

# Special economic zones and entrepreneurship: A new path forward for SEZs in Africa?<sup>\*</sup>

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## Abstract

In recent years, interest has been growing among policymakers in how to leverage special economic zone (SEZ) policies to support local entrepreneurship. With a few recent exceptions, the academic literature to date has been silent on the matter. This article aims to contribute to addressing this gap. First, it develops a conceptual framework linking SEZ policies and entrepreneurship development. Second, it explores the state of play of entrepreneurship promotion in SEZs in Africa using a survey of African SEZs and two case studies. We find significant appetite among African SEZs to promote local entrepreneurship; however, it is less clear how best to accomplish the task. Many of the policies, facilities and services offered are open to local entrepreneurs rather than being tailored specifically to their needs. The support required in some policy areas also seems to be more straightforward than in others. Adapting the SEZ offering to the needs of local entrepreneurs is one of the key challenges to increasing the effectiveness of the support.

**Keywords** : special economic zones, entrepreneurship, developing countries, local economic development, knowledge spillovers, sourcing linkages

**JEL classification codes** : L26, O31, O55, O25, R58

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## 1. Introduction

Special economic zones (SEZs) are an ever-popular policy tool for promoting investment, generating employment and stimulating innovation. Policymakers put their hopes in them to overcome key developmental challenges such as low levels of industrialization, unemployment and low value added. Current estimates suggest that there are about 240 SEZs in Africa alone, with the total number worldwide passing 5,000 (UNCTAD, 2019, 2021). Traditionally, SEZ policies have focused on the attraction of foreign large-scale industrial investors, but interest has been growing among policymakers in how to leverage SEZ policies to support local entrepreneurship and micro, small and medium-sized firms (MSMEs).

The roles of entrepreneurship and MSMEs in economic and social development has been extensively documented in the literature (Acs and Stoey, 2004; Schumpeter, 2011; Toma et al., 2014). Entrepreneurs help to improve economic efficiency by reallocating resources and hence contribute to economic growth (Acs and Storey, 2004). In most economies, MSMEs represent the vast majority of firms, in particular in the developing world. They contribute the lion's share of formal and informal employment and typically grow faster than large, established companies (Van Praag and Versloot, 2007).<sup>1</sup> The entry of new firms has also been shown to promote productivity and value added (Van Praag and Versloot, 2007). Yet, entrepreneurship and MSME development also require a supportive ecosystem to flourish. A significant financing gap, bureaucratic hurdles, a lack of support infrastructure and cultural aspects, among other factors, can all hamper the creation and growth of new firms (Djankov et al., 2002; Facundo and Schmuckler (2017); Klapper et al., 2006).

Given the proliferation of SEZs, the question arises to what extent SEZ policies are suited and can be leveraged to alleviate these constraints and support an effective local entrepreneurial ecosystem. The topic is of great relevance for a couple of reasons, the first one being that while SEZs have proven to be an effective policy tool in some countries, many SEZ regimes have struggled to fulfil their promise. Occupancy rates, employment generation and linkages to the local economy have frequently remained limited, leading to a low developmental impact on the host economies.<sup>2</sup> In addition, the ever-increasing number of SEZs around the world, competing for a limited amount of foreign direct investment (FDI), will put further competitive pressure on existing SEZs. In this context, targeting local entrepreneurs rather than or in addition to foreign investors could be an opportunity to improve the performance and developmental outcomes of SEZs.

Second, SEZ policies will have to adapt to a changing international regulatory landscape in which providing incentives to large established firms – the core of many SEZ policies, will become increasingly difficult. The Organisation for Economic Co-operation and Development and the Group of 20 (OECD/G20) Global Anti-Base Erosion Rules (GloBE) foresees a minimum tax of 15 per cent on large multinational companies. Promoting local entrepreneurship could therefore be an important strategic consideration to increase options for policymakers in an increasingly complex environment.

The academic literature is relatively silent on the link between SEZs and entrepreneurship. To the best of our knowledge, there are no studies that develop the possible conceptual links in a comprehensive manner. On the empirical side, despite the large body of studies that examine the economic impact of SEZs on host economies, very few have explicitly addressed the topic. The notable

<sup>1</sup> For the role of MSMEs in employment generation, see for example OECD, n/d, Small and medium-sized enterprises and trade: Making it easier for SMEs to trade in the global economy (accessed 11 April 2024).

<sup>2</sup> See, for example, Frick and Rodriguez-Pose (2022); Frick et al. (2019); UNCTAD (2021).



exceptions are Sun et al. (2024); Tian and Xu (2022); and Li et al. (2024) who, in recent years, investigated the effect of SEZs on entrepreneurship in China, mainly focusing on indirect channels resulting from increased agglomeration of firms in and around SEZs.

Against this backdrop, this study sets out to do two things. First, we aim to develop a conceptual framework linking SEZ policies to entrepreneurship development both within and around SEZs. And second, we map current practices, opportunities and challenges of entrepreneurship promotion in SEZs in Africa. For this purpose, we rely on a survey of SEZs in 28 African countries, as well as two in-depth case studies of SEZs' experience with entrepreneurship promotion.

Our contribution to the literature is threefold. First, by developing a conceptual framework that identifies the possible links between SEZ policies and entrepreneurship in a more comprehensive manner than done thus far, we hope to facilitate future research on the relationship as well as to support policymakers in approaching the topic in a structured manner when considering options for entrepreneurship promotion. Second, rather than looking at SEZ policies as a black box, we explore the various elements of such policies and their potential to support entrepreneurship. Although SEZ policies frequently share similar core features, they are diverse with regard to the specific incentives, initiatives and facilities they offer. It has also been shown that spillovers from SEZs and FDI in general are by no means automatic and often require supporting policies if they are to materialize (Frick and Rodriguez-Pose, 2022). Thus, SEZs' ability to promote entrepreneurship is likely to vary significantly depending on the specific set-up. Finally, we extend the geographical coverage of the literature beyond China. This is important given the likely context-specific nature of the effectiveness and challenges of initiatives to promote entrepreneurship promotion through SEZs. The Chinese economic and institutional landscape differs significantly from that of many other countries where SEZ policies are being implemented.

We therefore believe that an exploration of the topic beyond China is desirable.

The African context is particularly interesting as many recently established zones have struggled to attract foreign investment and hence are considering alternative strategies (Rodriguez-Pose et al., 2022).

The study is structured as follows: section 2 reviews the literature and develops the conceptual framework. Section 3 details our methodology, and section 4 maps the current initiatives in African SEZs related to entrepreneurship support and discusses the findings. The final section concludes and draws policy implications.

## 2. SEZs and entrepreneurship

### 2.1 Empirical literature

How and to what extent do SEZs support entrepreneurship? A large and growing body of literature examines the economic impact of SEZs on host economies, including employment generation, investment attraction, spillovers and productivity (e.g. Ambroziak and Hartwell, 2018; Ciżkowicz et al., 2017; Frick and Rodriguez-Pose, 2019; Frick and Rodriguez-Pose, 2023; Hartwell, 2018; Meng and Zeng, 2019; Narula and Zhan, 2019; Rodriguez-Pose et al., 2022; and Wang, 2013). Yet, less than a handful of recent studies explicitly address the links between SEZ policies and entrepreneurship. Sun et al. (2024) investigate the effect of green industrial zones on entrepreneurship in China. They conclude that SEZs, in particular green industrial parks, can have a positive effect on entrepreneurship by reducing financial constraints, creating customer and supplier linkages, and by promoting the dissemination of knowledge. Li et al. (2024), also in the context of China, find that the establishment of pilot free trade zones has increased urban entrepreneurship, as measured by the number of new enterprises. This result holds primarily for the services sector.



They furthermore suggest that SEZs promote entrepreneurship by promoting financial sector development, knowledge spillovers, demand for new products and pooled labour markets. Finally, Tian and Xu (2022), again for the case of China, investigate whether high-tech zones, a specific type of SEZ, have been able to drive innovation and entrepreneurship. They find a positive effect on both outcomes. In terms of mechanisms, their results confirm that better access to finance and the attraction and cultivation of talent play an important role. They also identify a lower administrative burden within an SEZ as a driver for local entrepreneurship.

These recent studies suggest that SEZs, in fact, have the potential to support entrepreneurship development, in particular through the promotion of knowledge spillovers, improved access to finance and pooled labour markets. However, important gaps remain in our conceptualization and understanding of the relationship between SEZs and entrepreneurship. First, these studies remain partial in their identification of possible mechanisms, focusing primarily on so-called indirect effects of SEZs such as the greater availability of venture capital funding and/or skilled labour arising through firm agglomeration in and around SEZs or increased household incomes. The exception is the study by Tian and Xu (2022), which also considers the more direct effect of a lowered administrative burden as a driver for increased entrepreneurship. While indirect effects, without doubt, can be important channels for entrepreneurship promotion, SEZ policies also have the potential to have a more direct effect on entrepreneurship within a zone. Some SEZs provide specific tax incentives for start-ups, develop facilities designed for smaller firms or launch incubator programmes.<sup>3</sup> Gaining a greater understanding of the potential and limitations of these more direct approaches to entrepreneurship promotion is hence desirable. Second, it has also been shown that the indirect effects from SEZs and

FDI in general are by no means automatic and often require supporting policies to materialize (Aggarwal, 2019; Frick and Rodriguez-Pose, 2022). Thus, SEZs' ability to promote entrepreneurship indirectly through different types of spillovers, as suggested by the empirical literature, is likely to vary significantly depending on the specific set-up of the SEZ policy, including the policy initiatives aimed at facilitating their emergence, as well as the context in which the SEZ policy is being implemented. Finally and related to the previous point, the existing studies exclusively focus on the Chinese experience. Although the mechanisms presented can also be at play in other countries, their presence will in all likelihood depend on the wider country context and specificities of the SEZ policy. The Chinese economic and institutional landscape differs significantly from that of many other countries where SEZ policies are being implemented. Hence, in light of these gaps in our current understanding of the link between SEZs and entrepreneurship, a wider consideration of the topic in terms of mechanisms, policies and geographies is desirable.

## 2.2 Conceptual framework

For entrepreneurship to flourish, a well-functioning entrepreneurial ecosystem needs to be in place that nourishes the start-up and survival of new firms (Isenberg, 2010; Stam, 2015; Stam and van de Ven, 2021). From a conceptual perspective, it is conceivable that SEZs contribute to such an ecosystem (1) indirectly through spillovers to firms and entrepreneurs located outside of the SEZ and (2) more directly by supporting local entrepreneurs and MSMEs within the SEZ.

Traditionally, efforts to reap the benefits of SEZ policies for the local economy have focused on the first channel, the promotion of spillovers to firms outside the SEZ. The development and running of a SEZ and the presence of large, typically international,

<sup>3</sup> For example, Bhubaneswar SEZ in India (see Odisha Startup Hub, accessed 28 January 2024) and Lodz SEZs in Poland (see Startup Sparks, accessed 11 April 2024).



firms within SEZs are thought to create new market opportunities for local firms as well as to lead to greater innovation and improved productivity (Farole, 2011; Frick and Rodriguez-Pose, 2022; World Bank, 2011). These so-called spillovers can occur through labour mobility between SEZ and local firms, the creation of sourcing linkages between SEZ firms and domestic producers and the imitation of technology and/or management practices of SEZ tenants by local firms. Although spillovers are not limited to new firms and MSMEs, they present an important avenue to consider when exploring options to promote local entrepreneurship. The empirical literature on the link between SEZs and entrepreneurship described in section 2.1 supports some of these ideas; i.e. it finds evidence for knowledge spillovers, demand for new products and the attraction of talent as drivers of entrepreneurship connected to SEZs (Li et al., 2024; Sun et al., 2024; Tian and Xu, 2022). It has also been shown that the occurrence of spillovers is not automatic and is highly context dependent. A concerted effort is often required to enable local firms to realize the potential opportunities arising through the presence of SEZ firms.<sup>4</sup> Smaller, less established firms are likely to require more support in this respect than large companies. Hence, if SEZs are to promote entrepreneurship in surrounding areas, specific policies will have to be implemented to support local entrepreneurs' ability to benefit from spillovers.

The second channel through which SEZs could promote entrepreneurship and MSME development is by contributing to an entrepreneurial ecosystem that supports local entrepreneurs within the SEZs rather than indirectly through different types of linkages with SEZ firms. The literature lists a large range of factors that inhibit and/or contribute to an entrepreneurial ecosystem,

among them the availability of finance, the regulatory environment, proximity to and networks with other firms and the presence of market opportunities as well as a large talent pool.<sup>5</sup> The co-location of entrepreneurs and the facilities, services and policies available within SEZs could address some of these factors and hence promote entrepreneurship. Tian and Xu's work on SEZs and entrepreneurship in China (2022), for example, provides evidence of a positive effect on local entrepreneurship from the lower administrative burden within SEZs.

To establish a framework that describes the possible links between SEZs and entrepreneurship, we leverage the UNCTAD Entrepreneurship Policy Framework (EPF). The EPF is useful for this purpose as it provides a structured framework of all relevant policy areas, which help to create an entrepreneurial environment that facilitates the emergence and growth of entrepreneurs and new enterprises (UNCTAD, 2012). The EPF outlines five priority areas that have a direct effect on a country's entrepreneurial activity.<sup>6</sup> The key policy areas are (1) optimizing the regulatory environment, (2) enhancing entrepreneurship education and skills, (3) facilitating technology exchange and innovation, (4) improving access to finance and (5) promoting awareness and networking. These policy areas resemble closely other frameworks developed in the entrepreneurial ecosystems literature.<sup>7</sup> Combining the EPF with the two channels for entrepreneurship promotion just identified makes it possible to establish a framework of the possible mechanisms and areas for policy intervention through which SEZs and SEZ policies more widely can have an effect on local entrepreneurship. Figure 1 shows the framework with some illustrative examples of initiatives in each area.

<sup>4</sup> See, for example, Frick and Rodriguez-Pose (2022).

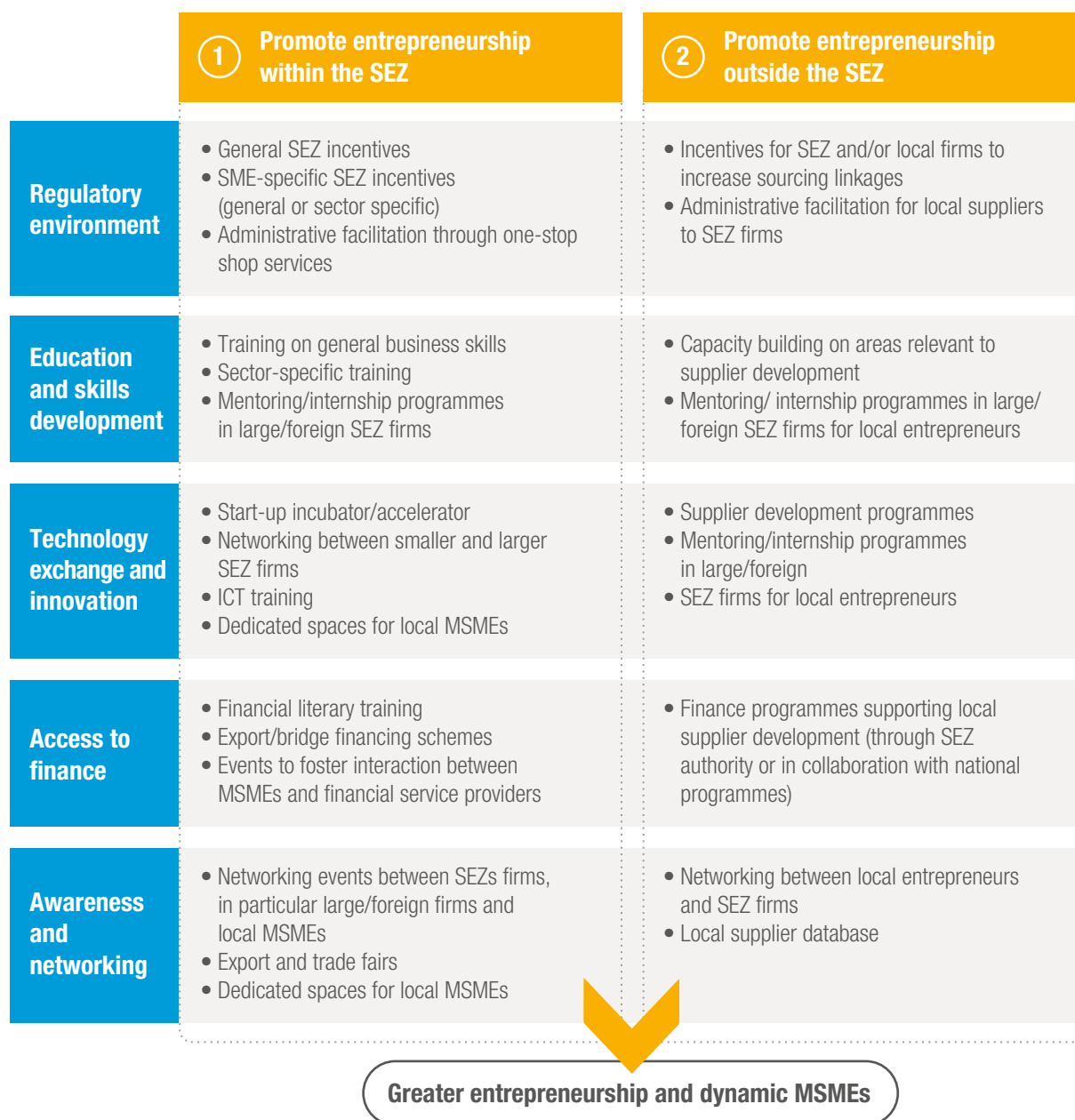
<sup>5</sup> For overviews, see Feld (2012), Stam (2015) and Stam and van de Ven (2021) for overviews.

<sup>6</sup> The sixth priority area, the development of a national entrepreneurship policy, has been excluded as this is considered as beyond the realm of SEZ policies.

<sup>7</sup> See, for example, Feld (2012) or Stam (2015).



**Figure 1**  
SEZs, local entrepreneurship and MSME growth



Source: UNCTAD (2023).

The first policy area, optimizing the regulatory environment, is the most straightforward channel, given that it is the inherent objective of SEZs to provide an ideal business environment for firms. Regulation is an important ingredient in any entrepreneurial ecosystem as it establishes the rules of the game and can have a direct effect on the incentives for and costs of

opening and growing businesses (Djankov et al., 2002; Klapper et al., 2006). SEZs can contribute to enhancing the regulatory environment for local entrepreneurs in a variety of ways. First, general fiscal incentives, offered in many SEZ programmes, can be as beneficial for local entrepreneurs as they are for foreign firms. Streamlined regulatory processes and a

dedicated one-stop shop, features of many SEZ policies, can also be particularly helpful for local entrepreneurs, which typically struggle more with the regulatory burden than do larger firms (Calcagno and Sobel, 2013; Chambers et al., 2022). Second, besides the general fiscal incentives, SEZ policies could also offer additional and/or more tailored fiscal incentives for local entrepreneurs located within the zones. These could be more generous than the general incentives offered to all firms or could target specific areas particularly important to entrepreneurs such as capital formation. Finally, the regulatory environment also needs to be considered for the promotion of entrepreneurship outside the zone, especially related to the development of sourcing linkages between local MSMEs and SEZ firms. Local firms can be disadvantaged from a cost perspective relative to foreign suppliers if foreign inputs are exempt from custom duties, hence SEZ incentives such as exemptions from value added tax on local inputs or corporate tax relief contingent on using local suppliers can help level the playing field.<sup>8</sup>

The second policy area, enhancing entrepreneurship education and skills, is a key area for entrepreneurship promotion as a diverse and skilled workforce is a core element of any entrepreneurial ecosystem (Stam and van de Ven, 2021; Qian et al., 2013). SEZs can have an influence in several ways. Capacity-building provided as part of the SEZ policy can benefit firms inside and outside the SEZs. Many supplier development programmes have traditionally included training on topics such as quality and sustainability standards for the local suppliers. Capacity-building could also be provided to local entrepreneurs located within the SEZs on topics such as financial literacy, export promotion and management practices. More indirectly, labour mobility between SEZs and local firms can facilitate

learning from management and production processes within the frequently larger or more productive SEZ firms.<sup>9</sup> Local entrepreneurs around the Kigali SEZ, for example, set up their own businesses after working for and learning from foreign SEZ firms for multiple years (UNCTAD, 2023). Although this can happen without any further intervention through labour circulation, programmes for internships and mentoring that target owners and managers of local firms could help to increase the potential for this sort of learning to occur.

Technology, innovation and entrepreneurship are intrinsically linked with each other. On the one side, technology and innovation can be an important source of new business opportunities for entrepreneurs. On the other side, entrepreneurs create new technologies and innovation (Nambisan et al., 2019). The third policy area, technology exchange and innovation, can hence be considered at the core of entrepreneurship promotion. Traditionally, SEZs are thought to have an impact in this area through knowledge spillovers into the local economy. Labour mobility, sourcing linkages between SEZ firms and domestic producers, and the imitation of technology and/or management practices of SEZ tenants by local firms can all lead to technological progress and innovation among local firms (Farole, 2011; World Bank, 2011). SEZs increasingly also host dedicated start-up incubators or growth accelerators as well as provide specific training programmes supporting technological upgrading and innovation.<sup>10</sup> Fostering horizontal linkages and networking between firms can further support peer learning among local MSMEs and larger or foreign firms within the zones.

The fourth policy area, access to finance, is one of the biggest influencing factors for entrepreneurship (e.g. Anton and Bostan, 2017) and an integral part of an

<sup>8</sup> See, for example, Frick and Rodriguez-Pose (2022).

<sup>9</sup> See, for example, Farole (2011) and World Bank (2011).

<sup>10</sup> See, for example, the start-up Odisha programme (<https://startupodisha.gov.in/odisha-startup-hub>, accessed 28 January 2024) and Lodz SEZ in Poland (<https://startupspark.io/en/homepage-english>, accessed 11 April 2024).



entrepreneurial ecosystem. Although financing programmes have typically not been part of the standard SEZ offer, an increasing number of SEZs provide direct support in this area through capacity-building in financial literacy and investor readiness as well as matching grants schemes in the context of supplier development programmes. COEGA IDZ in South Africa, for example, provides a bridge financing scheme to local MSMEs around the zone that are involved in providing services and construction works for SEZ operations and firms. The fiscal incentives and reduced land prices offered within many zones might furthermore free up capital and hence allow entrepreneurs to invest more in the development of their business (Tian and Xu, 2022). Indirectly, SEZs might also ease finance constraints by increasing household incomes (Sun et al., 2024).

Beyond looking at the “hard inputs” for entrepreneurship, the literature on entrepreneurial ecosystems emphasizes the role of social networks of entrepreneurs, workers and supporting institutions to maximize information flows and the efficient distribution of knowledge, capital and labour (Greve and Salaff, 2003; Stam and van de Ven, 2021), as well as a supportive culture (Spigel, 2017). The fifth policy area, awareness and networking, hence plays an important role in promoting entrepreneurship. SEZs can promote networking and learning among entrepreneurs through the clustering of firms within the zones (Sun et al., 2024). The facilities provided may also be important to facilitate interaction between entrepreneurs (Audretsch et al., 2015). Specific initiatives such as export fairs and trade shows and the promotion of interactions between SEZ firms and local firms can further contribute to this endeavour. SEZs can also raise awareness of the importance of entrepreneurship, by highlighting

possible opportunities coming out of SEZ operations as well as by strengthening networks among entrepreneurs.

### 3. Methodology

While the interest of policymakers in leveraging SEZs for entrepreneurship promotion has blossomed in recent years and clear conceptual links exist, it remains unclear to what extent initiatives are being implemented to foster entrepreneurship in SEZs. Equipped with the conceptual framework developed in the previous section, we explore this issue by mapping whether African SEZs are currently actively promoting entrepreneurship and MSME development, the types of policies and initiatives implemented, and the perceived challenges to and effectiveness of the measures. The analysis is based on the responses to a survey conducted by UNCTAD and the Africa Economic Zones Organization (AEZO) among AEZO members, as well as on two case studies.

#### 3.1 Survey

The survey questionnaire was structured around the conceptual framework developed in section 2.2 and included both closed and open-ended questions. Closed questions were employed for those that could easily be captured in categorical answers. Examples are whether any specific measures for entrepreneurship promotion were being implemented (yes/no) and what the target group of such support measures was (within the SEZ, around the SEZ or both). Open-ended questions allowed respondents to add more detail and nuance to describe, for example, specific measures, challenges and opportunities of the initiatives. The survey was available online in French and English. Invitations were sent by email to the universe of African SEZs associated with AEZO between March and April 2022.<sup>11</sup>

<sup>11</sup> AEZO has 82 members in 42 African countries. Recent estimates suggest that about 230 SEZs have been established by law across Africa; however, a significant number of those are under construction or at an early stage of development (UNCTAD, 2019; Rodriguez-Pose et al., 2022). The membership of AEZO hence covers a significant portion of operational SEZs in Africa.





Fifty-three SEZs across 28 countries participated in the exercise.<sup>12</sup> Respondents were primarily senior officials within the zones, including managing directors, CEOs and general managers as well as heads of communications, corporate affairs and/or investment management services. Two SEZs were not yet operational and were, therefore, not included in the analysis. We conducted a thematic analysis of the answers to the open-ended questions, using both deductive and inductive coding frameworks. Deductive codes were developed on the basis of the literature review, and inductive codes reflected new concepts that emerged in the answers.

### 3.2 Case studies

To explore some of the points raised in the survey in more detail, two in-depth case studies of African SEZs engaged in the promotion of local MSMEs and entrepreneurship complement the survey results. To select these two cases, we relied on purposeful sampling based on the survey responses and further desktop analysis. Purposeful sampling makes it possible to select information-rich cases to ensure the most effective use of limited resources (Patton, 1990). For our purposes, we aimed to identify SEZs with significant experience in entrepreneurship promotion.

Athi River EPZ in Kenya showcases the different approaches, benefits and challenges of initiatives aiming to promote local entrepreneurship within the zone. Its EPZ SME development programme, initially named the Export Business Accelerator, was launched in 2013. The programme was set up with the objective to create synergies between the SEZ policy and local industries to speed up the growth of operational local SME exporters, primarily in three sectors: horticulture and

food processing, textiles and apparel, and leather and commercial crafts.

In contrast, the second case study, Bole Lemi Industrial Park (BLIP) in Ethiopia, shines light on strategies for fostering entrepreneurship around the SEZ through linkages with the local economy. Established in 2014, BLIP is the first SEZ established under Ethiopia's Industrial Parks programme. The programme has been highly successful in attracting foreign investment to the zones, primarily in the garments sector. One of the key challenges has been to increase sourcing linkages with local SMEs to deepen the impact on the local economy. In order to address this issue, the Government of Ethiopia, in collaboration with the World Bank Group, implemented the Competitiveness and Job Creation (CJC) Project. Subcomponent 3 of the project aimed to facilitate business-to-business (B2B) linkages between foreign firms located in BLIP and domestic SMEs to enhance value addition, develop local supply chains and hence promote local entrepreneurship.<sup>13</sup>

The case studies are based on document analysis and written and oral communications with the responsible authorities and other parties involved. Specific references and sources used for each of the case studies appear in appendix.

## 4. The state of play in African SEZs

### 4.1 Prevalence and overarching channels

Overall, a positive picture emerges from the survey. The results show significant appetite among African SEZs to promote local entrepreneurship as the majority offer some form of support for local entrepreneurs.

<sup>12</sup> Participating SEZs were located in Angola, Cameroon, Cabo Verde, the Central African Republic, Côte d'Ivoire, Djibouti, Egypt, Eswatini, Ethiopia, Gabon, Gambia, Ghana, Kenya, Libya, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Rwanda, South Africa, Sudan, the United Republic of Tanzania, Togo, Tunisia and Zambia.

<sup>13</sup> Additional components of the project include strengthening the regulatory and institutional framework for the industrial park programme and providing support for investment promotion and industrial infrastructure in and around the zone.



Over 70 per cent of the respondents, 36 of the 51 participating SEZs, confirm having measures in place that they consider promote local entrepreneurship and MSME development (figure 2, left side). Considering the two overarching channels through which SEZs can promote local entrepreneurship, the main focus of support measures in African SEZs is on promoting MSME growth within the zones (figure 2, right side). Among the respondents with support measures in place, 56 per cent target local entrepreneurs within the SEZ and 31 per cent target MSMEs located both outside and within the SEZ. Fourteen per cent focus only on firms outside the SEZ.

The current support is hence focused on promoting entrepreneurship within zones; only a smaller percentage of SEZs has measures in place to promote spillovers. This is somewhat surprising given that traditionally the focus of policies aiming to deepen SEZs' impact on the local economy has been on spillovers to the surrounding

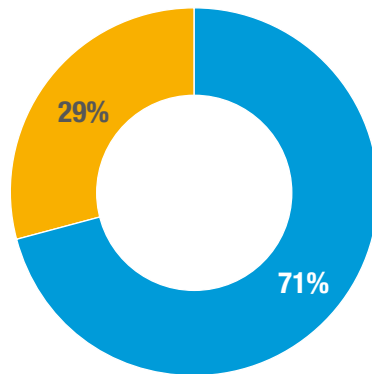
areas, in particular sourcing linkages. These have also been highlighted as an important channel to promote entrepreneurship by all empirical studies (Sun et al., 2022; Li et al., 2024; Tian and Xu, 2022). The mixed track record of initiatives that aim to develop backward linkages with local firms (Frick and Rodriguez-Pose, 2022) might have contributed to reduced interest in this topic. Other forms of facilitating spillovers to the local economy related to learning and to pooling local talent, which were suggested as important channels in the literature (Sun et al., 2024; Li et al., 2024; Tian and Xu, 2022), do not feature in the survey answers at all. This is likely to present a missed opportunity as initiatives such as promoting learning within SEZ firms through internship and mentoring programmes could be cost-effective ways to leverage SEZs' potential for promoting local entrepreneurship around zones.

**Figure 2**  
**SEZs and entrepreneurship promotion**

**Initiatives to promote entrepreneurship**

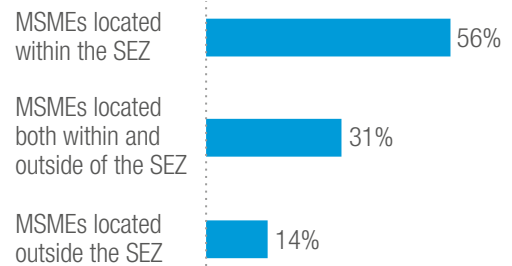
Percentage of SEZs (n = 51)

■ Yes ■ No



**Target firms**

Percentage of SEZs with support measures (n = 36)



Source: UNCTAD (2023).



## 4.2 Policy interventions

Turning to the five policy areas of our conceptual framework, there is a clear focus in the initiatives on education and skills development as well as awareness and networking (figure 3, left side). Seventy-one per cent of SEZs that reported having measures in place to promote local entrepreneurship target these policy areas respectively. Trade fairs and support programmes to promote exports and supplier development feature most prominently in the category of awareness and networking. Examples in the areas of skills development and education are training local MSMEs to enhance their ability to benefit from procurement from SEZ development and operations. Capacity-building on the importance of international certifications and skills development for the local workforce is another important area.

Almost half of the SEZs (45 per cent) reported that they promote entrepreneurship by providing an optimal regulatory

environment (figure 3, left side). When examining the initiatives and policies in this policy area more closely, however, many are not specific to MSMEs and local entrepreneurs but rather reflect the general incentives and administrative services provided within the zones. It remains unclear to what extent these initiatives and policies address the most pressing issues for local entrepreneurs more specifically.

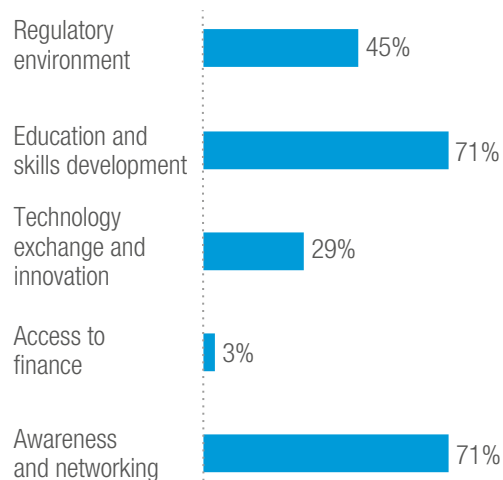
Almost a third of SEZs (29 per cent) confirm that they promote technology exchange and innovation through initiatives such as dedicated start-up incubators (figure 3, left side). Finally, specific measures to promote access to finance among local MSMEs is almost absent among the respondents of the survey (figure 3, left side). The only specific example mentioned in the survey forms part of our second case study, the linkage programme in Ethiopia's BLIP, which includes a match funding scheme for local MSMEs to upgrade their machinery in order to enable them to become suppliers for SEZ firms.



**Figure 3**  
**Current policy interventions**

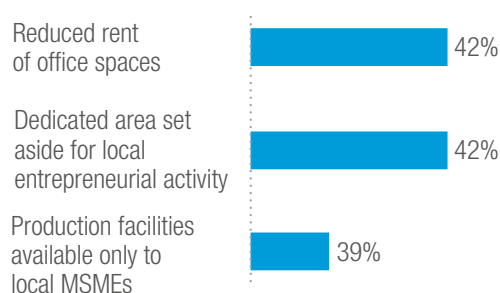
### Initiatives in the five policy areas

Percentage of SEZs with support measures (n = 36)



### Adapting SEZ facilities for local entrepreneurs

Percentage of SEZs with support measures (n = 36)



Source: UNCTAD (2023).



Our two case studies mostly confirm these survey findings. The EPZ SME development programme in Athi River EPZ aims to attract local SMEs to the zone by providing an attractive business environment, capacity-building and experience sharing, hence reflecting the policy areas most frequently mentioned in the survey. Participating SMEs can benefit from the general tax incentives offered to firms within the EPZ as well as the administrative facilitation of the one-stop shop. Tax incentives include a 10-year corporate tax holiday, 100 per cent investment deduction on new investments and perpetual exemption from payment of stamp duty on legal instruments and from value added tax and customs import duty on inputs. The one-stop shop provides advice related to labour regulations, registration with the tax authorities, and application to utility connections, among others. Although firms in the programme benefit from these incentives, they are not specific to the programme but open to all firms within the SEZ. This is in line with the common practice across African SEZs as shown in the survey: local entrepreneurs can benefit from incentives, but the incentives are not tailored to them.

Initially the EPZ also provided specific capacity-building to SMEs in various areas relevant to exporting, such as strategic business planning, quality standards and financial management, human resource management and export marketing. Adaptation of the training component was, however, considered necessary as previous courses offered to entrepreneurs by the SEZ itself were too generic. The number of SMEs participating was too low and their characteristics too diverse to tailor the courses more to their specific needs. Hence, SMEs are currently supported on a case-by-case basis by linking them with national and regional solution providers for specific challenges rather than providing the training in-house.

Turning to the second case study, the supplier development programme in BLIP Ethiopia aims to remove the binding

constraints currently hindering the development of linkages between local and SEZ firms, which include an important gap of information that limits access of large firms to local qualified MSMEs and vice versa, a scarcity of local skilled labour and both poor quality and lack of adherence to international standards in the domestic SMEs' products.

The programme addresses these issues through several interventions with a B2B fund at its core. It is the only initiative identified in the survey that specifically aims to remove financial barriers for local entrepreneurs. The B2B fund provides matching grants to local SMEs that aim to upgrade their production machinery. In addition, the programme provides technical assistance to SMEs on areas related to international quality standards, certifications and logistics. A B2B portal and supplier exhibitions both support networking and awareness among local and SEZ firms to close the information gap. Apart from the B2B fund, the chosen interventions thus reflect the focus of the policy areas as identified in the survey, i.e. networking and awareness raising as well as skills development and education.

Besides initiatives in the five key policy areas of our conceptual framework, the survey and the case studies also show that adapting the SEZ offering to the needs of MSMEs is an important part of the current measures in African SEZs (figure 3, right side). Forty-two per cent of survey respondents with support measures in place report having a dedicated area set aside for local entrepreneurs or production facilities available only to local MSMEs (39 per cent of respondents). This is important since land plots, production facilities and office spaces within SEZs are frequently designed with larger firms in mind, hence making it challenging for local MSMEs to benefit from the advantages offered by location in an SEZ. Forty-two per cent of respondents furthermore offer reduced rent of office spaces; however, this is likely to be a general incentive open for all firms within the SEZ rather than a targeted measure for local MSMEs.



Similar efforts can also be seen in the SME development programme in Athi River EPZ. To make the SEZ programme more accessible for local entrepreneurs, the infrastructure offering has been adapted by providing purpose-built infrastructure with smaller warehouses, which was seen as key for making the zone accessible for local entrepreneurs. Furthermore, SMEs are granted differential treatment in terms of export restrictions, which normally apply within the zone. Participating firms are allowed to sell 80 per cent of their production to the local market in the first year, decreasing to 40 per cent by the fourth year. This contrasts with the limit for other firms in the SEZ of only 20 per cent. This allows local SMEs, whose export volumes are not yet sufficiently high, to fulfil the requirements for enrolment in the SEZ programme while building up their export capacity. This policy highlights the need for SEZs to adapt not only their infrastructure but also their requirements to allow local entrepreneurs to participate in SEZ programmes.

Overall, the findings from the survey and case studies suggest that the support required in some policy areas is more straightforward than in others. Many SEZs already implement initiatives for skills development and networking, which is in line with the channels identified in the empirical literature. Other fields such as access to finance and innovation, even though deemed to be very important by the survey respondents and academics alike (Li et al., 2024; Sun et al., 2024; Tian and Xu, 2022), currently receive less attention in terms of concrete policies. This is particularly true for access to finance. The case study of BLIP highlights one of the few specific initiatives on this topic in African SEZs.

Many of the policies, facilities and services described in the survey and the case studies can be described as open to local entrepreneurs rather than being tailored specifically to their needs. Example include general tax incentives,

administrative facilitation and reduced rent offered to all firms in the SEZ. Without doubt these can also be beneficial for local firms; however, the measures are typically designed for larger foreign firms and thus might not address the most pressing challenges of local businesses. Furthermore, although the survey shows that many zones are making progress to adapt their infrastructure offering for smaller local firms, this is not yet universal; thus, in many SEZs access to zone benefits remains limited for local entrepreneurs. In that sense, the survey results are likely to overstate the current prevalence of policies and initiatives to promote local entrepreneurship on the ground.

### **4.3 Effectiveness of entrepreneurship support measures**

In terms of the effectiveness of current support for local entrepreneurs, a third of survey respondents consider such efforts to be very successful, while just over half report them to be averagely successful. Only one in ten think they are not successful at all. Adding some colour to these numbers from our case studies, the Athi River EPZ SME programme is considered one of the most important drivers for the number of firms in the SEZ, with local ownership rising from 25 per cent in 2012 to 38 per cent in 2018. In the BLIP linkages programme, 36 local SMES from the packing materials, leather and accessories sectors have been supported throughout several rounds of the programme and are now working with firms located within industrial parks. Twenty-six of those are owned by women. These figures show the potential of SEZs to promote local entrepreneurship.

Survey responses to what is seen as the most effective way of promoting local entrepreneurship varied and likely reflect the need to carefully consider the local context when designing interventions. A few common themes could be identified. Respondents frequently cited capacity-building and training for local entrepreneurs



on topics such as quality standards, investor readiness and exporting as the most effective ways to promote entrepreneurship. Specific tax incentives and subsidies to support the start-up phase of new enterprises were also mentioned several times. The same can be said for the promotion of supply chain linkages with SEZ firms. Other topics that were mentioned include access to infrastructure, stability of foreign exchange, and consistency and sustainability of fiscal and economic policies. Interestingly, many of the interventions mentioned as most effective are currently not being implemented, according to the survey results and the case studies. Capacity-building is the focus of current activities, but targeted tax incentives and subsidies are not on the menu nor are supplier development programmes widespread. Taking also into account the need, identified in the previous section, to further adapt SEZ programmes to expand access for local firms, the reported survey results about the perceived effectiveness should hence be taken with a pinch of salt.

Finally, the factors reported in the survey and the case studies to facilitate or hamper the effectiveness of the measures are instructive for understanding potential changes that need to happen to improve the effectiveness of policies and initiatives that target the promotion of local MSMEs. One of the primary issues that was mentioned in the survey is the inadequacy of many zones for local entrepreneurs in relation to the size of land plots, production facilities and/or office spaces. Many zones are already implementing measures to remedy this issue, as highlighted in section 4.2, yet this remains an important challenge. One survey respondent explained that a project aiming to adapt the zone for local firms failed because of its financial non-viability. Adapting or building purpose-made infrastructure has significant costs, yet returns from local MSMEs are typically lower than from the large foreign investors, making this a challenging business case. This financing challenge was also highlighted for the

implementation of the SME development programme in Athi River EPZ, where the operator continues to struggle to raise sufficient funding to build smaller spaces.

Access to finance was also highlighted by survey respondents as an important factor in promoting the effectiveness of initiatives to support local entrepreneurship, yet the business development fund at BLIP was the only initiative identified in the survey that specifically addressed this issue. This highlights a large gap between theory and practice on the ground.

In addition, the survey respondents and the case studies highlighted the importance of dialogue and collaboration between relevant stakeholders within and outside the zones as well as a coherent overall policy framework as important ingredients to make the measures work. Building institutional support for programmes is important to secure funding as well as to leverage the strength of different partners in the entrepreneurial ecosystem. From a cost perspective, MSME programmes can be difficult to implement for SEZ developers and operators. This is particularly true for private operators and developers, though not exclusive to them. This difficulty was reflected in the survey responses as well as in the Athi River EPZ case study, where the implementation of a fully fledged incubator programme had to be stopped for a lack of funding. Similarly, the B2B fund in Ethiopia's BLIP could be implemented only because of a significant World Bank commitment of funds. Hence, support from the public sector and/or international organizations is required for such programmes to be feasible. Collaboration with existing programmes and partner organizations is also crucial to leverage the strength of each partner in the ecosystem. SEZs are well placed to address some of the EPF policy areas, but others are better addressed in collaboration with partners. Improving the regulatory environment, for instance, is a natural fit for SEZs to take on, whereas access to finance and capacity-building may be easier to address in collaboration with partners.



And last but not least, the case study of the linkages fund in BLIP highlighted some of the well-known challenges regarding entrepreneurship promotion through the development of local suppliers (Frick and Rodriguez-Pose, 2022). Although the project has made important steps to increase linkages with the local economy and hence stimulate local entrepreneurship, several challenges remain. The limited range of products available in the local market has restricted the scope and opportunities to attract more local suppliers to serve the international firms in the industrial parks. A mismatch of the business cases from both ends with regard to volume and price presents a further hurdle. In addition, a lack of confidence on the part of buyers makes it challenging to establish more sourcing linkages, despite the efforts of the programme. The cost of local products also raises challenges. For instance, there is a misalignment of incentives for local sourcing as value added tax and duties are incurred while imported inputs on foreign inputs are exempt. This and other reasons can make locally purchased goods 30 per cent more expensive than imported products.

## 5. Conclusion and policy implications

SEZs are an ever-popular policy tool for promoting investment, generating employment and stimulating innovation. Traditionally SEZ policies have focused on the attraction of foreign investment, yet interest in leveraging SEZ policies to support local firms and foster entrepreneurship has been growing. In this study, we developed a conceptual framework that links SEZ policies and local entrepreneurship and mapped the state of play of entrepreneurship promotion in African SEZs. The impact of SEZs on entrepreneurship is likely not automatic and will require a concerted effort by policymakers. Hence, we hope that the conceptual framework and a better understanding of current experiences and practices will help inform further research and policy in the area.

Our results show significant appetite among African SEZs to promote local entrepreneurship, with the majority of SEZs already offering some form of support for it. The current support focuses on promoting entrepreneurship within the zones rather than promoting spillovers to surrounding areas. Despite this general appetite and first steps in the right direction, questions remain about the best way to accomplish the task. Many of the policies, facilities and services offered can be described as open to local entrepreneurs rather than being tailored specifically to their needs. The support provided in some policy areas also seems more straightforward than in others, with many of the identified channels not being considered yet by policymakers. Initiatives in education and skills development as well as awareness and networking abound, whereas access to finance and technology exchange and innovation receive less attention. A lack of suitable infrastructure for local entrepreneurs and the associated costs are seen as the biggest challenges to the effectiveness of the measures.

From a policy perspective, this has important implications. First, when designing policies and initiatives for entrepreneurship promotion, policymakers should consider the whole option space identified in the conceptual framework. Initiatives to facilitate learning, such as mentorship and internship programmes, could be a cost-efficient option that is currently not considered. Second, policies and initiatives should ideally be more tailored to the specific needs of local entrepreneurs rather than reflecting only the general incentives provided. And third, adapting the SEZ infrastructure to the requirements of local firms is paramount. Given the cost challenges associated with this, collaborations with international and/or national partners will likely be required.



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