions and potential for skills development. Although the share of local people holding management and skilled positions between 2003 and 2015 improved, more than

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of export processing firms</th>
<th>Foreign direct investment (millions of United States dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agroprocessing</td>
<td>6</td>
<td>63.5</td>
</tr>
<tr>
<td>Textile and garments</td>
<td>2</td>
<td>22.0</td>
</tr>
<tr>
<td>Wood and wood products</td>
<td>2</td>
<td>17.5</td>
</tr>
<tr>
<td>Exotic leather</td>
<td>1</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>105.0</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Industry</th>
<th>2006</th>
<th>2011</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total exportsa</td>
<td>666 217</td>
<td>1,428,264</td>
<td>1,080 101</td>
</tr>
<tr>
<td>Total manufactured exportsa</td>
<td>74 922</td>
<td>120,345</td>
<td>152 943</td>
</tr>
<tr>
<td>Share of manufactured exportsb</td>
<td>11.2</td>
<td>8.4</td>
<td>14.2</td>
</tr>
<tr>
<td>Total economic processing zone exportsa</td>
<td>31 309</td>
<td>43 171</td>
<td>30 493</td>
</tr>
<tr>
<td>Economic processing zone share of manufactured exportsb</td>
<td>41.8</td>
<td>35.9</td>
<td>19.9</td>
</tr>
<tr>
<td>Economic processing zone share of total exportsb</td>
<td>4.7</td>
<td>3.1</td>
<td>2.9</td>
</tr>
</tbody>
</table>


* In United States dollars, divided by 1,000.

b Percentage.
90 per cent of agroprocessing job opportunities were still unskilled jobs with low pay occupied primarily by locals.

As is the case with SEZ programmes in many other African countries, the EPZ programme in Malawi failed to create significant linkages with local firms, partly due to the 100 per cent export requirement (Nkhoma, 2007). Furthermore, Njima (2017) found that export processing firms were importing all their requirements apart from raw materials. The reasons for this trend include the poor quality or absence of local products. With such limited interaction between foreign direct investors and local industries, the desired effect of FDI on the domestic economy has been minimal.

In addition, most export processing firms in Malawi are labour-intensive, low-tech assembly firms with little access to advanced technologies. According to a report by the Ministry of Industry and Trade (2015), the capital per worker ratio at the firms stood at 1:35 in 2015. Moreover, the firms’ machines are run mainly by expatriates owing to a skills shortage in the country. Njima (2017) notes that, despite the recognition that the EPZ policy mentions technology and skills transfer among the reasons for promoting the zones, there is no follow-up strategy on how to attain such benefits. Furthermore, like in most other countries in the subregion, the programme for the zones has not focused explicitly on MSMEs, so it has had less impact on MSME growth and overall private-sector development.

2.7 Madagascar

The private sector in Madagascar is well diversified, with foreign, domestic, large and small investors. Free zones have leveraged the country’s diverse endowments, tourism, agribusiness, light manufacturing and mining to attract FDI, open new networks/markets, expand exports and strengthen backward and forward linkages. In addition, access to trade agreements has further benefited the private sector by allowing unrestricted access to regional and international markets, including through the African Growth and Opportunity Act. Unit labour costs in Madagascar for the apparel sector are very competitive, allowing for a more diverse range of value added products. There will be immediate opportunities for Madagascar to attract new investment in this sector after the COVID-19 pandemic.

Nevertheless, many of the anticipated benefits of SEZ development in Madagascar will materialize only if the country undertakes the reforms necessary to set up a modern SEZ regime. As noted in a World Bank (2020c) report, a modern SEZ regime could help to create a more robust environment for private-sector development, including by addressing deep-rooted governance issues, infrastructure bottlenecks, a shortage of serviced land and a poor business environment. A competitive regime could raise investor confidence, especially in the current environment of global growth slowdown due to COVID-19, and could promote policy clarity, predictability, stronger public–private dialogue mechanisms and faster business reforms. Such measures would benefit the private sector more generally, not just investors in the SEZs. As a result, the SEZs would amplify the achievements made by free zones.

13 The paper by Njima (2017) does not say which raw materials were sourced locally. But it appears some primary (agri-cultural) raw materials were locally sourced, but were not enough to create significant linkages, mainly because local firms produced low-quality raw materials below the standards required by export processing firms. The requirements imported by these firms included capital intensive goods not produced locally.
Table 30: Share of employees with job benefits in free zones in Madagascar

<table>
<thead>
<tr>
<th></th>
<th>Public sector</th>
<th>Formal private sector</th>
<th>Of which industrial (non-free zone)</th>
<th>Of which in the free zones</th>
<th>Informal sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security registration</td>
<td>80.7</td>
<td>56.6</td>
<td>57.4</td>
<td>83.5a</td>
<td>2.4</td>
<td>45.9</td>
</tr>
<tr>
<td>Company medical service</td>
<td>58.1</td>
<td>42.5</td>
<td>44.7</td>
<td>64.6a</td>
<td>4.7</td>
<td>34.8</td>
</tr>
<tr>
<td>Paid holidays</td>
<td>68.1</td>
<td>40.0</td>
<td>40.6</td>
<td>60.8a</td>
<td>2.2</td>
<td>34.5</td>
</tr>
<tr>
<td>Pay slip</td>
<td>92.9</td>
<td>76.7</td>
<td>79.1</td>
<td>97a</td>
<td>8.4</td>
<td>60.7</td>
</tr>
<tr>
<td>Written contract</td>
<td>95.9</td>
<td>76.5</td>
<td>78.1</td>
<td>96.3a</td>
<td>15.3</td>
<td>63.1</td>
</tr>
<tr>
<td>Company-paid training</td>
<td>31.4</td>
<td>14.6</td>
<td>15.2</td>
<td>14.7 b</td>
<td>2.8</td>
<td>14.3</td>
</tr>
<tr>
<td>Do not want to change job</td>
<td>79.4</td>
<td>69.3</td>
<td>69.6</td>
<td>72.6</td>
<td>60.0</td>
<td>68.5</td>
</tr>
</tbody>
</table>

Source: Cling and others (2005).
a Significant positive coefficient at 1% threshold (logit models in private formal industrial sector).
b Significant at the 10% level.

Curran and others (2009) concluded that firms in the free zones have contributed significantly to an increase in the country’s exports and to job creation, which has had a remarkable impact on women who would otherwise be employed in the informal sector. Furthermore, the quality of employment creation was significantly better in free zones, as shown in table 30.

Based on such outcomes, private investment in SEZs would create even more jobs, especially for women, who constitute a major share (62.4 per cent) of the labour pool. In addition, the African Development Bank has supported the Government in establishing a zone specializing in producing high volumes of textile products with high value added. The zone was planned to be set up in a major city and was expected to create more than 200,000 jobs over a five-year period.

Madagascar and Mauritius decided to fast track plans to create a joint SEZ, with fiscal incentives and streamlined customs procedures to attract investors. Under the plans, Madagascar set up a one-stop shop, developed as part of the SADC facility, and it joined the African Export-Import Bank in 2017. The bank is a continental trade finance institution, which would help the country in securing finance for implementing industrial parks and SEZs, thus contributing further to private-sector development in Madagascar.

2.8 Namibia

The Government anticipated that the EPZ programme would help to diversify the economy, increase exports of manufactured goods, lower unemployment, increase investment, and foster technology and skills transfer (Shikongo, 2016). However, the programme has not been very successful in achieving these expected benefits.
The number of enterprises registered in the zones declined from 100 in 1996 to 23 in 2012, of which nine were involved in manufacturing and the rest were in mineral processing. Altogether, they employed 2,532 people (Shikongo, 2016). The dramatic decline in the number of enterprises in the zones was due to the large number of withdrawals from EPZ status. Despite the huge investments by mineral processing companies, few jobs were created. Jauch (2002) notes that, despite expectations that the zones would create 25,000 jobs in a short period, they in fact created only around 400 jobs between 1997 and 1999. There has been little evidence of technology and skills transfer, which is reflected in the limited technological innovation capabilities of the domestic business sector. Nonetheless, the Government announced in May 2021 that it would implement SEZs to drive investment in the coastal city of Walvis Bay.

2.9 Zimbabwe

The SEZ programme was part of the Government’s plan to attract investment to rural areas through the Growth Point Initiative. This initiative was followed by the establishment of EPZs to boost exports and attract FDI to promote economic growth and create employment opportunities. An African Development Bank (2018) report shows that the zones increased exports, investment and employment, but not as much as envisioned by the Government. Besides, it is not clear whether these increases are attributable to the zones or to the Growth Point Initiative.

The zones in Zimbabwe face exogenous and endogenous challenges. Exogenous factors include the relatively small domestic market, with relatively few opportunities for business linkages, and the country’s landlocked status. Endogenous factors include politicized decision-making, a lack of policy clarity and a lack of clear ownership of SEZ projects.

Political and economic chaos in the past decade have had a significant bearing on the prospects and ultimate performance of the zones. With investor confidence ruined, private investment in the zones was limited. Indeed, the economy has performed poorly for much of the past two decades. GDP growth slowed to 4.5 per cent in 2013 from 10.6 per cent a year earlier, slowing further to 3.8 per cent in 2014 and only 1.5 per cent in 2015 (Davis and Vitoria, 2016). Consequently, most private firms lost competitiveness and many firms closed, downsized or lost productive capacity owing to their lack of working capital. A key contributor to the economic downturn has been the country’s political uncertainty. Although FDI inflows increased during the period 2009–2014, uncertainty about the future contributed to a 23 per cent decline in FDI in 2015 (Davis and Vitoria, 2016). To add to the political uncertainty, the Government’s decision on land tenure and the policy of indigenization have had adverse effects on the economy. It is estimated that by 2006, only around 500 of the original 6,000 commercial farms were still operational, and Zimbabwe went from being one of the main agricultural exporters of the subregion to a net importer of food.

14 The Indigenisation and Economic Empowerment Act required that, over time, foreign-owned businesses must be 51 per cent indigenous-owned, with the remaining 49 per cent owned by the investor.
According to the Zimbabwe Export Processing Zone Authority (2005), 23 per cent of EPZ companies ceased operations, resulting in a loss of export revenue totalling about $17.6 million in the cash-strapped country. Close to 7,000 jobs were lost due to closures in the export sector, which employed 26,000 people a few years earlier. In 2003, the authority had licensed 183 companies as EPZ firms, but by the end of 2005, the number of companies had dropped to 150. Earnings from these firms totalled $220 million in 2003, but only $202.4 million in 2005. This continued up to 2008, as companies shut down operations, leading to a decline in exports, despite the incentives provided (Chikwindi, 2012). More specifically, EPZ companies in the mining sector were operating at 20 per cent capacity in 2008 due to shortages of basic raw materials and an erratic power supply. About 80 per cent of manufacturing companies indicated that they had to downsize operations because their equipment was obsolete and some machinery needed to be repaired with parts that had to be imported, but there was no foreign currency. Other EPZ companies, in particular those in the agroprocessing, manufacturing and mining sectors, were forced to provide their own backup boreholes and generators to address the unreliable utility supply and ensure that operations ran smoothly.

With the help of some political and economic policy changes, Zimbabwe reignited its EPZ programme and adopted an SEZ regime that appears to be more flexible and appropriate for addressing the country’s economic challenges. The regime has helped to rebuild the economy somewhat and raise levels of private investment, thanks to several measures introduced by the Government.

First, the Government introduced major reforms to facilitate the adoption of the regime, establishing seven SEZs in various locations.

Second, the zones were designed taking into account locational advantages and the need to link SEZ investment to the local economy. The activities promoted in the zones are those that have significant linkages with local resources (e.g. tourism, textile and leather processing, minerals, fruit, tea and coffee) and those that focus on rebuilding the country’s competitiveness (e.g. technology and innovation, power generation and logistics). For instance, the Cabinet approved the conceptual development framework for the Victoria Falls–Binga zone, which is earmarked to be an integral part of the natural environment to spearhead tourism activities in line with the attainment of Vision 2030. Furthermore, unlike in countries where EPZ and SEZ licences are issued only for greenfield (new) investments, such as the United Republic of Tanzania, companies already operating in Zimbabwe are eligible to apply for a licence as a private SEZ.

Third, as shown in box 2, the Government is leveraging private-sector financing for SEZ development by harnessing joint-venture and public–private partnership arrangements. The limited availability of reliable financing has constrained the development of infrastructure that is critical to implementing SEZ projects.

Fourth, Zimbabwe has promoted the integration of MSMEs in its zones by allocating a dedicated area for them and enhancing linkages between the zones and the domestic economy. It seems that these measures will eventually allow the zone programmes to enhance private-sector development in the country.
3. Benefits of operating in a special economic zone

Based on a sample of 10 African and non-African countries (Bangladesh, Dominican Republic, Ghana, Honduras, Kenya, Lesotho, Nigeria, Senegal, United Republic of Tanzania and Viet Nam), Farole (2011) conducted a study comparing the quality of business environment enjoyed by firms inside and outside SEZs.

The key findings of the study are shown in figures XIV and XV, which illustrate striking differences between the two sets of firms and the two sets of countries.

Source: Abridged from an article by Rusare (2015):
https://www.thepatriot.co.zw/old_posts/harares-special-economic-zone-sunway-city/.
The African countries had a substantially less business-friendly environment than the other countries. Downtime due to power shortages was quite high in most African countries. On average, power downtime in African SEZs was about 54 per cent lower than the national average, while in non-African SEZs, it was about 92 per cent lower (figure XIV). In terms of the ease of trading across borders, figure XV shows that in some African countries it took SEZ firms more days to clear goods at seaports than it did for firms outside the zones, in sharp contrast to the situation in non-African countries, where the firms were significantly better off.

**Figure XIV: Average monthly downtime due to power outages (in hours)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Hours</th>
<th>Firms in special economic zones</th>
<th>Other Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>34</td>
<td>120</td>
<td>50</td>
</tr>
<tr>
<td>Kenya</td>
<td>11</td>
<td>32</td>
<td>31</td>
</tr>
<tr>
<td>Lesotho</td>
<td>2</td>
<td>31</td>
<td>31</td>
</tr>
<tr>
<td>Nigeria</td>
<td>136</td>
<td>206</td>
<td>67</td>
</tr>
<tr>
<td>Senegal</td>
<td>67</td>
<td>70</td>
<td>50</td>
</tr>
<tr>
<td>United Rep. of Tanzania</td>
<td>95</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>


Another striking finding from the analysis was the mixed evidence for African countries. In Kenya, Nigeria and Senegal, it took firms located in the zones fewer days to import and clear a consignment than it did for firms outside the zones. Also, SEZ firms in Ghana, Kenya and Lesotho had fewer days of power outages than their counterparts in Nigeria, Senegal and the United Republic of Tanzania. This suggests
that, in addition to the general business environment challenges faced, experiences may differ from country to country, depending on how much special treatment is given to firms in the zones. A descriptive analysis of the case of the United Republic of Tanzania was provided previously (see table 26 above). More broadly, country differences may also be the result of difference among zones, reflecting the efficiency and effectiveness of managing SEZ operations.

4. Spillover effects and inter-firm linkages

SEZs are a source of national industrial development thanks to their ability to generate spillover effects that could affect domestic firms through inter-firm linkages and agglomeration benefits. One general observation from the literature (see Kweka and te Velde, 2020) is that, although the agglomeration economies resulting from technology transfer represent one of the arguments in support of SEZs, country

15 The performance of African countries was compared with their respective scores in the Doing Business ranking to further investigate the mixed experiences of African countries. The results of the comparison did not explain those differences.
experiences show that firms are benefiting from technological transfers through supply chains and export markets, but are not benefiting from each other (i.e. the zones fail to create clustering effects). More generally, interactions between firms within the zones and the local community were found to be dismal, implying that being located within a zone has few benefits compared with being located outside the zones, including for MSMEs. Furthermore, a study by Thompson (2019) found that the spillover effects of an SEZ are greater when a zone has stronger institutional capacity to facilitate interaction among firms. In a study of the Coega SEZ in South Africa, Moujaes (2020) observed similar results. The study documents that the spillover effects of the zone were less effective than direct assistance to MSMEs at enhancing the overall impact of the zone on the local economy. This raises the question of how to effectively promote linkages among firms within and outside zones to benefit from technological spillovers.

Clearly, the limited linkages between foreign and domestic firms or, more generally, between large firms and MSMEs, are more of a structural constraint in most African countries, including in Southern Africa. For instance, a study on linkages between large enterprises and MSMEs in the United Republic of Tanzania found that, while linkages with large firms potentially benefit MSME growth, the extent of any benefits depends on firms’ production capacities, exposure to training, export potential, foreign ownership, membership in industry associations and technology partnerships. Gonzalez and others (2014) found that low absorptive capacity and insufficient skills in Mozambique significantly limited the effects of knowledge spillovers from FDI. The study recommended that softer immigration rules on hiring foreign workers could be a useful strategy to complement educational and training initiatives in enhancing the effect of FDI on skills and technology transfers. Furthermore, there is evidence that clustering, including within SEZs, provides significant benefits for the growth of domestic firms. For instance, in Mauritius, clustering in an EPZ translated into enhanced company linkages, which allowed Floreal Knitwear (a leading Mauritian manufacturing firm that is among Woolmark’s largest knitwear manufacturers in the world) to cease using imported woollen yarn as sufficient coloured yarn could be produced by the textile industry within the zone (Hussain, 2000).

Overall, these cases show that the success of initiatives to enhance linkages between MSMEs and large firms depends on the measures taken to upgrade the capacities of MSMEs and the Government’s facilitating role in that endeavour. Indeed, for most countries in the subregion, MSME development is considered one of the objectives of developing SEZs. Moujaes (2020) confirmed that, by helping MSMEs to overcome key constraints (e.g. the simultaneous provision of access to opportunities, finance and technical and managerial knowledge), SEZs can play a much more effective role in enhancing private-sector development (see box 3). In 2016, the Zimbabwean Ministry of Economic Planning and Investment Promotion announced that the government SEZ programme should prioritize MSMEs, noting that such enterprises were the key to the zones’ success.¹⁶

Elsewhere in Africa, inter-firm linkages are considered one of the key levers for enhancing the integration of SEZs with the domestic economy. For instance, as part of its export business accelerator programme, the Nigeria Export Processing Zones

Authority has developed a strategic alliance with export and SME promotion agencies to develop a joint SEZ programme for SMEs. In Asian countries, SMEs make up a significant proportion of SEZ investors. In addition to government intervention, SEZ developers could also promote the integration of SMEs in their projects. For instance, one of the objectives of the Lodz SEZ in Poland\textsuperscript{17} is to support SMEs by providing them with the opportunity to invest in an SEZ, as well as various business support services, such as helping firms connect with foreign investors that already have local operations, accelerating procedures for obtaining permits, and providing training on taxes through leading consulting companies. As discussed in section 5.7.2, Kenya has successfully promoted linkages between SEZ investors (e.g. Hela Clothing) and SMEs by encouraging supplier firms to relocate to the zones, including by providing business services.

\textsuperscript{17} For details, see https://sse.lodz.pl/en/information/.
Given the inherent resource constraints and accountability challenges, it is not possible for the Government to provide support for all MSMEs to upgrade. However, the Government could provide fiscal or other incentives for MSMEs to engage in capacity-building initiatives and for large firms and training institutions to provide such interventions. For instance, they could establish a scheme by which large firms involved in upgrading MSMEs to meet their linkage requirements would be able to deduct or claim back a portion of the skills development levy. Furthermore, based on firm-level data for the United Republic of Tanzania, McMillan, Ellis and Kweka (2020) found that there is no statistically significant relationship between being located in an SEZ and benefiting from linkages. This may suggest that SEZ programmes in the United Republic of Tanzania are underdeveloped in terms of inter-firm linkages within the zones.

Despite the generally acknowledged benefits of linkages, the findings from some studies show that linkages with large firms may also be disadvantageous to MSMEs. For instance, Francisco and Canare (2018) found that Philippine SMEs do not have extensive linkages with large firms and that those that do exist have both positive and negative effects on smaller firms. The main benefits include knowledge transfer and access to markets, while the main disadvantages are bureaucracy in large firms and their strong bargaining power. Similarly, Rothkegel and others (2006) show that the benefits accruing to small firms may be offset by the risks and costs of associating with large firms. Nonetheless, the literature concludes that, despite limited linkages, the net benefits to MSMEs are largely positive. This implies that, in the context of Southern African countries, the extent of the impact of inter-firm linkages on MSME growth is largely an empirical question. As Kweka and te Velde (2020) conclude, linkages take time to build, so one might expect more spillover benefits to emerge over time, provided that capabilities and complementary policies are in place and are adequately implemented.

Based on the above assessment, to foster linkages and maximize the net benefits for private-sector development in Southern Africa, Governments should:

a) **Encourage large firms to engage in partnerships with smaller firms.** Kweka and Sooi (2020) show that linkages with small firms are more effective when the initiative comes from large firms. However, although there are cases where large firms have successfully upgraded MSMEs to meet their requirements, there are others where they have failed to do so. Possible explanations include a lack of information about such opportunities or the inability to identify eligible MSMEs. Government could identify the kinds of policy conditions needed to facilitate the upgrading of MSMEs (e.g. having a local-content policy).

b) **Support the development of suppliers and the upgrading of MSMEs to enable partnerships with FDI/large firms.** Governments in the subregion could set up a supplier development scheme aimed at supporting local firms, including by providing access to working capital, promoting skills development partnerships and creating a wage subsidy programme that allows domestic firms to hire expatriate employees. These measures would support local suppliers’ integration into global value chains.
c) **Encourage supplier firms to relocate to the SEZs, which could lead to vertical spillovers.** Attracting supplier firms into the zones is beneficial both to the large firms and FDI firms on the one hand, and the MSMEs that relocate and other local firms on the other hand. For this to happen, the Government should invest in upgrading and attesting to the capacity of MSMEs’, including in respect of compliance with standards and the quality certifications required by FDI firms and large firms.

Another important aspect of the role of SEZs in private-sector development is the extent to which domestic firms have decided to invest in the zones. Although not much information was available to assess the issue, the general evidence from the literature is that a significant number of domestic investors have been unable to meet the requirement to have high export levels, which has limited the active participation of domestic investors in zone programmes. This is one of the key factors underlying the recommendation to move from an EPZ regime to an SEZ regime. For instance, according to Nkhoma (2007), although EPZs were introduced in Malawi in the 1990s, the country has struggled to create linkages between export processing firms and local firms because of the 100 per cent export requirement.\(^{18}\)

A study on the United Republic of Tanzania (Kinyondo, Newman and Tarp, 2016) concluded that, because local firms were required to export 80 per cent of their output under an EPZ licence, they had been unable to move in to the SEZs due to their weak capacity to compete in the export markets. The survey conducted as part of that study requested firms to indicate their key motivation for joining SEZ schemes. The findings summarized in table 31 show that the most popular pull factor was the tax benefits on offer. However, it was not clear whether local firms were hindered mainly by low export competitiveness due to the tax burden or by other factors. In addition, firms operating under the EPZ licence were finding it difficult to access the East Africa Community market because that market had come to be considered part of the domestic market. As a result, some firms have left the EPZ

<table>
<thead>
<tr>
<th>Table 31: Factors influencing the decision to establish a firm in a special economic zone in the United Republic of Tanzania</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mean</strong></td>
</tr>
<tr>
<td>Access to grants or subsidies</td>
</tr>
<tr>
<td>Tax benefits</td>
</tr>
<tr>
<td>Access to transport infrastructure</td>
</tr>
<tr>
<td>Access to inputs</td>
</tr>
<tr>
<td>Access to customers</td>
</tr>
<tr>
<td>Access to skilled labour</td>
</tr>
<tr>
<td>Access to unskilled labour</td>
</tr>
<tr>
<td>Interactions with other special economic zone firms</td>
</tr>
<tr>
<td>Marketing</td>
</tr>
<tr>
<td>Access to electricity</td>
</tr>
<tr>
<td>Access to a water system</td>
</tr>
</tbody>
</table>

*Source:* Kinyondo and others (2016).

\(^{18}\) Defever and others (2016) found that eliminating SEZ export requirements made the zones more attractive to firms.
scheme or have relocated to a neighbouring East African Community member State where market conditions mean that no market access restrictions are imposed. This challenge exacerbates the already rigid EPZ regime and makes it urgent to consider alternative ways to operationalize SEZ regulations.

5. Special economic zones and regional integration: forging strategic partnerships

An important role of regional economic communities in Southern Africa (SADC and COMESA), is to create larger (subregional) markets and mechanisms for cooperation on transboundary and development issues. The present study reviews the role and importance of regional economic communities in promoting SEZs in the subregion, focusing on trade and investment promotion on the one hand, and the need to strengthen strategic partnerships on the other. Regional integration involves the establishment of free trade agreements, including a customs union and a common market, in which the partner States offer preferential trade to others by lowering tariffs and non-tariff barriers and agreeing on rules for trading goods and services.

The larger subregional market can be remarkably attractive for domestic and foreign investors. Moreover, SEZs have the potential to be used as platforms to supply national, subregional, regional and global markets. For instance, as illustrated in figure XVI, Southern African countries could leverage the SADC bloc to invest in copper mining through SEZs in Zambia, with a view to enhancing competitiveness at the global level.

Another key feature of the Southern Africa subregion is its multiple gateways for facilitating international and transit trade. The subregion is highly dependent on ocean shipping, mostly through the ports of Durban, Maputo, Mauritius and Dar-es-Salaam. Combined with a large market (a population of 67.8 million as of 2020), such international seaports and established trade corridors give the subregion a strong competitive advantage for developing robust industrial sectors by leveraging cross-country partnerships. The SADC subregion could be established as an international investment destination, given its natural assets and diversity of countries. It could be argued that SEZs would be a logical means to promote the destination. The subregion should therefore invest in enabling infrastructure that could connect SEZs as centres of production with subregional value chains to attract sustainable investment. The Maputo Development Corridor, which links the South African interior to the port in
Maputo, is also an example of a successful economic zone project, although it is not specifically an SEZ (Curran and others, 2009).

Notably, a critical issue for subregional integration is the implications of trade policies for SEZ operations. Although SADC does not set specific rules governing the entry of SEZ-processed goods, it has proposed that duty-free access for any import into the territory be subject to restrictive rules of origin that require a high proportion of local content (Farole and Akinci, 2011). At the same time, however, some exceptions are granted to accommodate the circumstances of member countries and sectors. For instance, SADC allowed temporary special arrangements for textile and garment exports to Malawi, Mozambique, the United Republic of Tanzania and Zambia from partner countries of the Southern African Customs Union. This special arrangement, which expired in 2009, enabled manufacturers in the four countries to continue procuring fabrics from outside SADC countries for duty-free sales to the bloc, during which time the countries were expected to develop their local fabric-producing capacities.

Another important issue is the need for policy coherence to facilitate the harmonization of frameworks for developing SEZs. This is critical, given the expectation that investors in the subregion will be attracted by larger subregional markets, which will drive investment in the zones across different countries in the subregion. The harmonization of SEZ development frameworks should also aim to enhance a common vision and understanding of the role that the zones play in

**Figure XVII:** Network of multilateral regional groupings in Africa and the Middle East

*Source: Acharya, Crawford, Maliszewski, and Renard (2011).*

*Note:* Dashed line indicate free trade agreements.
promoting private-sector development to achieve economic transformation, growth, job creation and poverty alleviation in the subregion. In addition, the potential for SEZs to strengthen subregional integration in Southern Africa is more likely to be successful if member States agree on common strategies to develop and implement the zones, including cross-border economic zones.

In this endeavour, one key challenge is the fact there is such a complex web of regional trade agreements in Africa and the Middle East, with several countries being members of more than one such agreement, and some blocs being subgroups of larger blocs. The multiplicity of memberships adds complexity to trade relationships, as each bloc tends to have its own set of rules and regulations. Figure XVII illustrates the current landscape of regional trade agreements in Africa and the Middle East. Regarding SEZs, for example, the problem could be that different trade agreements specify different treatment for special zones. Nonetheless, some complementarities between SEZs and regional trade agreements could be exploited in the context of initiatives to use the zones as special nests for attracting robust investment and promoting private-sector development in the region.

Abbreviations: Agadir, Agadir Agreement; AMU, Arab Maghreb Union; CEMAC, Economic Community of Central African States; COMESA, Common Market for Eastern and Southern Africa; ECOWAS, Economic Community of West African States; EFTA, European Free Trade Association; EU, European Union; GCC, Gulf Cooperation Council; MERCOSUR, Southern Common Market; GAFTA, Greater Arab Free Trade Area; SACU, Southern African Customs Union; SADC, Southern Africa Development Community; WAEMU, West African Economic and Monetary Union.

The development and strengthening of partnerships with the private sector are also key. The relatively successful SEZs are those that have built strong relations and partnerships between the Government and the private sector. In this case, our review shows that Mauritius Free Port and Sameer Industrial Park (Kenya) are two of the highly successful zones in Africa. For instance, in those zones, the private sector has been actively engaged in harmonizing corporate taxation on trading activities and taxation on processing activities, which have made local markets accessible and driven up exports. As a result, the private sector has increased investment in many different economic activities in the zones and contributed significantly to the diversification and economic transformation efforts of the relevant countries.

6. Potential risks and challenges in leveraging special economic zones as a development tool

Despite its critical role in promoting industrialization and private-sector development, SEZ development is not devoid of risks (Narula and Zhan, 2019). The key issues, risks and challenges associated with using such zones as a catalyst for private-sector development and industrial upgrading in Southern Africa are highlighted in the present section. Risks may stem either from private investors, from the Government or from a third party (i.e. exogenous or external factors). This categorization is important, as it informs the mitigation strategy and action plan used to address them. Investors may be motivated by tax incentives, which could cause distortions by prompting
negative reactions from investors in the rest of the economy. Investors, especially multinational corporations, may be attracted to a zone based on short-term gains (e.g. trade preferences) and may leave the country sooner than anticipated when such preferences vanish or in response to unfavourable domestic policy changes in the host country. Risks emanating from the host Government could be associated with any policy or regulatory changes related to the SEZ regime where the new polices are not well received by economic operators, including SEZ investors. Given the limited resources in most of the countries in the subregion, the Government may underinvest in the infrastructure needed to attract or keep potential investors in the zones. A project may lack support from the subnational government or community owing to weak linkages with the local economy.

Other challenges or risks are outside the remit of the investors or Governments. The host country may experience an unexpected decline in economic activity (or a general fall in demand) because of a global recession or other exogenous circumstances affecting commercial returns for SEZ investors. A recent example is the general decline in demand experienced globally, due to the COVID-19 pandemic, which could negatively affect operations in the zones. For instance, the Mazava Zone in the United Republic of Tanzania, which specialized in manufacturing sportswear and was mainly supplying the United States market under the African Growth and Opportunity Act, had to shut down its factory following an acute decline in demand for sportswear in the United States. The political and economic chaos in Zimbabwe over the past decade has also had a negative impact on the country’s ability to harness SEZs for inclusive industrialization and economic growth. Political turmoil in Madagascar and the country’s subsequent suspension from the African Growth and Opportunity Act also caused the island country to lose most of the benefits it had gained from its zones (Nesmashnyi and Nikitina, 2020).

A change in local operating conditions may also seriously affect the performance of SEZs. For instance, a lack of skills in the local labour market or an abrupt shortage of suppliers providing inputs of suitable quality for manufacturing firms in the zones could impair operations and undermine competitiveness. Owing to various challenges or unanticipated risks, the economic benefits of the zones might not outweigh the high opportunity costs associated with investment in SEZ programmes (including tax waivers and infrastructure). Furthermore, low absorptive capacity may lead to limited learning and skills and technology transfer. The immediate net benefits of an SEZ on areas such as employment and capital and technology flows are often modest, or even negative, given the infrastructure costs, the lost customs revenues, and the costs of the subsidies and incentives made available. Investors may make decisions based on short-term considerations, whereas the Government is typically looking to achieve long-term strategic objectives.

Notably, in most cases, the dynamics of SEZ development in a developing subregion such as Southern Africa are not straightforward. Generally, the immediate goal of the host country is to attract investors, but little if any attention is paid to understanding what happens to an SEZ when the original source of a competitive advantage diminishes. Indeed, the competitive advantages of a country such as Mauritius have slowly eroded: not only have trade preferences disappeared, but wages have risen as well. The country must therefore gear its new SEZ programmes towards providing
modern services and knowledge and innovation products that are consistent with the new comparative advantages of the island State. In fact, the Fourth Industrial Revolution may render labour-intensive manufacturing less successful. In the light of this, African countries are increasingly advised to focus their SEZ strategies on improving productivity, rather than exclusively promoting exports (Blake, 2018).

Another challenge is the reputational risk associated with the low level of compliance with environmental and labour standards, which makes it imperative to incorporate sustainability in the design of SEZs. As noted by Narula and Zhan (2019), the operating environment has toughened in recent years and the zones are confronted with new challenges that pose a series of concerns in terms of their role in development. Such challenges include global policy uncertainty, fiercer competition for investment, changes in traditional comparative advantages for attracting investment in the zones, and the sustainable development imperative.

These new challenges also present opportunities for the zones to reinvigorate their competitiveness and enhance their sustainability, including through integrating sustainable development into their business models, digitalizing their operating models and tapping into new forms of investments and partnerships. For instance, although over-focusing SEZ projects on large-scale enterprises may take away an opportunity to promote MSMEs, large-scale enterprises can provide viable funding streams to smaller firms, which often set up shops in the zones. While these emerging challenges need to be addressed, it should be acknowledged that different countries in Southern Africa are at different levels of development, and most are already battling to tackle the traditional (basic) challenges that prevent them from taking full advantage of SEZs as a tool for private-sector development and inclusive industrialization.

Table 32 is a summary of some of the risks and challenges discussed above. The SEZ programmes in Southern Africa are deemed to be medium risk. Although most of the risks identified are low risks, their effects are generally considered critical in enhancing prospects for SEZs to play a catalytic role in promoting industrialization and private-sector development in the subregion.
**Table 32: Assessment of risks and challenges in leveraging special economic zones in Southern Africa**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Level of risk (high, medium or low)</th>
<th>Likelihood of occurring (high, medium or low)</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ineffective implementation due to poor coordination between government departments in administering SEZs and associated policies, infrastructure and incentives</td>
<td>High</td>
<td>High</td>
<td>Ensure support from national government departments by creating a project steering committee that includes most of the stakeholders. Clearly delineate responsibilities in infrastructure provision and ensure regular and accurate communication with all supporting departments.</td>
</tr>
<tr>
<td>Inappropriate location and design</td>
<td>High</td>
<td>Medium</td>
<td>Ensure that the private sector and investors provide critical input into pre-feasibility and feasibility studies as a basis for decisions concerning location and appropriate design attributes.</td>
</tr>
<tr>
<td>A lack of support from local government and the community due to conflict over land or a lack of benefits to the local community</td>
<td>Low</td>
<td>Low</td>
<td>Ensure that implementation activities provide genuine value to the local community by engaging local workers, contractors and professionals in implementing the zone and ensuring genuine integration with the local economy. Communicate regularly on the value that implementation activities and the completed zone will provide to the local community. Include local leaders in a project steering committee.</td>
</tr>
<tr>
<td>Changes in the policy and regulatory regimes and in the national support strategy</td>
<td>High</td>
<td>Low</td>
<td>Assign responsibility for constantly reviewing the legislative and policy environments to the project manager responsible for implementing the zone and carry out regular reviews to keep abreast of developments.</td>
</tr>
<tr>
<td>Insufficient project funds or poor cash flow, thus affecting the implementation of a zone project</td>
<td>Low</td>
<td>Low</td>
<td>Carry out rigorous cost management to accurately determine costs and manage them while regularly keeping sponsors aware of budget issues and implications. Ring-fence funds for development of the zone.</td>
</tr>
<tr>
<td>Risk</td>
<td>Level of risk (high, medium or low)</td>
<td>Likelihood of occurring (high, medium or low)</td>
<td>Measures</td>
</tr>
<tr>
<td>------</td>
<td>-----------------------------------</td>
<td>---------------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Insufficient incentives for manufacturers to move in</td>
<td>Medium</td>
<td>Medium</td>
<td>Develop and constantly review the marketing strategy and commercial framework to determine the effectiveness of incentives.</td>
</tr>
<tr>
<td>Underinvestment in infrastructure for attracting potential investors</td>
<td>High</td>
<td>High</td>
<td>Implement a phased approach to infrastructure development. Design the SEZ to make use of existing industrial property and infrastructure. Build strong partnerships with the private sector.</td>
</tr>
<tr>
<td>Too much focus on short-term gains</td>
<td>Medium</td>
<td>High</td>
<td>Integrate sustainability aspects into the SEZ design. Aim to enhance competitiveness of the industrial and strategic sectors.</td>
</tr>
<tr>
<td>Lack of sufficient skills and suppliers of inputs and raw material in the local market to meet tenants' requirements</td>
<td>Medium</td>
<td>High</td>
<td>Carry out external skills and supply chain management audits in the areas of skills and input supplies for typical manufacturers within the SEZ, and cooperate with appropriate institutions to build required capacities.</td>
</tr>
<tr>
<td>Insufficient economic benefits to compensate for the investment and the tax waivers</td>
<td>Low</td>
<td>Low</td>
<td>Implement the SEZ in phases and conduct a cost–benefit analysis at each phase. Leverage existing public and private institutions, which can provide services at minimum cost. Subcontract operations and maintenance to the private sector with appropriately defined service-level agreements to reduce operational costs.</td>
</tr>
<tr>
<td>Reduced operations due to a decline in economic activity or domestic and global demand</td>
<td>Medium</td>
<td>Medium</td>
<td>Aim for a diverse mix of manufacturers catering to different markets and products (public/private markets, wind/solar/biogas, etc.).</td>
</tr>
<tr>
<td>Conflicts, political instability and natural disasters</td>
<td>High</td>
<td>Low</td>
<td>Promote civic education to prevent conflict and build capacities for efficient responses to natural disasters.</td>
</tr>
</tbody>
</table>

*Source: Author’s compilation based on the literature review and expert knowledge.*
7. Lessons from relatively successful African countries

Very few African countries (Mauritius, and to a certain extent, Ethiopia, are exceptions) have made significant progress towards taking advantage of the potential of SEZs as an instrument for structural transformation. In comparative terms, however, other countries appear to have made progress, though not as much as some others around the world. The present section contains a review of the experiences of Ethiopia, Mauritius, Kenya and Rwanda to draw lessons for Southern African countries.

Table 33 provides an overview of countries with best practices. Bangladesh, China, Malaysia, Mauritius and Viet Nam are among the most successful countries at harnessing the power of SEZs. These countries adopted the most free-market economic policies and flexible government measures to promote the zones. As shown in the table, there are four notable common attributes among successful countries: a central role for the private sector in driving zone programmes; a clear government commitment to promoting the development of the zones (including learning from successful countries); significant public investment to attract investors to the zones; and clear policy and incentive frameworks to provide benefits to zone operators.

In Africa, there appears to be a convergence of opinions across the vast literature that the continent’s experiences with SEZs have been less successful. It is important to underscore, however, that even for the most successful countries across the world, it took a decade or longer to build robust programmes. Furthermore, initial and dynamic conditions differ across countries. Therefore, Southern African countries should learn from other African countries that have achieved progress, however modest, in setting up successful development programmes for their zones. Southern African countries could learn useful lessons from countries such as Ethiopia, Mauritius, Rwanda and, to a lesser extent, Kenya.

Table 33: Summary of successful special economic zones at the global level

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country model</th>
<th>Good practice examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure and services</td>
<td>China</td>
<td>Suzhou Industrial Park was established with a dedicated customs subdirectorate from the outset, despite being situated in a landlocked environment. To extend the benefits further, the industrial park was later turned into a virtual port. The firms based there enjoy an efficient green lane for import and export clearance that operates 24 hours a day, 7 days a week.</td>
</tr>
<tr>
<td>Infrastructure and services</td>
<td>Bangladesh</td>
<td>Although economic processing zones in the country already received priority access to electricity, the authorities amended the law to go one step further and allow private investors to set up power stations and resell their production within the zones, to ensure a reliable electricity supply.</td>
</tr>
</tbody>
</table>
Mauritius is considered the most successful in Africa, mainly owing to a combination of incentives and unique advantages that characterize the operating frameworks. The programmes have dramatically contributed to the country’s economic and social development. Mauritius has maintained an open trade policy and effectively leveraged FDI to diversify and transform its economy.

Preferential market access is useful, but requires complementary policies. In addition to benefiting from the African Growth and Opportunity Act, Mauritius also took advantage of preferential market access to the European Union market through the Multi-Fibre Arrangement to grow the competitiveness of its textile and garment manufacturing though economic processing zones. The erosion of the agreement dramatically affected the Mauritian economy, however, especially in terms of employment and investment, as existing companies had to move to neighbouring countries (Madagascar and Mozambique) in search of lower costs and a higher supply of labour. Since 2000, SEZ growth has been difficult in Mauritius due to a shortage of labour, rising labour costs and the emergence of China in global manufacturing. As a result, the number of enterprises fell by 11.1 per cent, employment fell by 19.2 per

### Table

<table>
<thead>
<tr>
<th>Sector</th>
<th>Country model</th>
<th>Good practice examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business regulatory environment</td>
<td>Viet Nam</td>
<td>Viet Nam tightened controls on the provision of local incentives to curb unhealthy competition between regions with special economic zones and promote regulatory competition. Previously, for example, one zone advertised an investment licence being issued only four hours after submission of the application; others advertise average approval periods of three days.</td>
</tr>
<tr>
<td>Trade policy environment</td>
<td>Mauritius</td>
<td>Using zones as enclaves for pioneer industries, Mauritius strategically aligned its diversification and industrialization strategies with the international trading regime to create a specialized, attractive investment microclimate in its economic processing zones. However, its trade and investment strategy has not been static. Initially, the zones were liberal enclaves inside a highly protected economy. Over time, with the erosion of preferential trade access, liberalization of the trade and investment regimes has allowed for diversification outside the zones, in line with the country’s evolving comparative advantage, including the launch of the offshore financial sector and the free port in the early 1990s, the cybercity/information and communications technology initiative in the early 2000s, and the integrated tourism resort scheme in the mid-2000s.</td>
</tr>
<tr>
<td>Investment policy and fiscal regime</td>
<td>Malaysia</td>
<td>To create comparative advantages, Malaysia used a wide variety of evolving fiscal incentives, combined with its special economic zone programme, to facilitate the growth of export-oriented manufacturing. During the 1990s, when the country needed to shift its focus towards higher value-added activities, rather than simply its export volume, export incentives were phased out and replaced with incentives tied to technological advances, research and development, training and sourcing.</td>
</tr>
</tbody>
</table>

**Source:** Abridged from UNCTAD (2019).

### 7.1 Mauritius

The SEZ programmes created by Mauritius are considered the most successful in Africa, mainly owing to a combination of incentives and unique advantages that characterize the operating frameworks. The programmes have dramatically contributed to the country’s economic and social development. Mauritius has maintained an open trade policy and effectively leveraged FDI to diversify and transform its economy.

Preferential market access is useful, but requires complementary policies. In addition to benefiting from the African Growth and Opportunity Act, Mauritius also took advantage of preferential market access to the European Union market through the Multi-Fibre Arrangement to grow the competitiveness of its textile and garment manufacturing though economic processing zones. The erosion of the agreement dramatically affected the Mauritian economy, however, especially in terms of employment and investment, as existing companies had to move to neighbouring countries (Madagascar and Mozambique) in search of lower costs and a higher supply of labour. Since 2000, SEZ growth has been difficult in Mauritius due to a shortage of labour, rising labour costs and the emergence of China in global manufacturing. As a result, the number of enterprises fell by 11.1 per cent, employment fell by 19.2 per
cent and the zones’ contribution to manufacturing value added fell by 7.6 per cent. In the decade that followed, the zones started to experience remarkable expansion, thanks to a more stable macroeconomic environment and several incentives introduced between 1980 and 1985, including the lengthening of tax holidays from 10 to 20 years, the lowering of the corporate tax to 15 per cent for the life of the company, a 10-year exemption from tax on dividends and improvements to infrastructure.

Attracting FDI requires a combination of hard and soft infrastructure. Like Ethiopia, Mauritius has provided serviced land and other hard infrastructure, such as industrial sheds in SEZs, provided utilities at subsidized rates, set laxer labour standards for SEZ workers, lowered the minimum wage and prioritized allocating investment capital. In addition, the Government has assisted investors with obtaining market information and provided favourable interest rates on loans and export bills, among other measures. This combination has buttressed the availability of a skilled and bilingual labour force, robust institutions, a stable political environment, good infrastructure and strong diaspora networks, thus providing a mixture of unique advantages that attracted foreign and local investors.

7.2 Kenya

Like many other countries, Kenya is leveraging SEZs as an instrument to deliver on the government pledge to bolster manufacturing industry as part of the “Big Four” agenda, which it announced in December 2017. However, there has been little dynamism around SEZs since 2015 compared with the situation in Ethiopia. One challenge in Kenya, compared with Ethiopia or Rwanda, is the inability to coordinate and lead actions around specific objectives (te Velde and others, 2018). Like in the United Republic of Tanzania, there is a clear lack of a common understanding of whether the investor is attracted to EPZs, industrial parks and other SEZs. The law distinguishes SEZs from industrial parks and EPZs, with implications for their governance structure, institutions, and therefore their development.

Nonetheless, Kenya has succeeded in attracting investors to develop its zones. In 2017, China and Kenya signed a K Sh 200 billion contract (around $1.93 billion) to build an industrial park at the Eldoret SEZ.19 Furthermore, some foreign garment assembly firms such as Hela Clothing (UK-owned, headquartered in Sri Lanka) and New Wide Garments (owned and headquartered in Taiwan Province of China) have established subsidiaries in the Athi River EPZ. In both cases, nearly all inputs are imported (from China) and products are exported to the United States using preferences under the African Growth and Opportunity Act, currently worth $410 million (2018), with total EPZ exports of $712 million. Indeed, the EPZ and SEZ programmes have made notable contributions to the economy. For instance, the top six zones provide 75 per cent of EPZ/SEZ jobs and host 78 of the 131 EPZ/SEZ firms. Their exports as a share of total Kenyan exports grew from 8 per cent in 2008 to 12 per cent in 2018.

Some initiatives to enhance linkages in Kenya are showing good prospects. First, Hela Clothing is promoting the development of local expertise while reducing the use of

foreign expatriates through fiscal measures. Second, by promoting vertical linkages, the zone authority and the clothing company encourage supplier firms to relocate into the zones. The clothing company focuses on production (cutting, stitching, embroidery, finishing, etc.) using imported inputs while local suppliers relocate to the zones to provide business services, thus fostering clustering and agglomeration effects.

In their quest to ensure that the benefits of the SEZ regime over the restrictive EPZ regime continue, Kenya and Rwanda have applied a provision under the East Africa Community Customs Management Act allowing them to amend domestic taxes to create fiscal incentives for implementing SEZs or industrial parks. The firms operating under the SEZ scheme pay the common external tariff (25 per cent) plus a surcharge of 2.5 per cent.

7.3 Rwanda

A key lesson from the SEZ experience in Rwanda (as is also the case in Ethiopia) relates to the way that the Government streamlined its initiatives to concentrate public investment resources in one zone, namely the Kigali SEZ. This gradual, focused approach explained the successful experience and performance of SEZs in the country. The Government merged the former Kigali Free Trade Zone and the Kigali Industrial Park into the Kigali SEZ, in which the Government invested $45 million during the first phase. In total, 61 investors occupy all the plots. Some industries have also relocated from the former Gikondo Industrial Park. Phase 2 (178 ha) began a few years ago, with several companies already operational, while phase 3 is currently under way. The Government spent $30 million on an initiative to help existing industries fit in to the national industrial strategy.

Although the Kigali SEZ is still new, with relatively few firms, it offers clear benefits. Firms in the Kigali SEZ already make an important contribution to the country’s aggregate economic outcomes. As of the end of 2016, the 44 firms that operated in the zone employed 2,500 people, or around 2 per cent of all permanent employees in the country, and they accounted for 2.5 per cent of all reported VAT sales. The opening of the zone led to increased exports and was responsible for 4.5–10.0 per cent of Rwandan exports in the period from 2013 to 2015. The data in table 34 suggest that moving into the zone is associated with a large increase in sales, value added and higher permanent employment figures. The effects on the level or probability of exporting are limited, but the zone has led mainly to a diversification of the export market and manufacturing.

The SEZ programme is an integral part of the broader national development strategy. The policy framework is designed in a way that has helped to clarify the policy thrust and integrate the SEZ agenda into the broader national development strategy. As a result, the Kigali SEZ was built relatively quickly after legislation regulating special economic zones was passed in 2011. Firms in the zone are already making important contributions to the economy. As clearly indicated in table 34, Rwandan SEZ companies bolstered performance in different indicators by moving into the zone. The first phase led to 3,100 jobs after only a few years. The successful start for Rwanda is a result of the strong government commitment. However, there is little evidence of clustering and spillover effects in the zone.
In Ethiopia, there has been a strong government-wide resolve to support SEZs as an integral part of the national development strategy through industrialization. The government commitment is seen in terms of public investment to develop infrastructure, build industrial parks and provide essential services to attract FDI. Ethiopia has made a strategic move to learn from successful countries (Mauritius and Seychelles), which is an important step in designing zones and drawing up a strategy for their development. Ethiopia has attempted to follow, to the extent possible, key international best practices, including finding a strategic location, offering incentives to attract FDI and understanding market demand. Ethiopia is an excellent example of the need to designate and empower a champion to ensure effective SEZ development. This role was assumed by Arkebe Oqubay, who was the Ministry of Industry at the time. Mr. Oqubay led the process for setting up SEZs, including the flagship Hawassa zone.

Ethiopia promotes both the domestic and export markets and the use of technical assistance and innovative financing. It is a good example of a country that has leveraged development banks (rather than government budgets) to finance industrialization and used technical assistance to make fast progress in setting up its zones. African Governments could consider technical assistance as a quick solution to fixing key challenges. Ethiopia has used technical assistance to obtain world-class knowledge for designing its SEZ programme. The recently published *Economic Report on Africa 2020* (Economic Commission for Africa, 2020b) outlined several financing innovations that can be leveraged to support private-sector development in the region. These include using multiple sources simultaneously along with a transparent and effective regulatory institution. However, the report cautions that the absence of sound legal and regulatory frameworks can impede firms even when financing is readily available.

### Table 34: Estimated impact of moving into a special economic zone – the case of the Kigali zone

<table>
<thead>
<tr>
<th>Outcome type</th>
<th>Outcome variables</th>
<th>Estimated impact (1-6 quarters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall economic performance</td>
<td>Total sales</td>
<td>+206%</td>
</tr>
<tr>
<td></td>
<td>Value added</td>
<td>+201%</td>
</tr>
<tr>
<td></td>
<td>Value added share</td>
<td>+9%</td>
</tr>
<tr>
<td></td>
<td>Permanent jobs</td>
<td>+18%</td>
</tr>
<tr>
<td></td>
<td>Value added per worker</td>
<td>+130%</td>
</tr>
<tr>
<td></td>
<td>Permanent jobs - average pay</td>
<td>No Effect</td>
</tr>
<tr>
<td>International versus domestic trade</td>
<td>Probability of exporting</td>
<td>No Effect</td>
</tr>
<tr>
<td></td>
<td>Exports</td>
<td>No Effect</td>
</tr>
<tr>
<td></td>
<td>Local sales</td>
<td>+148%</td>
</tr>
<tr>
<td></td>
<td>Probability of importing</td>
<td>+16%</td>
</tr>
<tr>
<td></td>
<td>Imports</td>
<td>+262%</td>
</tr>
<tr>
<td></td>
<td>Local purchases</td>
<td>+190%</td>
</tr>
</tbody>
</table>

*Source: Steenbergen and Javorcik (2017, p. 3).*

### 7.4 Ethiopia

In Ethiopia, there has been a strong government-wide resolve to support SEZs as an integral part of the national development strategy through industrialization. The government commitment is seen in terms of public investment to develop infrastructure, build industrial parks and provide essential services to attract FDI. Ethiopia has made a strategic move to learn from successful countries (Mauritius and Seychelles), which is an important step in designing zones and drawing up a strategy for their development. Ethiopia has attempted to follow, to the extent possible, key international best practices, including finding a strategic location, offering incentives to attract FDI and understanding market demand. Ethiopia is an excellent example of the need to designate and empower a champion to ensure effective SEZ development. This role was assumed by Arkebe Oqubay, who was the Ministry of Industry at the time. Mr. Oqubay led the process for setting up SEZs, including the flagship Hawassa zone.

Ethiopia promotes both the domestic and export markets and the use of technical assistance and innovative financing. It is a good example of a country that has leveraged development banks (rather than government budgets) to finance industrialization and used technical assistance to make fast progress in setting up its zones. African Governments could consider technical assistance as a quick solution to fixing key challenges. Ethiopia has used technical assistance to obtain world-class knowledge for designing its SEZ programme. The recently published *Economic Report on Africa 2020* (Economic Commission for Africa, 2020b) outlined several financing innovations that can be leveraged to support private-sector development in the region. These include using multiple sources simultaneously along with a transparent and effective regulatory institution. However, the report cautions that the absence of sound legal and regulatory frameworks can impede firms even when financing is readily available.
Ethiopia has dedicated time to carefully selecting the location and design of its flagship zone, the Hawassa SEZ. Hawassa Industrial Park consists of four main elements: factories, housing units for experts, a water treatment plant, and a textile mill (currently the largest in Ethiopia) that will eventually supply 100 per cent of the textile needs of the companies based at the park. The latter is a key aspect of the Government’s plans for vertical integration and will benefit the country’s textile industry overall. Information from the literature review shows that investors in Ethiopian SEZs appear to be attracted by clarity on policies, simpler processes for setting up operations and a strong commitment from the Government. The key factor behind the choice of location for Hawassa Industrial Park is the abundant supply of labour in Hawassa, which has 5 million people living within a 50 km radius. The park has generated 60,000 jobs, 80 per cent of which are held by women.

The Government has established a clear relationship between the State and the business sector while capitalizing on the strengths of private enterprises. The Government adopted a stance that was midway between a top-down and a bottom-up approach. It allowed the private sector to drive the process while offering facilitative and enabling policy, regulatory and institutional frameworks. Within Ethiopia, consensus on the Eastern Industrial Zone initiative was slow, but picked up speed when the Government realized the strategic importance of putting private enterprise in charge of planning, implementation and operations at the zone. High-level officials, including the Prime Minister, were involved in soliciting global investors to invest in the country’s SEZs. Furthermore, the role of “lead goose” was key in attracting other buyers and manufacturers to build the garment industry in Ethiopia. Like Ethiopia, Southern African countries could embrace the idea of the “lead goose” by empowering existing investors, which could help attract other enterprises, including market leaders, into SEZs.

The Government understood the importance of high-quality, efficient supporting institutions. Established in 2014, the Industrial Parks Development Corporation is mandated with the role of developing SEZs. The key factor behind its success is the trust bestowed on it by the Government to develop industrial parks. The organization reports directly to the Prime Minister. The Government also established a one-stop institutional service with the Ethiopian Investment Commission to provide new companies with banking, visa and immigration facilities and support with import and export licences, work permits and customs clearance, all of which helps to speed up decision-making and reduce set-up costs. The Industrial Parks Development Corporation is fully mandated, although the Government still provides strategic leadership, policy guidance and coordination.

Key factors that affect costs of production include fixed costs, especially built-in infrastructure such as industrial sheds, and variable costs, such as electricity, gas and water. Although most countries in the region have relatively low labour costs, labour productivity is far below international levels, which effectively offsets the low-wage advantage. Countries in the region also have high construction, electricity and water costs compared with countries that use global best practices. Dalberg (2019), for instance, found that factory construction costs in the United Republic of Tanzania were 43 per cent higher than in Ethiopia. Thus, although the United Republic of Tanzania is rated positively for its political stability and for having easier
access to foreign exchange than Ethiopia, high costs dramatically reduce its overall competitiveness.

SEZ development needs to be placed on a more sustainable path through an incentive package that provides added value to investors in a more sustained manner. The most notable challenge in Ethiopian SEZs is labour issues, including restrictive labour practices and employee absenteeism, high labour turnover, a weak work ethic and the compulsory hiring process. It is important to underline that, even in countries that have been the most successful at developing SEZs, such as in East Asia, labour costs have been rising over time, as those countries’ economies grow. Basing a country’s competitiveness on low labour costs is therefore unsustainable. Low wages also fuel high worker absenteeism and low morale, leading to low productivity. Southern African countries therefore need to strike the right balance between attracting investors through low labour costs on the one hand and productivity, which is essential, on the other.
Chapter VI: Emerging issues, opportunities and the future of special economic zones in the region

1. Overview

The dynamics in economic and market conditions imply that SEZs should evolve rapidly over time to suit the new business and economic environment. While there may be a wide range of issues underlying the regional and global dynamics, the present chapter reflects on a few of them that have significant implications for SEZ development in the Southern African region. These issues include the emerging opportunities and challenges of the AfCFTA Agreement, the Fourth Industrial Revolution, the new emphasis on green industrialization and the untimely impact of the COVID-19 pandemic. These issues are briefly discussed, each in turn, with a basic proposition that they have different implications (negative or positive) on SEZ performance. However, given the limited scope of the present report, it does not analyse these issues in great depth. Instead, efforts are made to present key updates and offer some broad implications for policy review and guidance.

2. Agreement Establishing the African Continental Free Trade Area

2.1 Overview of the African Continental Free Trade Area

The Agreement Establishing the African Continental Free Trade Area (AfCFTA Agreement) was adopted in 2018 at the tenth Extraordinary Summit of the Assembly of Heads of State and Governments of the African Union. The Agreement entered into force in 2019, after ratification by 22 countries. As of January 2021, it had been signed by 54 African Union member States and ratified by 35 member States. Implementation of the Agreement began on 1 January 2021, when the Secretariat was established in Accra. The Agreement has several objectives: to increase intra-African trade; to promote the free movement of capital and people across the continent; to establish a consolidated market for, and liberalize the movement of, goods and services in Africa; to enhance the competitiveness of goods and services produced in Africa; and to lay a foundation for the establishment of a continental customs union. AfCFTA is a free trade area that connects 1.3 billion people and a combined continental GDP of $3.4 trillion.

At the tenth Extraordinary Summit, the Assembly also endorsed the Action Plan on Boosting Intra-African Trade, which sets out seven priority areas: trade; factor market integration; trade information; trade-related infrastructure; productive capacity; trade facilitation; and trade policy. Given that the private sector is the main driver of the implementation of the Agreement, a coordinated approach between

---

20 As of July 2021, the Southern African countries that have deposited their instruments of ratification to the African Union are Angola, Eswatini, Lesotho, Malawi, Mauritius, Namibia, South Africa, Zambia and Zimbabwe.
the public and private sectors is necessary. This also highlights the importance of creating awareness among key stakeholders of the potential benefits, opportunities and challenges presented by the Agreement. Against this background, one of the key questions concerns how SEZs could support enterprise development in Southern Africa through the implementation of the Agreement.

2.2 Focus and implications of special economic zone development in the implementation of the Agreement

The Agreement provides specific treatment for SEZs. The legal text refers to “Special Economic Arrangements / Zones” (see box 4). The guidance provided therein states that goods produced or traded from these zones are to be treated as originating goods if they satisfy the rules in annex 2, in accordance with the provisions of article 23.2 of the Protocol on Trade in Goods. Furthermore, under article 42 of annex 2, States parties agreed on a number of outstanding issues, including the drafting of regulations for goods produced under special economic arrangements or zones. Article 24, on infant industries, offers strategic support to African countries in their desire to promote industrialization, consistent with article 23, which supports continental industrialization programmes. Empirical evidence suggests that African Union member States could benefit from strengthening their SEZs through AfCFTA (World Bank, 2020b).

The Agreement paves the way for countries to invest more in their respective SEZs, which are expected to support and boost intra-African trade (Dube, Matsika and Chiwunze, 2020). Pursuant to the Agreement, member States are to progressively remove tariffs on at least 97 per cent of tariff lines, which account for 90 per cent of intra-African imports. In doing so, investors could be attracted by friendly investment policies at SEZs.

To showcase and reflect on the potential effects that AfCFTA will have on SEZ development and sustainable industrialization in Africa, the African Union Commission organized a virtual symposium on SEZs and green industrialization, held in September 2020. The objective of the symposium was to provide a platform for SEZ policymakers and operators, experts, financial institutions and academics to exchange views and experiences on policy, planning, financing, development and operations at the zones. The workshop focused on exploring the challenges and opportunities for SEZs through AfCFTA and addressed opportunities for the zones to contribute to achieving the goals of the Agreement, including through the promotion of green, inclusive and sustainable industrialization.

Despite the enthusiasm, actual trading under the Agreement still requires a lot of work by experts and policymakers, especially in addressing challenges related to rules of origin, which are still pending for some sectors, lest they become a source of non-tariff barriers to trading in the free trade area. In any case, the content of the Agreement offers significant opportunities for Southern African countries to support their industrialization and their economic transformation strategies. The Agreement provides an opportunity for improving trade facilitation more widely, which benefits the development of trade and industrialization in the subregion (Obeng-Odoom, 2020). It provides an opportunity for SEZs to grow and play a bigger role in industrialization and economic transformation processes across the continent.
2.3 Role of special economic zones in achieving the opportunities presented by the African Continental Free Trade Area

Under the AfCFTA Agreement, SEZs could play an effective role in supporting businesses on the continent to take advantage of the expected opportunities provided by the consolidated market. With the expansive continental market, the Agreement will make Africa a more attractive destination for private investment. SEZs provide a natural space for attracting investment, especially FDI inflows. The Agreement also improves access to raw materials from other African countries, thus reducing the cost of production and improving competitiveness. If successfully implemented, the Agreement will help African firms overcome the constraint of narrow domestic markets, thereby facilitating economies of scale, diversification and value addition. Furthermore, the Agreement will lead to an increase in initiatives for attracting FDI to the manufacturing sector, which will allow structural transformation through industrialization and private-sector growth.

Kouassi and Wait (2020) noted that the future of Africa will depend on its ability to use the industrialization opportunity presented by AfCFTA. However, it is argued that, even if the Agreement is fully implemented, it may not lead to the level of industrialization expected, given the significant structural constraints, poor logistics, infrastructure gaps and unfavourable business environment in Africa. It is for this reason that SEZs are effective complementary mechanisms to boost the impact of its implementation. Furthermore, given the wide range of levels of development in Africa, implementing the Agreement is likely to create winners and losers, so effective compensatory measures will be needed to prevent the gains obtained through free trade from being undermined.

AfCFTA has the power to promote private-sector development, especially the growth of MSMEs. The Agreement promotes the participation of MSMEs in continental value chains, and member States are strongly encouraged to support capacity-building

---

Box 4: Provisions on special economic zones in the Agreement Establishing the African Continental Free Trade Area

The Agreement defines “Special Economic Arrangements/Zones” as special regulatory provisions applicable in a geographical area within a State party’s territory where the legal, regulatory, fiscal and customs rules are different (normally more liberal) than in the rest of the State party’s territory. The guidance under the Agreement states that goods produced or traded from a special economic zone are treated as originating goods if they satisfy the rules in annex 2, in accordance with the provisions of article 23.2 of the Protocol on Trade in Goods. Furthermore, under article 42, the State parties agreed on several outstanding issues, including the drafting of regulations for goods produced under special economic zones.


---

initiatives for MSMEs. According to article 27(2) of the Agreement, “State Parties agree, where possible, to mobilize resources, in collaboration with development partners, and implement measures, in support of the domestic efforts of State Parties, with a view to, inter alia...improving the export capacity of both formal and informal service suppliers, with particular attention to micro, small and medium size; women and youth service suppliers.”

However, the familiar challenges facing MSMEs in Africa are considered the main obstacles to achieving these benefits. These challenges include weak capacity, inadequate access to finance, unreliable power and water supplies, poor infrastructure, stiff competition and a lack of affordable business services. More important, the low capacity of the majority of MSMEs implies they are less likely to be informed about and engaged in AfCFTA-related initiatives.

A survey\textsuperscript{22} conducted by the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture of 1,800 MSMEs across key sectors (agriculture, manufacturing, services and retail) in Nigeria found that awareness of the Agreement among MSMEs was low (more than two-thirds were not aware of it). Although most were optimistic that the Agreement would be beneficial, some perceived it as a threat and risk for the domestic economy. For instance, they believed it might create competition from other African countries, reduce demand for local goods and result in substandard products being dumped. The main benefits anticipated by enterprises included a larger market, easier access to cheaper materials and inputs, cheaper machinery and increased production capacity. These findings also apply to many other countries in Africa, including those in Southern Africa.

Most studies on regional integration have found that MSMEs are among the main beneficiaries of cross-border trade. Following the successful implementation of the Agreement, the removal of (tariff and non-tariff) barriers to trade together with effective trade-facilitation measures will dramatically improve trade benefits and growth for MSMEs, thereby contributing further to private-sector growth. One of the key initiatives implemented by the African Union Commission is a strategy for integrating MSMEs into AfCFTA, including providing opportunities to increase their engagement in the process. The Agreement also envisages a mechanism to report non-tariff barriers, which have a disproportionate impact on MSMEs due to their limited resources and access to information.

Key recommendations include:

\begin{itemize}
    \item[a)] To carry out case studies on the impact of the Agreement and the opportunities it brings about in order to increase knowledge of what its potential benefits are and how a country could leverage such benefits to support SEZ development;
    \item[b)] To raise awareness among the private sector, MSMEs and SEZ stakeholders of the opportunities identified in AfCFTA;
\end{itemize}

\textsuperscript{22} http://www.naccima.com/downloads/CSEA_AfCFTA_Executive_Brief-Dec-2020.pdf.
c) To conduct needs assessments of the private sector’s role in the context of AfCFTA;

d) To collaborate with other stakeholders and member States at the regional and continental levels to fast-track implementation of trade-facilitation measures and capacity-building initiatives so that trade under the Agreement can be accelerated, including by preparing simple guidelines or trading documents on AfCFTA that take into account the context and varying levels of development in the region;

e) To consider the challenges and threats posed by AfCFTA as opportunities to improve the Agreement rather than hindrances to its benefits.

3. **Fourth Industrial Revolution and the realities of digital transformation**

The Fourth Industrial Revolution can generally be described as a period of major transition from older to newer manufacturing processes, mostly thanks to enormous technological advances mainly in Europe and the United States. The revolution has marked a major turning point in the history of economic transformation. As summarized in figure XVIII, there have been four major industrial revolutions, including the current one, known as Industry 4.0 or by the abbreviated form 4IR. The first revolution was fuelled by steam engines, the second by the discovery of electric power, the third by advances in computing that led to machine programming and the fourth by advances in digital transformation.

Although the definition and scope of the Fourth Industrial Revolution is not entirely clear in relation to the assessment of the role of SEZs in economic transformation, it is commonly understood to represent a fundamental change in the way we live, work and relate to one another. Central to the new revolution is the increasing role of technology, which has become embedded within societies and even in the human body. Examples of the advances driven by this revolution include genome editing, new forms of machine intelligence, digital technologies, advanced robotics, 3D printing, big data, the Internet of Things and approaches to governance that rely on cryptographic methods such as the blockchain.

Cutting across these characteristics is the fact that the technological advances are merging the physical, digital and biological worlds in ways that create both huge promise and potential danger. According to the World Economic Forum (2021), “the speed, breadth and depth of this revolution is forcing us to rethink how countries develop, how organisations create value and even what it means to be human”.

Some aspects of the revolution, such as the Internet of Things, three-dimensional printing and digitalization, are already becoming an integral part of production and operations systems in which there is a high productivity dividend. Since most countries in Africa still have lower-middle income or least developed country status, these technological advances offer excellent opportunities for leap-frogging. In other words, African countries have real opportunities to harness basic aspects
of technological advances to push forward their industrialization and structural transformation agendas.

In recent decades, innovative technologies have attracted many investors because the technologies have proved to be efficient at producing high-quality goods and services with high returns (Traore, Muchie and Worku, 2020). The Fourth Industrial Revolution emphasizes improvements to industrial sectors through digital transformation. The literature review shows that substantial investment in science and technology to promote the industrial revolution in Southern Africa is not reflected in outcomes (Richards and others, 2020). This situation could be turned around if policy priorities focused on three issues.

First, the concept of the Fourth Industrial Revolution and its ramifications need to be digested and Governments need to make preparations to take advantage of it while creating mechanisms to address the looming fears that the revolution could undermine the prospects of SEZs. The argument underlying these fears is that the revolution will greatly erode the importance of labour, which is one of the traditional features and advantages of operating in those zones. Second, countries in the region should implement policy reforms to support access to and adoption of new technologies by a critical mass. Third, there is an urgent need for strategic re-orientation in order to scale up investment in new technologies.

According to evidence from the literature, one factor that has limited the success of SEZs in Southern Africa is low investment in innovative technology. In a seminar hosted by the Eswatini Economic Policy Analysis and Research Centre in 2019, which involved public- and private-sector stakeholders, it was argued that the sustainability of SEZs hinged on more than just investment in infrastructure. It was also necessary to look at what would stimulate incremental or radical innovations in how domestic and foreign companies were oriented, which knowledge suppliers were used, and how Governments could support the start-up of new firms and enhance the innovation capabilities of existing companies.

The World Economic Forum (2020) highlighted that, to improve their economic performance, Southern African countries should overhaul their SEZ systems to prepare for the technological revolution and attract more investors. In the light of the impending opportunities and challenges that will arise from the Fourth Industrial Revolution, countries in the subregion have a unique opportunity to invest in any science and technology aspects of the zones that would enhance economic growth in the subregion. The digital transformation associated with the revolution can also create big opportunities for MSMEs in terms of investment in zones, easier access to regional value chains and strengthened linkages between firms within and outside the zones on the one hand and between foreign and domestic firms on the other. The revolution provides the potential to develop specialized comparative advantages (rather than relying on lower labour costs, as has been traditionally the case in African SEZs).

---

4. **Imperative of green industrialization for sustainable development**

SEZs are at the heart of reforms and are the testing ground for the introduction of new business models for sustainable development. They are considered the champions and role models of green growth and industrialization (Wellman, Soomro and Patterson-Waterston, 2019). The present section contains an analysis of how well SEZ development in Southern Africa has taken on board the need for green growth so that recommendations for improvement can be made. The assessment is limited by a lack of country- and zone-specific data. Instead, insights are essentially drawn from available studies on green zones in the subregion and elsewhere.

The objective of pursuing green growth through SEZs is often associated with various concepts, including eco-industrial parks, green zones, low-carbon zones and sustainable SEZs (for details, see Wellman, Soomro and Patterson-Waterston, 2019).\(^{24}\) Nonetheless, at the core of these concepts is the overall objective of developing zones that reduce environmental pollution risks and use resources in a more sustainable and climate-friendly way. This can be achieved through green production processes, supply management and operational practices. Such strategies can be effective when they are integrated into the overall national and sectoral development plan.

Yeo and Akinci (2011) outlined five core components of strategic frameworks for green SEZs: a greenhouse gas mitigation target (action plan for mitigation), sustainable

---

\(^{24}\) For convenience, the present document uses green SEZs as a generic term covering various concepts. A green SEZ can be defined as an SEZ that is designed and developed and operates in a low-carbon, green, sustainable way, thus reducing its carbon footprint and mitigating the contribution that the zone’s economic and industrial activities make to climate change (Farole and Akinci, 2011).
infrastructure (energy-efficient resources), climate-friendly investment generation (investment promotion tools), low-carbon policy incentives and regulations (a well-designed policy framework) and carbon finance (sources of funding). These components can be implemented in various combinations and at varying degrees of intensity, depending on the level of SEZ development in a particular country. SEZs have evolved over time, and today’s zones have become important tools for achieving green growth, unlike their predecessors (mainly EPZs), which had a track record for poor environmental performance.

Country experiences show that the Southern African subregion has promoted environmental sustainability in SEZs by stipulating various compliance measures in policy and regulatory frameworks that specifically or indirectly address the zones. In most countries in the subregion, a policy or law governing SEZs specifies that environmental impact assessments must be conducted.

The SEZ Act in South Africa established the SEZ Fund which, among other things, supports environmental impact assessment studies and improvements to zones developed by the public sector.25 In Zambia, environmental sustainability measures are documented in the MFEZ Regulations (2007), which essentially require the investor to provide an environmental impact assessment of the proposed SEZ project that details the potential environmental impacts and proposes methods to remedy them. The Zambia Development Agency, which oversees the MFEZ programme in Zambia, is a representative of the Environmental Council of Zambia. A similar practice is documented in the Zimbabwe SEZ Act. Although the Mauritius Free Port Act 2004 does not say anything on the environment, investors are required to present an economic impact assessment through the country’s Environment Protection Act. In the United Republic of Tanzania, the SEZ Act of 2012 specifies that the environmental laws currently enforced in the country apply to SEZs. However, the EPZ Authority strategic plan for 2019–2024 identifies the lack of sector-specific guidelines on environmental management as a constraint to the development of sustainable SEZs and recommends adopting sustainable environmental standards.

Most zones have still not properly addressed environmental compliance, especially those in the oil and petrochemical sectors. Despite the challenges, the adoption of and compliance with environmental sustainability requirements could represent a huge business opportunity, as they play a critical role in attracting globally reputable investors. Compliance with environmental requirements is gradually becoming a demand-side, rather than a supply-side, issue. In other words, serious global investors take into consideration requirements such as an indication by the host Government of a commitment to the long-term sustainability of a zone project.

The implementation of green SEZs, however, is less straightforward and may be a difficult objective to achieve for most countries in the subregion, given the nascent nature of the private sector. Nonetheless, the internationalization of production processes and integration into global supply chains will exert pressure on these countries to embrace the green growth orientation of their SEZs.

---

25 It is clear that private zone developers fund their own economic impact assessment studies.
Despite the challenges of low capacity, zone development strategies across the subregion have continued to emphasize the need to orient SEZs towards green growth as part of measures to achieve sustainability and in response to international pressure to implement international environmental commitments (e.g., the Paris Agreement on climate change, which requires countries to reduce their greenhouse emissions). Pursuing green growth through well-designed SEZs can play a crucial role in achieving the SDGs targets (Wellman, Soomro and Patterson-Waterston, 2019). For instance, in 2011, the Western Cape Province in South Africa redeveloped the Atlantis SEZ as a green-tech SEZ to jump-start a transition to a subregional green economy (Grant, Carmody and Murphy, 2019).

The concept of green growth can also be considered in the context of the economic development strategy for Africa. In the 2016 edition of the *Economic Report on Africa*, it is shown that green industrialization is an essential component of effective structural transformation. The report highlights that most SEZs in Southern Africa do not adequately articulate the concept of green industrialization for sustainable development. It calls on countries to align their SEZ programmes with specific green agendas, in line with the 2030 Agenda for Sustainable Development. To achieve such a goal, the Commission emphasizes the need to involve a wide range of stakeholders from private and public institutions to ensure that SEZs promote green industrialization (United Nations, Economic Commission for Africa, 2020c).

The challenges to mainstreaming green industrialization in Southern Africa include the limited technical capacity to raise awareness and effectively implement a green-growth strategy across the subregion. However, it can be argued that successful uptake of a green culture will ultimately improve over time as part of the value chain requirements for MSMEs and domestic firms. Insights from the literature show that Malawi, Mauritius and South Africa are the leading countries in the subregion in terms of setting up green initiatives in their SEZs, including the use of renewable energy, green agro-industrial value chains, bioethanol production, the blue economy and eco-industrial parks.

A study on the United Republic of Tanzania by Kweka and Hepelwa (2020) found that initiatives to promote green industrialization are more effective when they involve partnerships between industries and industrial zone communities on the one hand and Governments on the other. In this respect, the primary role of Governments in Southern African countries is to institute green development regulations and enforce them by building capacity and raising awareness among companies and civil society organizations.

At the global level, China plays a leading role in leveraging the power of SEZs for economic transformation and is recognized as being at the forefront of adopting green-growth SEZs (Wellman, Soomro and Patterson-Waterston, 2019). Its success is widely attributed to intense competition among various SEZs striving to comply with global environmental and climate-smart requirements, with the goal of attracting sustainable investment. However, while there is no updated information to show the status of adoption by countries of green SEZ policies globally, the expectation is that more countries will follow suit in incorporating green aspects into the development strategies for their zones. Grant, Carmody and Murphy (2019) emphasize the need to
consider green SEZs as one of the features of sustainable transition. In South Africa, following the lacklustre experience of industrial development zones over the past decade, the SEZ programme is expected to meet the goals of promoting economic growth and job creation and helping to tackle the challenge of unbalanced regional development in the country (Chongsheng and others, 2020).

One of the key indicators of green industrialization is the extent to which a country has embraced and achieved greenhouse gas mitigation targets. At the centre of the overall green-growth strategy, all economic activities inside the SEZ need to be aligned with concrete action plans for mitigation (Yeo and Akinci, 2011). A mitigation goal can be set up in many different forms to accommodate the different circumstances found at each SEZ.

Three broad recommendations for driving green manufacturing and operations in Southern African SEZs can be highlighted.

First and foremost, there is an urgent need to mainstream green SEZs as an integral part of a modern programme or, more broadly, SEZ policy. Establishing a green component in the policy will provide a reliable basis for the subsequent development of strategies and mechanisms for adoption. In addition, mainstreaming green SEZs will allow them to be aligned with economy-wide green growth.

Second, it is critical to conduct awareness-raising campaigns and capacity-building workshops on the basic elements of green growth and SEZs. One of the key challenges in implementing green SEZs in the subregion is that countries are at varying stages of SEZ development. National stakeholders need to appreciate the critical role of SEZs in promoting sustainable industrialization.

Third, a subregional and national green SEZ strategy needs to be developed that outlines key objectives, proposes measures/mechanisms for implementing green SEZs and establishes how to monitor and measure progress. Given the status of SEZ development in the subregion, it might be unrealistic for Southern African countries to embrace green SEZs wholeheartedly. The strategy could help countries to identify short-, medium- and long-term objectives and targets, allowing them to adopt a strategy that takes local development needs and contexts into account. For example, initially, the subregion could promote the idea of good environmental practices, such as recycling, in all operations at the zones. This could be an entry point, which could be followed by harder targets such as a reduction in greenhouse emissions. The strategy should also identify a framework for institutionalizing and enforcing the proposed mechanisms.

5. Implications of the coronavirus disease pandemic on the development of special economic zones

As has been the case elsewhere in the world, the Southern African subregion has been hit with the devastating COVID-19 outbreak (see box 5). Consequently, a number of surveys have been carried out to understand how businesses have been affected by the pandemic, what strategies they are taking to manage the transition,
what scenarios they project for the future and what kind of recovery measures are most likely to be helpful for their transition. One particular survey26 conducted for SEZ operators shows that 66 per cent of participants agreed that the future role of the zones in supporting economic growth has changed as a result of the COVID-19 pandemic, with half saying that their role can be adapted to support disrupted supply chains. According to the survey results, the pandemic has revealed several interesting trends.

First, and presumably most important, is the transition from global to regional value chains and a significant reduction in global FDI and trade, with some fearing a likely shift towards nationalism. Only a small share (17 per cent) of survey participants agreed that the zones could support firms during the transition. However, the zones provide the necessary infrastructure and scale to promote manufacturing, which might otherwise be very expensive, time-consuming and uncompetitive. Second, information and communications technology and digitalization are becoming more and more important for zone operators. Zone operators and tenants with better information and communications technology infrastructure and services are likely to better adapt to the disruption than those who are not well-equipped. Third, the role of incentives, while crucial, is taking on a different dimension. There is a greater need for non-traditional incentives such as cybersecurity and improved digital infrastructure such as three-dimensional printing. Furthermore, a tailored approach, through marketing and incentives, is needed to support the post-crisis recovery. In the survey, 34 per cent of participants agreed that more tailored incentives are necessary to attract and retain investors. The above-mentioned trends imply that the future role of SEZs is changing, so the policies for promoting SEZs also need to change accordingly. It is important for policymakers to prepare post-crisis measures and to begin putting attractive conditions in place to support existing businesses and new investments.

More generally, the pandemic has affected trends in investment flows in all countries. Global statistics show that COVID-19 has already negatively affected FDI flows globally and in Africa, forcing policymakers to take action to mitigate risks to investments in their own economies. Indeed, the pandemic has driven down global FDI and will continue to do so for the foreseeable future. According to data from the United States finance company MSCI, multinational corporations were expected to further reduce global FDI by 30 to 40 per cent in 2020. On average, the top 5,000 multinational corporations, which account for a significant share of global FDI, have revised their 2020 earnings estimates downwards by 30 per cent due to the pandemic. In some industries, these earnings estimates were revised downwards by as much as 200 per cent (UNCTAD, 2020).

In Southern Africa, various studies have made different estimates of the extent to which the pandemic is projected to damage economies in the subregion. Some of these studies and their respective estimates are summarized in table 35. Another important issue is the extent to which the pandemic will affect FDI. This is an important question because, like in many other developing countries, Southern Africa is highly dependent on FDI, and SEZs are considered one of the most effective mechanisms for attracting it. Insights from the World Bank Investment Climate assessments indicate

that countries in which FDI is highly vulnerable to COVID-19 should consider taking urgent policy actions to retain existing investments, preserve supply chains and protect jobs created by firms in sectors that are considered a priority in national development strategies. This underscores the need to estimate FDI vulnerability.

Table 35: Estimates of the impact of the coronavirus disease on African economies

<table>
<thead>
<tr>
<th>Source of information</th>
<th>Projected impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IMF Regional Economic Outlook: Sub Saharan Africa (IMF, 2020)</td>
<td>Growth in Southern Africa in 2020 is projected to fall by 1.6 per cent, the lowest level on record and 5.2 percentage points lower than projected six months ago.</td>
</tr>
<tr>
<td>World Bank, 9 April 2020 (World Bank, 2020c)</td>
<td>GDP growth in the region could fall sharply from 2.4 per cent in 2019 to between −2.1 per cent and −5.1 per cent in 2020.</td>
</tr>
<tr>
<td>African Union Commission, 6 April 2020 (AUC, 2020)</td>
<td>Forecasts show negative growth of between 1.1 per cent and 3.4 per cent.</td>
</tr>
<tr>
<td>McKinsey, 6 April 2020 (McKinsey, 2020)</td>
<td>GDP growth in Africa will decrease by 3 to 8 percentage points, from 3.9 per cent in 2019 to between −3.9 per cent and +0.4 per cent in the worst-case scenario.</td>
</tr>
<tr>
<td>African Development Bank, 3 April 2020 (Adesina, 2020)</td>
<td>GDP growth is projected to contract between 0.7 and 2.8 percentage points in 2020.</td>
</tr>
<tr>
<td>Oxford Economics, 26 March 2020 (Oxford Economics, 2020)</td>
<td>The knock to economic growth in the three largest African economies alone could lower the continent’s GDP growth from 3.8 per cent to 2.8 per cent.</td>
</tr>
<tr>
<td>Brookings Institute, 18 March 2020 (Coulibaly and Madden, 2020)</td>
<td>African GDP growth is expected to fall from 3.5 per cent in 2019 to between 1.5 per cent and 2.5 per cent in 2020.</td>
</tr>
</tbody>
</table>
Using the World Bank FDI Vulnerability Assessment Tool, figure XIX measures immediate exposure to COVID-driven declines in FDI for selected Southern African countries. Countries with a higher FDI are more likely to be exposed to and affected by the pandemic. The shares of FDI to GDP are presented in figure II. Consistent with the latter, figure XIX shows greater vulnerability of FDI in Madagascar, Mozambique, Lesotho and the United Republic of Tanzania.

As noted earlier, although the pandemic has affected investment flows in the FDI-dependent Southern African subregion, it has also opened up new possibilities and led to innovative policy solutions, in particular in respect of promoting and strengthening regional value chains. For instance, the adoption of the framework for the Victoria Falls–Binga SEZ in Zimbabwe follows the recent launch of the National Tourism Recovery and Growth Strategy, which is aimed at reviving the severely hit tourism sector.27

**Figure XIX: Foreign direct investment vulnerability score for Southern African countries, 2020**

![Foreign direct investment vulnerability score for Southern African countries, 2020](image)

**Source:** World Bank Databank.

**Note:** A higher score indicates a greater risk.

The final issue is the policy implications of the trends. The most important policy direction is to prioritize retaining strategic and leading investors, especially in the SEZs, and to provide policy instruments that would enable them to secure supply chains and support a quick recovery. Other important measures include supporting product and market diversification through strategic investments in SEZ programmes. These zones are potentially one of the most effective policy instruments for providing

---

27 [https://www.zbcnews.co.zw/vic-falls-binga-sez-plan-gets-approval/](https://www.zbcnews.co.zw/vic-falls-binga-sez-plan-gets-approval/)
a wider platform that enables the private sector, including MSMEs, to take advantage of recovery packages (including incentives) during and after the pandemic.

According to UNCTAD (2020), a series of stimulus packages have been announced by Governments to mitigate the mounting economic damage and respond to the health crisis. Figure XX shows that many of the COVID-19 stimulus packages implemented by African economies have focused more on fiscal policy measures than on direct actions to support MSMEs and livelihoods. Table 36 shows a partial list of measures adopted by some African countries.

**Figure XX: African responses to the socioeconomic impact of COVID-19**

<table>
<thead>
<tr>
<th>Number of countries taking each measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal policy</td>
</tr>
<tr>
<td>Monetary policy</td>
</tr>
<tr>
<td>Exchange rate</td>
</tr>
<tr>
<td>Income support</td>
</tr>
<tr>
<td>Social programmes</td>
</tr>
<tr>
<td>SME support</td>
</tr>
</tbody>
</table>

Source: www.indexmundi.com.

**Table 36: Summary of measures taken by selected African countries (March to May 2020)**

<table>
<thead>
<tr>
<th>Measures</th>
<th>African countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>State loans or credit guarantees for companies</td>
<td>Nigeria, South Africa</td>
</tr>
<tr>
<td>Income subsidies for affected workers</td>
<td>None</td>
</tr>
<tr>
<td>Regulatory forbearance to banks and corporate debtors</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Salary donation or pay-cut by top public officials to contribute to coronavirus-relief funding</td>
<td>Kenya, Nigeria, Malawi, Rwanda, South Africa</td>
</tr>
<tr>
<td>Tax holiday</td>
<td>Ghana</td>
</tr>
<tr>
<td>Seeking debt forgiveness and other debt relief</td>
<td>Sub-Saharan countries</td>
</tr>
<tr>
<td>Adoption of accommodative monetary policies, such as reductions in interest rates, by central banks</td>
<td>Democratic Republic of the Congo, Egypt, Kenya and Nigeria</td>
</tr>
<tr>
<td>Tax deferrals</td>
<td>None</td>
</tr>
</tbody>
</table>

Source: Ozili (2020).
Chapter VII: Conclusions and recommendations

1. Conclusion

The present report assesses how well Southern African countries have harnessed the role of SEZs as drivers of private-sector development to support industrialization and structural transformation. The main objective has been to identify measures, policies, partnerships and institutional frameworks that could enable Southern African countries to effectively harness the power of the zones to drive private-sector development (including the growth of MSMEs) to achieve inclusive and sustainable industrialization. To do this, the author of the study carried out a comprehensive literature review, collated and analysed information from various sources on SEZ development in the subregion and elsewhere, and examined the conceptual framework, including the various forms and types of SEZs that exist in the subregion.

The report has described the status of SEZ development based on available data and assessed the role of SEZs in driving private-sector development and industrialization in the subregion. It has also provided a cursory assessment of the key emerging development issues and their implications for SEZ development in the subregion, including the implications of the AfCFTA Agreement, the Fourth Industrial Revolution, the increasing importance of green growth and the impact of the COVID-19 pandemic.

The key conclusions from the assessment are as follows:

a) SEZs are increasingly playing a key role in industrial transformation and economic growth in Africa. Southern African countries have set up various types of SEZs to attract domestic and foreign investment. Although the zones have not been as successful as in countries with the best practices at the global level (e.g. China) or the subregional level (e.g. Mauritius), their impact so far on trade, job creation and FDI has been promising. Understandably, achieving full-scale SEZ development is a process that may take policymakers in the subregion longer than desired. But by having an appropriate blueprint and road map that not only take into consideration country and subregional contexts and opportunities and current achievements, but also apply the lessons learned from successful countries, Southern African countries appear to be on a steady path towards making SEZs drivers of industrialization, the private sector and sustainable development.

b) In line with their various economic-policy reforms, countries have prioritized SEZs in their economic development policies and strategies. However, implementation has remained an enormous challenge, mainly because of relatively weak capacity and a lack of policy coherence and Government-wide commitments. Information from various sources shows that most countries in the subregion have identified SEZs as a
salient component of economic reform policies to support private-sector development, industrialization and structural transformation. Most are moving from the limited EPZ regime to a much broader and flexible SEZ regime, having realized that SEZs play a vital role in promoting private-sector development (including MSMEs) and economic transformation. The key challenge, however, has been implementation, especially on four fronts. First, countries have weak capacity to finance the necessary infrastructure investment, human resources and systems to support SEZ operations. Second, some of the current policy frameworks are incoherent and do not provide enough room or a suitable enabling environment for the private sector to drive the development of the zones. Third, only a few countries in the subregion (most notably, Mauritius and South Africa) have specific policies for this type of zone. And fourth, SEZ programmes have not been prioritized in government budgeting. There needs to be political will to promote the programmes, including from the highest authorities; however, this is lacking in most countries in the subregion, with the exception of Mauritius and South Africa, which have done relatively well in SEZ development and could therefore support others.

c) **SEZs can play a critical role but should not be considered a panacea for harnessing significant opportunities in the subregion to support increased private-sector investment.** The subregion is well endowed with natural resources, which benefits mining, natural gas, agriculture, energy and manufacturing. Opportunities arising from regional value chains and regional supply chains need to be tapped to make Southern Africa a global leader and a centre of excellence in sectors such as copper, precious minerals, agro-industrial activities and services. The geographical location of the subregion also gives it an exclusive advantage in providing logistics services for promoting regional and global trade gateways. More important, countries in the subregion could harness the diverse economic structures and levels of economic development to promote further private-sector growth and industrialization. The presence of SADC and COMESA as subregional economic communities provides a platform for soliciting international technical and financial assistance to support countries in their desire to harness SEZs as effective drivers of private-sector development and economic transformation. Indeed, the report shows that the subregion could be a natural champion for border economic zones (or cross-border development zones) to complement existing development or transport corridor initiatives. This is because of the high demand for logistics services between coastal and land-linked countries and the significant potential for cross-border trade in the subregion.

d) **While the effects of some of the emerging issues are already harming the economy (e.g. COVID-19), some impending factors (e.g. the AfCFTA Agreement and the Fourth Industrial Revolution) could be turned into real opportunities.** The report urges countries in Southern Africa to adopt a positive outlook and prepare sufficiently to address the ultimate challenges. Some of the emerging issues clearly require subregional solutions, in
particular in terms of preparing guiding frameworks and funding initiatives that would be of public benefit, such as access to information.

e) **The lack of specific policies to enable MSMEs to participate more effectively in SEZ operations and to benefit from spillovers and inter-firm linkages hinders the potential of SEZs to promote private-sector development.** The initial conditions of MSMEs, including their high level of informality and weak capacity, somewhat hamper efforts to develop the desired linkages. The report has shown that it can be useful to develop a subregional policy strategy to enhance the integration of MSMEs in SEZ programmes to support inclusive industrialization.

f) **Since the economies in the subregion are so diverse and are at different stages of development, there is potential for cross-fertilization of learning within the subregion.** The complex and heterogeneous environments in which the various SEZ programmes operate show that a clear framework for guiding the development of the zones in the subregion is needed. Such a framework could facilitate a shared vision of how the subregion should position itself to attract, promote and facilitate investment from within and outside the subregion. Implementation challenges are bound to occur along the way, but having a broad blueprint as a minimum condition to which countries seeking to create SEZs as special nests subscribe will greatly accelerate the effects of the zones on private-sector development and industrialization in the subregion.

### 2. Recommendations

The following policy recommendations for action at the country and subregional levels are based on the findings of the present report and the lessons learned from successful countries.

It is recommended that Southern African countries:

Undertake reforms to address the key policy constraints limiting full utilization of SEZs as a policy lever for supporting private-sector development and industrialization in the subregion. The needed reforms include, but are not limited to, harmonizing policy frameworks; reforming legal, regulatory and institutional frameworks; and introducing measures that will promote alternative financing of basic infrastructure, with implementation enhanced by lessons learned from good practices.

Prioritize the financing of investment in basic infrastructure to attract more domestic and foreign investment in the SEZ programmes. It is important to ensure that the critical infrastructure that enables SEZ programmes is financed by the Government using innovative mechanisms such as public–private partnerships and the build-own-operate-transfer model.

Provide sufficient space for private-sector investors to design SEZs and select their locations based on economic advantages and demand-driven considerations.
to ensure that they are sustainable and attractive. Furthermore, there needs to be high-level involvement in promoting and soliciting private investment in the zones to enhance investor confidence and indicate that the country is willing to support private investment (including FDI) in the country. If a zone can attract one lead investor with a global or subregional reputation in the industry, it could significantly help to lure more investors.

Pay particular attention to the critical factors that should inform the rationale for designating each particular geographic area as a “special” economic zone, since poorly made decisions explain why some SEZs fail or take a long time to get off the ground.

Promote learning from countries in the subregion and the rest of the world where SEZs have worked relatively well. In all countries with successful SEZs, the Government has promoted learning from other successful countries, especially given that the zones are shifting their focus from providing traditional export processing facilities to forming dynamic clusters that benefit local economies. A good example in this regard is Ethiopia, which identified a champion for SEZ development and gave it a mandate to make key decisions. Ethiopia also facilitated opportunities for key actors to spend several months learning from Mauritius and East Asian countries in preparation for the launch of its zones.

Promote MSMEs through SEZs by facilitating the development of ancillary products and services that can be supplied by MSMEs to larger SEZ enterprises.

Promote SEZs within bilateral cooperation frameworks, such as under the Forum on China–Africa Cooperation, or seek partners such as the World Bank to unlock financing for SEZ development.

Emphasize promoting the new generation of SEZs, which take into account green industrialization, digital industrial manufacturing and the Sustainable Development Goals, rather than the old models, which focus on promoting exports without proper consideration for sustainable development.

It is recommended that the regional economic communities (SADC and COMESA):

Provide a platform for soliciting international technical and financial assistance to support SEZ development as member countries seek to harness the zones as effective drivers of private-sector development and economic transformation. Such initiatives should include supporting learning events or study tours; profiling SEZ projects that could serve as regional centres of excellence; and promoting collaboration between countries for SEZ development, including facilitating knowledge dissemination at the regional level. Development partners such as the Economic Commission for Africa, the World Bank and others could provide short- to long-term financing for SEZ feasibility and diagnostic studies.

Develop a regional strategy and frameworks to guide countries in the development of SEZs, including providing support in: enhancing the integration of MSMEs in zone programmes; effectively securing the role of private-sector investors (domestic and
especially foreign) in zone programmes; identifying the necessary policy, regulatory and institutional reforms to achieve robust SEZ programmes; and leveraging innovative financing mechanisms for SEZ development.

Promote the development of border economic zones and provide technical assistance for their development in the region. This may include identifying regional frameworks for supporting such zones and providing assistance with preparing projects.

In the implementation of these recommendations, the Economic Commission for Africa can provide assistance to Southern Africa countries in:

**Establishing champions of SEZ development in the subregion.** The champions could work as part of a system-wide approach involving all participants in SEZ ecosystems, such as academia, think tanks, development partners, the private sector, government and civil society.

**Building in-country capacity for the development of SEZs in the subregion.** This includes providing technical assistance for drafting legislation, policies and regulations and organizing training seminars for government officials and private-sector organizations, especially MSMEs.

**Championing the development of border SEZs** and mainstreaming SEZs in subregional industrialization programmes, in particular in the development and functioning of subregional value chains.
References


_______ (2015). The decline of export processing firms under the export processing zone regime in Malawi.


__________ (2020). The COVID-19 Shock to developing countries: towards a “whatever it takes” programme for the two-thirds of the world’s population being left behind. March.


