



# **HANDBOOK ON SPECIAL ECONOMIC ZONES IN AFRICA**

**Towards Economic Diversification across  
the Continent**

2021



UNITED NATIONS  
**UNCTAD**

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This publication has been edited externally.

UNCTAD/DIAE/IA/2021/3 (Overview)

This handbook has been produced with the financial support of the Government of Germany. The German Federal Ministry for Economic Cooperation and Development (BMZ) provided funding through Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to the United Nations Conference on Trade and Development (UNCTAD) to develop this document in cooperation with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, under the project entitled “Continental Free Trade Area (CFTA)”.



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für Internationale  
Zusammenarbeit (GIZ) GmbH

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# FOREWORD

Special economic zones are widespread across the developing world. Policymakers seek to develop special economic zones with the aim of attracting foreign direct investment, achieving higher exports and creating jobs. Indirect economic benefits range from upgrading of the local industrial base to being catalysts for innovation, knowledge and technological spillovers. Against a backdrop of growing global interest in zone-based development strategies, an increasing number of countries are adopting new special economic zone regimes or revitalizing existing ones. At the regional level, attempts by African countries to set up special economic zones that deliver on their expected benefits have so far encountered some challenges. Certain bottlenecks have often determined the limited performance of zones operating in the continent, and these are discussed in this publication.

The African Union Commission, the United Nations Conference on Trade and Development and the German Agency for International Cooperation are joining forces through this *Handbook on Special Economic Zones in Africa* to address the opportunities and challenges involved in setting up zones in Africa, working hand in hand with member States and key stakeholders such as the African Economic Zones Organization. The objective is to come up with an Africa-specific model of special economic zones based on lessons from experience and best practices, with a view to supporting the African Continental Free Trade Area and in the process accelerating the integration of Africa.

The *Handbook* takes stock of the current state of play of African special economic zones. It identifies several good practices through the analysis of case studies reflecting a variety of critical aspects and representing the specificities of diverse African regions. Relevant lessons – ranging from the importance of the strategic focus and locational advantages to heightened attention to enhanced environmental and social standards – are brought out.

Through the *Handbook on Special Economic Zones in Africa*, we wish to provide a response to the needs of African policymakers through a set of policy recommendations stemming from the latest research and international

best practice on special economic zones. Looking ahead, the issues at stake highlighted by the *Handbook* remain instrumental to creating sustainable, holistic and adaptive special economic zone policies capable of capitalizing on existing opportunities and withstanding future challenges.



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# ACKNOWLEDGEMENTS

The *Handbook on Special Economic Zones in Africa* was prepared by a team led by Amelia U. Santos Paulino under the guidance of Richard Bolwijn and the overall direction of James Zhan, Director of the Investment and Enterprise Division in UNCTAD. Andrés Rodríguez-Pose, Professor of Economic Geography, London School of Economics, was the lead consultant for the report and coordinated the background technical research.

Research support and inputs were provided by Federico Bartalucci, Arslan Chaudhary, Susanne Frick and Imane Radouane. Also, helpful comments and feedback were provided by Stephania Bonilla, Ralf Peters and Paul Wessendorp.

Special thanks go to Svenja Ossmann, Head of Project Support to the African Continental Free Trade Area (AfCFTA), and Aude Lanois, Advisor, Programme Support to the African Continental Free Trade Area (AfCFTA), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, for their assistance in the development of the Handbook and implementation of the project.

The Handbook also benefited from extensive feedback provided by participants in the context of the Expert Group Meetings held online on 27–28 April 2021. Discussants at the meeting included Kate Abbeo, Deputy CEO, Ghana Free Zones Authority; Adesoji Adesugba, Managing Director, Nigeria Export Processing Zones Authority; Julianne Furman, General Manager Europe, Exco Automotive Solutions, Poly Design; Mebrahtom G. Yesus, Chief of Staff to the Deputy Commissioner, Ethiopian Investment Commission; Vinay Guddye, Head of Directorate, Logistics & Freeport, Economic Development Board of Mauritius; Ilham Khalil, Director, Tanger Free Zone; Moubarack Lo, Director General, Economic Prospective Bureau at the General Secretariat of the Government of Senegal; Jarrod Lyons, Business Development Executive, Atlantis SEZ; and Beatrice Njenga, General Manager, Operations & Investor Support, Export Processing Zones Authority of Kenya.

At various stages of preparation, including during the consultation meetings, the Handbook benefited from extensive advice from Hussein Hassan Hussein,

Acting Director, and Ron Osman Omar, Senior Policy Officer, Industry, of the Economic Development, Trade, Industry and Mining Department, African Union Commission; Mohamed Ali, Director of Trade in Goods and Competition, AfCFTA Secretariat; and Ahmed Bennis, Secretary General of Africa Economic Zones Organization.

The manuscript was copy-edited by Lise Lingo. The design of the charts and infographics, and the typesetting of the report were done by Sarah LeGrand, with assistance from Thierry Alran and Neil Menzies. Production of the report was supported by Elisabeth Anodeau-Mareschal and Katia Vieu.

The financial support of the German Government through the Federal Ministry for Economic Cooperation and Development, BMZ, for the development of the Handbook in cooperation with the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH is gratefully acknowledged.

# EXECUTIVE SUMMARY

**Special economic zones (SEZs) have grown rapidly in the last three decades.** Zone-based development strategies have become increasingly widespread across the developing world. Their popularity has been fuelled by the hopes of policymakers of turning around the economic fortunes of their countries and, in certain cases, of lagging regions within their countries. Increased FDI, exports and job creation are all among the objectives pursued in zone development. Increasingly, more indirect objectives, such as the development of the local industrial ecosystem towards higher productive capabilities, have also featured among the aims of SEZ policies. They are being singled out progressively more often as key for delivering SEZs that are springboards to boost innovation, knowledge and technological spillovers.

**A systematic overview of African SEZs shows that the use of zones is on a steep upward trend and projected to proliferate in a large majority of countries across the continent.** The adoption of SEZs in Africa assumes a variety of features, depending on the level of development of countries and their experience in establishing SEZ programmes. In particular, the snapshot of African zones in this report documents what has been referred to as the development ladder of SEZs – already documented in UNCTAD's 2019 *World Investment Report*. Some African countries have many decades of experience in developing and establishing zones and are now transitioning towards more complex and specialized models of zone development. A growing number of others are now in the process of planning or establishing their first zones, often with the help of international partners.

**With few exceptions, the performance of African SEZs has so far been below expectations.** Many African zones have, so far, failed to deliver on expectations. Although relatively low performance of SEZs is not uncommon, the trajectory of most African SEZs contrasts with experiences of zone development in East Asia and in some Latin American countries. Research and empirical evidence suggest that many African zones are still far from achieving their objectives, even taking into account the most direct economic

gains usually expected from SEZs, such as increased FDI, exports and jobs (see, for instance, Farole, 2011). Moreover, many African zones have remained isolated enclaves, failing to dynamize the surrounding industrial context. The reasons for such shortcomings frequently relate to the design and implementation of SEZ policies and programmes. Against the backdrop of relatively weak historical performance by many African SEZs, the risk is heightened that the development of new zones, often in places where conditions are not as auspicious for success, will in effect further expand the ranks of underperforming zones in the continent. If that were to happen, it could lead to a spike in opportunity costs, which normally characterize this sort of large-scale investment.

**The recent wave of African regionalism can aid the regional integration and specialization of African SEZs, although the extent to which this will happen will depend on specific policy adjustments envisioned by the African Continental Free Trade Area (AfCFTA).** Recent developments brought about by the introduction of the AfCFTA can, in theory, unlock a wide range of opportunities for SEZs, including greater market access, lower-cost and higher-quality production inputs, and the opportunity to benefit from emerging regional value chains. However, the risks for SEZs associated with the introduction of the AfCFTA can also be non-negligible. Some of the potential challenges for existing and future SEZs include pure-waste competition among SEZs at the regional level and trade triangulation. Moreover, whether SEZs benefit from greater trade and economic integration across Africa will largely depend on outstanding issues, such as the handling of rules of origin and how SEZs are treated in the AfCFTA's SEZ-relevant provisions. Generally, the creation of a level playing field – for instance, in terms of fiscal incentives offered by SEZ programmes and behind-the-border trade barriers – will help African SEZ-based firms to improve their competitiveness on the global stage and mitigate the risks involved with the pursuit of zone-based development strategies in the context of regional integration.

**A number of cases from African and non-African zones can help to shed light on what factors make a zone successful.** Some African SEZs present robust evidence on the six thematic areas identified in the Handbook



that typically permeate the process of developing and establishing economic zones. Although the Handbook does not aim to be a comprehensive list of African SEZ practices, the case studies introduced in it are highly illustrative of a broad array of factors that can contribute to the success of SEZ strategies and policies in different country contexts. Non-African cases also contribute to the presentation of measures and policies put in place around the world to maximize the opportunities and minimize the risks related to zone development. In particular, the empirical evidence stemming from the case studies highlights the following five points:

- **Most successful zones have adapted their policies and strategic focus to both the local context and international economic trends.**

Copying the strategies of successful cases – generally, long-established and well-performing zones that had a significant transformative impact on their surrounding environment, e.g. the Shenzhen SEZ in China – rarely works, as it is always difficult to reproduce the conditions that led to the success of the strategy being copied. This implies that, for most zones in emerging and developing countries to succeed, adaptation to the local context is a must. One key feature of many successful SEZ policies is a clear strategic focus in terms of realistic target sectors and investors based on a country's value proposition and comparative advantage. This often implies adapting policies to the country's endowments and responding to changing patterns in international production.

- **Integrated SEZ policies and a coordinated institutional approach are of crucial importance for an SEZ programme to be effective.**

Integrated policies – as opposed to stand-alone policies – are essential in ensuring policy coherence across different policy areas (i.e. industry, education, transport, trade) that can contribute to the success of SEZ interventions. When policies are aligned, synergies are created and benefits maximized. Similarly, a coordinated, whole-of-government approach to investment promotion assumes an all-important role in signalling to investors that the country's institutions are open for business and fully committed to facilitating investors' activities. This sort of integrated, proactive approach can considerably boost the chances of attracting anchor investors, often outdoing international competitors.

- **International partnerships – with foreign governments, private firms or international institutions – can facilitate knowledge exchange, although caveats apply.** The evidence stemming from SEZs in Mauritius and Nigeria and some recently established cross-border SEZs shows that developing zones in collaboration with international partners can help the host country to gain access to good practices. That said, knowledge transfers between partners do not happen automatically. Hence, setting up formal transfer mechanisms is of crucial importance in order to bring about an effective exchange of know-how. In addition, safeguards to mitigate the risks arising from conflicting interests, lack of trust and misalignment of objectives play important roles in determining the outcome of international partnerships.
- **Enhanced environmental, social and governance (ESG) standards can render SEZs more competitive and attractive to investors.** A focus on labour standards and environmentally friendly, gender-inclusive programmes can not only boost the societal contributions of SEZ policies, but also support resource efficiency within the zone. Solid ESG standards can, therefore, furnish substantive positive externalities in terms of the productivity of SEZ-based firms. Increasingly, specialization in “green” sectors enables SEZs to leverage investment flows in areas related to the Sustainable Development Goals (SDGs) as initiatives aimed at providing support to vulnerable groups decrease staff turnover and enhance workers’ productivity.
- **Proactive and targeted policy measures are pivotal to ensure that SEZs become policy tools for the diffusion of knowledge, innovation and economic dynamism, both inside and outside their gates.** SEZs are increasingly assessed on their ability to spur economic development beyond their boundaries. To enable innovation-stimulating mechanisms – such as labour circulation, the imitation of SEZ firm technologies and, in particular, the establishment of sourcing linkages between SEZ firms and local suppliers – ad hoc policy interventions, such as supplier development programmes and SME accelerators, can go a long way towards creating fruitful linkages between economic players.

**A phased approach to SEZ development can help to avoid putting the cart before the horse.** A progressive approach – building on the country’s strategic assessment, the SEZ policy design, the specific SEZ set-up and cross-

cutting institutional considerations – is needed in all new SEZ development policies. Such an approach is instrumental to avoid launching new zones without a sound SEZ strategic framework and without the relevant laws and regulations already in force. The approach comprises four steps: (1) thoroughly assessing the country's endowments and the main factors that act as growth catalysts and as potential inhibitors; (2) designing the SEZ policy and all its components, including the incentives offered, requirements imposed on investors and the type of zones to be implemented; (3) embedding a robust and original value proposition into the specific SEZ set-up, which implies endowing the zone with locational advantages, high-quality infrastructure and relevant services targeted to the type of investors; and (4) crafting the institutional structure that most responds to a particular country's constraints and objectives, in addition to both ensuring that the SEZ programme benefits from high-level political backing and defining the functions of each institutional actor.

**The likelihood of success of any SEZ strategy in Africa depends not only on learning from best practices, but also on adapting those practices to the specific characteristics of the territory and country where the zone will be located.** From international evidence and the latest research, a broad set of policy recommendations can be developed for each of the four steps just outlined, drawing on the lessons learned from the case studies in the Handbook (summarized in table 1). Following good practice stemming from decades of international experience in designing and implementing SEZs can, indeed, achieve a higher chance of success. It is also crucial to mitigate the risks often associated with SEZ development. From the importance of identifying key bottlenecks through a diagnostics exercise to the need to think carefully of locational advantages and tailor the services and infrastructure provision to the target investors, these general guiding principles may be instrumental in creating a unique value proposition that is capable of attracting foreign investors and, potentially, outdoing international and regional competitors. That said, context adaptability remains a key element when setting up new zones. Different territories are likely to experience different types of constraints and sources of comparative advantage, implying a need to mitigate the former and leverage the latter through locally tailored solutions.

**New-generation SEZ policies will have to be sustainable, adaptive and holistic in order to fully deliver on their mandates.** The development of new SEZs will have to take into account the changing reality, with a number of megatrends shaping the restructuring of global value chains. The unfolding of the Fourth Industrial Revolution, the heightened focus on sustainable development and the development of regional value chains will require greater adaptability to a constantly changing reality. Holistic interventions will also make or break attempts to develop SEZs as part of coherent policy packages that create synergies across different policy areas. Moreover, sustainability is expected to play a greater role in defining production patterns and investment location choices. Ultimately, successful SEZs will emerge as a product of the underlying local sources of comparative advantage and the external trends that shape the geographical choices of multinational enterprises and foreign investors. In this context, a concerted, coordinated, whole-of-government approach to the setting up of zones is the quintessence of sustainable, resilient and performing SEZs capable of dynamizing the local economy, but also of transcending the boundaries of the SEZs and contributing to transforming whole swaths of African economies.

**Table 1. Lessons learned: SEZ planning, design and implementation**

**GENERAL LESSONS: Planning & Objectives**

1. SEZs are generally not a panacea for growth.
2. Zone growth is difficult to sustain over time.
3. SEZs can positively affect the economic performance of surrounding areas, but there is a strong distance decay effect.
4. SEZ design needs to be tailored to the specific country context. A one-size-fits-all approach will lead to wasteful policies.

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**Table 1. Lessons learned: SEZ planning, design and implementation (Concluded)****SPECIFIC LESSONS: Design & Implementation****Main elements****Lessons****A. Strategic country assessment**

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|--|--|
| <ul style="list-style-type: none"> <li>• Comparative advantage</li> <li>• Sectors</li> <li>• Growth constraints</li> </ul> | <ol style="list-style-type: none"> <li>1. Devote enough attention to identifying key drivers of the country's comparative advantage.</li> <li>2. Choose an adequate sectoral focus.</li> <li>3. Single out the country's main deficits.</li> </ol> |
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**B. SEZ policy design**

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|--|---|
| <ul style="list-style-type: none"> <li>• Incentives package</li> <li>• Requirements</li> <li>• Type of zones</li> <li>• Criteria for zone development</li> </ul> | <ol style="list-style-type: none"> <li>1. Tailor the SEZ policy to the country characteristics and target sectors.</li> <li>2. Avoid overreliance on fiscal incentives.</li> <li>3. Give the infrastructure aspect sufficient emphasis.</li> <li>4. Remove regulatory barriers and support local integration of SEZs.</li> <li>5. Think bigger: size matters.</li> <li>6. Regularly monitor and evaluate each SEZ, and plan exit strategies for underperforming zones.</li> </ol> |
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**C. Specific zone set-up**

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|---|---|
| <ul style="list-style-type: none"> <li>• Location</li> <li>• Infrastructure</li> <li>• Services provided</li> </ul> | <ol style="list-style-type: none"> <li>1. Leverage strategic locational advantages.</li> <li>2. Consider indispensable infrastructure for target sectors.</li> <li>3. Tailor services to the country environment.</li> <li>4. Design human resource services to overcome the key challenge of recruitment across sectors.</li> <li>5. Boost ESG performance as a competitive edge.</li> <li>6. Assess the financial viability of a zone throughout its development and implementation.</li> </ol> |
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**D. Institutional considerations**

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|--|---|
| <ul style="list-style-type: none"> <li>• Actors involved in SEZ development</li> <li>• Governance model</li> </ul> | <ol style="list-style-type: none"> <li>1. Ensure coordinated, high-level political support.</li> <li>2. Develop integrated strategies rather than stand-alone SEZ policies, with particular emphasis on policy coherence across different areas.</li> <li>3. Place sufficient emphasis on investment promotion.</li> <li>4. Grant appropriate financial and administrative autonomy to the SEZ authority.</li> <li>5. Tailor the governance model to the country's institutional capacity.</li> </ol> |
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The Overview is prepared based on the in-depth analysis contained in the *Handbook on Special Economic Zones in Africa: Towards Economic Diversification across the Continent*.



