Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned

Final Report
January 2011
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<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>ASYCUDA</td>
<td>Automated System for Custom Data</td>
</tr>
<tr>
<td>BOI</td>
<td>Board of Investment</td>
</tr>
<tr>
<td>BOOT</td>
<td>Build Own Operate Transfer</td>
</tr>
<tr>
<td>BPML</td>
<td>Business Parks of Mauritius Ltd</td>
</tr>
<tr>
<td>CADF</td>
<td>China Africa Development Fund</td>
</tr>
<tr>
<td>CAIC</td>
<td>China Africa Investment Limited</td>
</tr>
<tr>
<td>CCECC</td>
<td>China Civil Engineering Construction Corporation</td>
</tr>
<tr>
<td>CEB</td>
<td>Central Electricity Board</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CHCL</td>
<td>Cargo Handling Corporation Limited</td>
</tr>
<tr>
<td>CRCC</td>
<td>China Railway Construction Corporation</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CSECC</td>
<td>China State Engineering Construction Corporation</td>
</tr>
<tr>
<td>CWA</td>
<td>Central Water Authority</td>
</tr>
<tr>
<td>EAC</td>
<td>East African Community</td>
</tr>
<tr>
<td>EC</td>
<td>European Community</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EEPC</td>
<td>Ethiopian Electric Power Corporation</td>
</tr>
<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
</tr>
<tr>
<td>EIP</td>
<td>Eastern Industrial Park</td>
</tr>
<tr>
<td>EPZ</td>
<td>Export Processing Zone</td>
</tr>
<tr>
<td>ERCA</td>
<td>Ethiopian Revenue and Customs Authority</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>Eximbank</td>
<td>Export Import Bank of China</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIAS</td>
<td>Foreign Investment Advisory Service</td>
</tr>
<tr>
<td>FOCAC</td>
<td>Forum for China-Africa Cooperation</td>
</tr>
<tr>
<td>FTZ</td>
<td>Free Trade Zone</td>
</tr>
<tr>
<td>GAFI</td>
<td>General Authority for Free Zones and Investment</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIS</td>
<td>Geographic Information Systems</td>
</tr>
<tr>
<td>HWSZ</td>
<td>Huawei Technologies Co. Ltd</td>
</tr>
<tr>
<td>ICSID</td>
<td>International Centre for Settlement of Investment Disputes</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IP</td>
<td>Industrial Park</td>
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<tr>
<td>IPP</td>
<td>Independent Power Provider</td>
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<tr>
<td>JFET</td>
<td>Mauritius Jinfei Economic and Trade Cooperation Zone Co. Ltd</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>LDC</td>
<td>Least Developed Country</td>
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<tr>
<td>LFTZ</td>
<td>Lekki Free Trade Zone</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>--------------</td>
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</tr>
<tr>
<td>LLC</td>
<td>Limited Liability Company</td>
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<tr>
<td>LNG</td>
<td>Liquid Natural Gas</td>
</tr>
<tr>
<td>MAN</td>
<td>Manufacturers Association of Nigeria</td>
</tr>
<tr>
<td>MCCCI</td>
<td>Mauritius Chamber of Commerce and Industry</td>
</tr>
<tr>
<td>MDC</td>
<td>Main Development Company</td>
</tr>
<tr>
<td>MFN</td>
<td>Most Favoured Nation</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MOFCOM</td>
<td>Ministry of Commerce</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
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<tr>
<td>MPA</td>
<td>Mauritius Ports Authority</td>
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<tr>
<td>MRA</td>
<td>Mauritius Revenue Authority</td>
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<tr>
<td>NBE</td>
<td>National Bank of Ethiopia</td>
</tr>
<tr>
<td>NBIL</td>
<td>Nanjing Beyond Investment Ltd</td>
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<tr>
<td>NEPZA</td>
<td>Nigerian Export Processing Zones Authority</td>
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<td>NIPC</td>
<td>Nigerian Investment Promotion Commission</td>
</tr>
<tr>
<td>NJETDC</td>
<td>Nanjing Jiangning Economic and Technological Development Corporation</td>
</tr>
<tr>
<td>NNPC</td>
<td>Nigerian National Petroleum Corporation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<tr>
<td>OGFZA</td>
<td>Oil and Gas Free Zone Authority</td>
</tr>
<tr>
<td>OK</td>
<td>Olokola</td>
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<tr>
<td>OSS</td>
<td>One Stop Shop</td>
</tr>
<tr>
<td>PPP</td>
<td>Public Private Partnership</td>
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<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
</tr>
<tr>
<td>RMB</td>
<td>Renminbi</td>
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<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
</tr>
<tr>
<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
</tr>
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<td>SCCG</td>
<td>Shanxi Coking Coal Group Co Ltd</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
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<tr>
<td>SIP</td>
<td>Suzhou Industrial Park</td>
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<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
</tr>
<tr>
<td>SPV</td>
<td>Special Purpose Vehicle</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>TEDA</td>
<td>Tianjin Economic-Technological Development Area</td>
</tr>
<tr>
<td>TEU</td>
<td>Twenty-foot Equivalent Unit</td>
</tr>
<tr>
<td>TISCO</td>
<td>Taiyuan Iron and Steel Company</td>
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<td>UN COMTRADE</td>
<td>United Nations Commodity Trade Statistics Database</td>
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<tr>
<td>UNCITRAL</td>
<td>United Nations Commission on International Trade Law</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>VEGA</td>
<td>Volunteers for Economic Growth Alliance</td>
</tr>
<tr>
<td>WBG</td>
<td>World Bank Group</td>
</tr>
<tr>
<td>WMA</td>
<td>Wastewater Management Authority</td>
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<td>WTO</td>
<td>World Trade Organisation</td>
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</table>
Executive Summary

1. Context

The genesis of this report were consultations in 2009 and early 2010 between the Ministry of Commerce of China (MOFCOM), the World Bank Group (WBG) and the governments of Nigeria, Ethiopia and Mauritius on learning from the experience of the Chinese Special Economic Zone (SEZ) initiatives as well as exploring the prospects for tripartite collaboration. It was agreed that all three stakeholders share similar objectives in promoting the development of SEZs to support Africa’s industrial development and export growth by encouraging manufacturing and other investments from China as well as from domestic and other foreign investors.

As agreed with MOFCOM and the Ministry of Finance (MOF) in China, a WBG team visited four zone project sites and met with stakeholders: (i) in Nigeria, the Lekki Free Trade Zone in Lagos State and the Ogun-Guangdong Free Trade Zone in Ogun State, (ii) in Ethiopia, the Eastern Industrial Park in Dukem, and (iii) in Mauritius, the JinFei Economic and Trade Cooperation Zone in Riche Terre. The team also met with some of the principal stakeholders in China: China-Africa Development Fund, Export Import Bank of China (Eximbank), Guangdong Xinguang International Group, China Railway Construction Corporation (CRCC) and Qiyuan Group as well as Chinese Embassy officials in Ethiopia and Mauritius.

The objectives of this report are twofold:

1) to improve the shared understanding of these four zone projects including the development objectives, investment structures and institutional arrangements, current status and performance, issues and challenges related to implementation, and the short to medium term plans; and

2) to identify opportunities on how the Chinese investments in these four zones can provide the maximum possible benefits both for China and for the African countries in terms of leveraging the combined expertise, experience and resources of China, the host governments and the World Bank Group.

Unlike successful SEZs in China and other parts of the world, SEZs in Sub-Saharan Africa (SSA) thus far show low levels of investment and exports and their job creation impacts and integration with the local economies have been limited. In addition, these zones have not facilitated industrial upgrading, or acted as a catalyst of wider economic reforms, raising serious questions about the fundamental competitiveness of the zone programs. There is therefore strong interest in emulating the hugely successful experience of China in planning, developing and implementing SEZs, benefiting from Chinese capital and proven experience and expertise as well as the prospects of spillovers in terms of skills and technology that will benefit African enterprises and enhance their competitiveness in regional and global markets.
2. Chinese investments in SEZs outside China

The Chinese Government’s policy of “going out” (zou chuqu), or “going global”, encourages Chinese companies to target new markets, build global brands, and invest abroad. It promotes the establishment of overseas industrial and trade zones as they serve several strategic objectives. First, they help increase demand for Chinese-made machinery and equipment, while making it easier to provide post-sales product support. Second, Chinese companies may avoid trade barriers imposed on Chinese exports by manufacturing in end markets and in countries with trade preferences to attractive third country markets. Third, the SEZs can assist China’s efforts to boost industrial restructuring at home and nurture companies to move up the value chain. Fourth, they may help create economies of scale in production, and, in particular, to assist less experienced small and medium-sized enterprises (SMEs) to venture overseas. Finally, they are viewed as a way to transfer an element of China’s own success to other developing countries; a strategy that the Government believes to be helpful for recipient countries.

In 2006, the development of overseas zones was given significant priority, as the Chinese Government announced its intention to establish up to fifty special economic cooperation zones abroad. As an initial step to implement this policy, the Chinese Government identified SEZ projects in at least twelve countries—including four SSA countries—that would be formally supported by MOFCOM.

MOFCOM views this policy as a long-term initiative and has provided a range of financial and non-financial incentives. The zone projects are still in early stages of implementation. MOFCOM reported that as of June 2010, a total amount of US$700 million had been invested by Chinese companies in the construction of 16 zones. MOFCOM also reported that over 200 companies were operating in these zones and the initiative had generated investments worth US$2.5 billion. 10 of the 16 zones have made considerable progress in infrastructure construction and attracting investment. Besides these achievements, MOFCOM has highlighted four key challenges faced by these zones as follows:

a) **Improving the management capability of the zone developers**: the current Chinese investors are largely industrial, engineering or trading enterprises and lack specific experience in developing and managing industrial development zones.

b) **Difficulties in coordination with host government counterparts**: the practical problems involving laws, policies, government services and work efficiency require effective communication which is difficult due to the unequal status of the Chinese developers and local governments during the negotiations as well as communication problems.

c) **The lack of external infrastructure**: many zones have to develop their own infrastructure which increases the development costs and construction difficulties.

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1 Please see section 1.5 for details
d) **Financing difficulties faced by the developers**: the zone developers are facing financing difficulties due to the high capital requirements for infrastructure development and the high cost of finance in the host countries.

3. **Chinese investments in SEZs in Sub-Saharan Africa**

The economic rationale for the Chinese investments in African SEZs seems to be anchored in the burgeoning trade between China and SSA, which has grown over 100-fold since 1990. In 2009, China became Africa’s largest trading partner. While China’s imports of commodities from Africa drive much of this trade, there has been an equally dramatic growth of manufacturing exports to SSA. Based on these trade patterns, the SEZs can potentially serve as logistics and production platforms for Chinese companies to further penetrate the national and regional markets for goods and support services in SSA.

4. **Business prospects for the four zones**

**Lekki FTZ**: With proper coordination and carefully integrated implementation, the Lekki FTZ is well positioned to tap synergies from two other large private investments: (a) the oil refinery and hydrocarbon industrial park being proposed by the Nigerian National Petroleum Corporation in partnership with a Chinese consortium, China State Engineering Construction Corporation, and (b) the Lagos Free Trade Zone and Lekki Port being proposed by a Singaporean investor, Eurochem. If the zone can provide a superior business environment and world class infrastructure, both Nigerian and foreign investors will be attracted to cater for the local, regional and international markets. The zone could play an important role in re-vitalizing the Nigerian manufacturing sector and diversifying the economic base as well as reducing the dependence on imports. The zone is also well integrated into the overall Lekki city multi-use development plan for a new urban growth center, which covers over a 100 km². The zone can benefit from Chinese experience and expertise in zone development and management as well as Chinese investments in manufacturing and services, which has the potential to benefit Nigerian companies through supply links.

**Ogun-Guangdong FTZ**: The development objectives are similar to the Lekki FTZ and the zone is envisioned to be a multi-use development project with manufacturing, logistics, commercial and residential areas. The zone seems to be targeting relocation of Chinese companies that are already operating in Nigeria as a first step and focusing on attracting light manufacturing and resource-based industries. The developer indicated that 20 investors have confirmed investments in the zone of which seven companies have started operations (in steel works, furniture, packaging/printing, footwear, detergents and leather products).

**Eastern Industrial Park**: Based on the profile of investors who have expressed interest in the zone, the zone is targeting Chinese investors who focus on the domestic and regional markets. Besides the cement and gypsum board factories, eleven other Chinese companies have signed letters of intent to locate in the zone with a total estimated investment of US$91 million. These

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2 Chinese Academy of International Trade and Economic Cooperation (2010).
investments include the production of construction materials, steel products, home appliances, garments, leather processing, and vehicle assembly.

**JinFei Zone, Mauritius:** While the original plan was for the zone to provide a manufacturing and services platform for Chinese enterprises doing business in Africa, the new focus is seemingly more directed to real estate and commercial estate development. There are no tenants at the site as yet. The developer reports that nine Chinese companies have expressed interest in the zone in various sectors ranging from construction materials, a business school, real estate, electronics, food processing and chemicals.

5. **Development challenges and recommendations**

All the zone projects face a number of critical challenges going forward as below. While the zones are still in early stages of implementation, these challenges need to be addressed to enhance development impacts and ensure sustainability of the investments.

| Lekki FTZ, Nigeria |
|-------------------|-----------------|-----------------|
| **Challenges**    | **Recommendations**                                      | **Responsibility for implementation** |
|                   |                                                             | Project operator(s) (Host Govt / developer) | National policy (Host Govt) | MOFCOM |
| **Issues that represent significant risk to project implementation and priority actions** |
| Clarity in the partnership agreement: define goals, performance indicators and concrete timetables based on robust market/demand analysis | Strengthen capacity of the Lagos State Govt and the Chinese consortium to develop and execute a practical and market-oriented FTZ development agreement, including establishing a high level Joint Committee | ✓ | ✓ |
| Provision of off-site infrastructure is critical especially for an IPP (and gas supply), external road network and utilities as well as port and airport connectivity | Establish an overall infrastructure development program jointly by the Federal Govt and the Lagos State Govt, including utilizing PPPs | ✓ |
| Lack of clarity in understanding and interpretation on sales to the domestic market | Develop and approve a regulatory framework for IPPs and private provision of water supply | ✓ |
| The current legal and regulatory framework for FTZs is outdated and does not | Review the NEPZA Act to establish a new modern SEZ law | ✓ |

3 Insufficient information on the Ogun-Guangdong FTZ made it difficult to provide specific recommendations. However, many recommendations for Lekki FTZ are equally relevant for the Ogun-Guangdong FTZ.
<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of clarity in infrastructure financing arrangements</td>
<td>Spell out clearly the infrastructure financing arrangements in the Development Agreement</td>
<td>Project (Host Govt / developer) National policy (Host Govt) MOFCOM</td>
</tr>
<tr>
<td>Lack of robust market and demand analysis</td>
<td>Develop a business and marketing plan as the basis of a Development Agreement based on a PPP model</td>
<td>✔</td>
</tr>
<tr>
<td>Comprehensive management of environmental and social impacts, including labor standards and climate change issues, required to minimize adverse effects</td>
<td>Disclosure of an Environmental &amp; Social Impact Assessment and implementation of management plans for environmental and social impacts</td>
<td>✔</td>
</tr>
<tr>
<td></td>
<td>Provide strong regulatory oversight by Govt agencies and incentives provided by MOFCOM for adoption of green technology, training of workers and good labor practices</td>
<td>✔</td>
</tr>
</tbody>
</table>

### Issues that need to be addressed for long-term success and medium-term actions

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insufficient Govt capacity to support implementation</td>
<td>Ministry of Trade and Industry to develop and implement a comprehensive capacity building program on executing the SEZ development agreement under the oversight of the Steering Committee (explore establishing a high level</td>
<td>Project (Host Govt / developer) National policy (Host Govt) MOFCOM</td>
</tr>
</tbody>
</table>
Joint Committee for the project)

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of legal and regulatory framework for SEZ development.</td>
<td>Develop and implement a modern SEZ policy and regulatory regime in line with Govt’s industrial strategy</td>
<td>✓</td>
</tr>
<tr>
<td>Strengthen communications and local economy linkages</td>
<td>Design and implement a linkages program, a communications and outreach strategy, and establish and track performance indicators</td>
<td>✓</td>
</tr>
<tr>
<td>Integration of the EIP with a regional development plan</td>
<td>Adopt a corridor or regional development plan for the Addis Ababa-Dukem region incorporating the master plan for the industrial park</td>
<td>✓ ✓</td>
</tr>
</tbody>
</table>

### JinFei Zone, Mauritius

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issues that represent significant risk to project implementation and priority actions</td>
<td>Reviewing the Development Agreement based on a robust market and demand analysis</td>
</tr>
<tr>
<td></td>
<td>Develop a business and marketing plan and review the current Development Agreement based on a PPP model</td>
</tr>
<tr>
<td></td>
<td>Comprehensive management of environmental and social impacts, including labor standards and climate change issues, required to minimize adverse effects</td>
</tr>
<tr>
<td></td>
<td>Disclosure of an Environmental &amp; Social Impact Assessment and implementation of management plans for environmental and social impacts</td>
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<tr>
<td></td>
<td>Provide strong regulatory oversight by Govt agencies and incentives provided by MOFCOM for adoption of green technology, training of workers and good labor practices</td>
</tr>
</tbody>
</table>

**Issues that need to be addressed for long-term success and medium-term actions**

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen coordination and communications with stakeholders including the local private sector</td>
<td>Strengthen the role of the Joint Committee for the project</td>
</tr>
<tr>
<td></td>
<td>Design and implement a communications and outreach strategy and strengthen coordinating arrangements under BOI</td>
</tr>
<tr>
<td>Strengthen local economy linkages</td>
<td>Establish benchmarks and track performance indicators for local economy linkages</td>
</tr>
</tbody>
</table>

### Lessons learned

The lessons learned are summarized as below:

**The zones have the potential to contribute to industrial development and job creation.** All the projects have the potential to attract investments, create jobs and catalyze industrial and real estate
development in the host countries. Moreover, there is strong commitment to these zone projects from the African Governments, the Chinese Government and the developers.

**Key implementation challenges need to be addressed between China and the host governments:** In general, SEZ projects tend to have long gestation periods and the projects in question have made some progress in terms of planning, financing and infrastructure development over the past five years. Nevertheless, the zones remain in very early stages of development and the pace of implementation is slower than expected. Much more could be done to strengthen dialogue and collaboration to optimize the development outcomes of these zones.

**Policy objectives need to be better aligned with the operational realities:** The gap between what African host governments expect and what the Chinese developers are currently delivering appears significant. Current developers do not appear to be well positioned to draw on and incorporate “best practice” from China’s SEZ experience in their projects, as they lack both the expertise (in terms of the composition of their teams) and instruments to do so. Bridging this gap requires African host governments to take a much more proactive stance to ensure that they are in a position to reap the dynamic potential of these projects.

**The required software for managing and operating the zones is equally important as the infrastructure investments:** The zone developer teams on the ground could better leverage the Chinese zone development expertise available amongst the equity and technical partners and share this knowledge with the host governments so that the technical capacity overall for the development, management and marketing of these zones is strengthened.

**Political commitment should be matched by more robust business and financial planning by the developers and greater attention to marketing and promotion:** The projects have strong government support and are necessarily taking a long-term view. However, the feasibility studies and business plans that the WBG team was given access to did not cover the rigorous and tailored financial analysis and business planning that is necessary to establish realistic phased development plans and identify the requirements for hard and soft infrastructure. There is clearly a need for increasing emphasis on promotion and marketing of these zones through more focused and targeted activities, jointly by the zone developers and the host governments. While the zones are all open to non-Chinese investors, much more emphasis could be laid by the zone developers on opening up the zones more to investors from outside China.

**Financing gaps faced by zone developers need to be better understood and addressed to improve the pace and quality of zone development:** Despite the significant incentives available to the zone developers, they have indicated challenges in financing the zone infrastructure development, which has slowed the pace of infrastructure development. It is unclear as to why the developers are unable to access finance given the strong backing and subsidies/incentives from the Chinese government.
Host governments\(^4\) need to strengthen legal and regulatory arrangements to more effectively support zone development: Ethiopia does not have any SEZ legal, regulatory and institutional framework. Nigeria’s legal, regulatory, and institutional regulatory framework for zones has a long way to go before it could be considered international good practice. There appears to be need for clearly defined development criteria and rights and responsibilities of the parties involved through a transparent regulatory framework.

Host governments need to ensure delivery of external infrastructure critical to zone success:\(^5\) Significant public sector investments are required in access roads, energy, water, waste management, information and communication technology (ICT) and port facilities to support the zones. There is a need for clear financing and PPP implementation arrangements for these infrastructure investments to enhance the attractiveness of the zones for private investors. The timing and sequencing of these investments is also an important factor that appears to have been given only limited attention.

Greater access of local companies and workers to the zones will be vital to ensure linkages to the local economy: As was the case with China's SEZ experience, the success of the zones in realizing economic and social development objectives will depend heavily on providing opportunities for supply chain, skills and technology linkages (and on the capacity of the host countries to take advantage of these linkages). At the moment, efforts to establish and maintain these linkages are not in place as yet. This affects the perception of the projects by local communities and risks the long-term competitiveness of the zones.

Learning and knowledge sharing should be given higher priority: One of the key expectations of host governments is the learning and knowledge sharing based on the successful Chinese SEZ experiences. There is a need for more concrete and proactive initiatives from both host country governments and MOFCOM to ensure the right mix of skills and experience are available in each of these zones, and to design and implement specific learning programs beyond high level experience sharing events. There are also opportunities for the various zone developers to share information and experiences and learn from each other especially from the more advanced zones such as in Thailand and Egypt.

Integration of the zone master plans into regional urban development plans will enhance economic and social benefits: While most of the projects are being designed as mixed-use (industrial, commercial, and residential) zones, they are generally being developed as isolated enclaves. The integration of these zone master plans into regional urban development plans and trade infrastructure, as in the case of Lekki FTZ in Lagos State, Nigeria, will enhance the economic and social benefits and reduce the risks of the zones becoming enclaves.

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\(^4\) Mauritius has a very competitive regulatory environment. However there is a perception that the confidentiality agreement for this zone runs counter to the Government’s intention to establish a transparent, rule-based system for all investors.

\(^5\) With the exception of Mauritius.
Communications and outreach strategies need to be improved to garner public and investor support: The mission encountered perceptions among some local communities and stakeholders about a lack of transparency, a lack of visible progress on the ground, and limited linkages to the local economy. More effective communications between government agencies and zone developers, including overcoming language barriers, targeted public relations as well as regular dialogue with the local private sector and other stakeholders will help allay some of the concerns. Transparency of the project objectives and outcomes would help allay many of the current concerns.

Effective social and environmental impact management strategies are a must for sustainable development of the zones: All the zones are dealing with involuntary resettlement issues and environmental risks. Comprehensive impact management plans drawn up and implemented in consultation with the major stakeholders and disclosed in the public domain will go a long way in both addressing project sustainability and investor concerns. Adoption of good practice labor standards and practices and addressing climate change concerns such as adopting green technologies should be given special focus and incentives.

7. Potential opportunities for bilateral and tripartite collaboration

The potential for the zones to support African development is clear, especially in light of prevailing infrastructure deficits, China’s substantial experience, and the need to attract investment into Africa. There is scope to further enhance the developmental impact of this engagement and WBG experience may be brought to bear in the areas outlined below.

Learning and knowledge sharing: A joint learning and experience sharing event amongst the zone developers, African Government counterparts and MOFCOM will be of value to all stakeholders. The Government of Mauritius has offered to host and co-sponsor such an event. Important issues to be addressed in the forum include the management of social and environmental safeguards issues. Other important topics include strategic planning, offsite infrastructure, communications, local linkages and marketing and promotion.

Technical assistance and capacity building: The Ethiopian Ministry of Trade and Industry requested technical assistance on designing a policy, legal, regulatory and institutional framework for the development, management and regulation of zones, as well as on models for public financing and PPP arrangements for external infrastructure for zones. Support was requested in Nigeria in the implementation of the Lekki FTZ and the One Stop Shop model as well as PPPs for infrastructure development. In addition, technical assistance could be provided in all countries to local institutions and zone developers for undertaking feasibility and market demand studies, as well as in marketing and promotion of the projects.

Establishing training and technology transfer centers: In order to promote greater linkages with local suppliers and labor markets, the development of training and technology transfer centers, in close cooperation with zone developers, could be pursued in all three countries. This was a model adopted successfully by China during the development of its own SEZ program.
MOFCOM could provide incentives to the zone developers and for companies investing in the zones to invest in training and technology transfer initiatives.

**Integrated planning and financing of offsite infrastructure:** The WBG can provide technical assistance and potentially financing for planning and implementing critical offsite infrastructure to support these projects as PPPs, particularly where they are part of a comprehensive urban or regional development plan as in the case of the Lekki development in Lagos State, Nigeria.

**IFC investments:** IFC is currently appraising potential investments in the Lekki and Eastern Industrial Park projects. Given the size and complexity of the Lekki project in particular, the Chinese sponsors and Government have expressed strong interest in the IFC/World Bank Group’s support for these projects, potentially including the development of infrastructure outside the zone. IFC is also expecting to assist in the detailed analysis of the market and financial viability, and help the projects address the environmental and social risks in a comprehensive manner.

8. **Next steps**

The proposed next steps are as follows:

**World Bank Group:** As a first step, this draft report findings and proposals could be discussed at a Joint Learning and Experience Sharing Event, which could also include lessons learned from the global experience on zone projects. IFC will continue appraising potential investments in the Lekki and Eastern Industrial Park projects; with the expectation of completing due diligence and assessment in the near term.

**China:** The WBG would welcome preliminary reactions from MOFCOM, MOF, the developers and other stakeholders in the zone projects to the findings and proposals in this report. Going forward, it would be useful to have clarification of the business and financial planning, promotion and marketing arrangements and performance targets, the required financial and technical capacity, strengthening linkages with the local economy and establishing communications and outreach strategies.

**African governments:** Government counterparts in Nigeria and Ethiopia have expressed interest in assistance from the WBG on the implementation of zone projects in areas such as policy, legal, regulatory and institutional frameworks for the development, management and regulation of zones, models for public financing and PPP arrangements for external infrastructure for zones. It will be important for these Government counterparts to establish dialogue with the zone developers on the issues that have been highlighted in this note and the WBG could facilitate this process. Mauritius is also keen to share its successful experience in zone development with other SSA countries, potentially in partnership with other countries.
<table>
<thead>
<tr>
<th></th>
<th>Lekki Free Trade Zone, Nigeria</th>
<th>Ogun-Guangdong Zone, Nigeria</th>
<th>Eastern Industrial Park, Ethiopia</th>
<th>Jin Fei Economic &amp; Trade Cooperation Zone, Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>60 km east of Lagos with the Atlantic to the south and Lekki Lagoon to the north</td>
<td>Igbessa Region of Ogun State, 30 km from Lagos international airport</td>
<td>In Dukem, 30 km northeast of Addis Ababa</td>
<td>Riche Terre, 3 km northwest of Port Louis, near the Free Port</td>
</tr>
<tr>
<td><strong>Type of zone</strong></td>
<td>Mixed use: manufacturing, services, commercial and residential property</td>
<td>Mixed use: manufacturing, logistics, commercial and residential property</td>
<td>Mixed use: manufacturing, logistics, residential property</td>
<td>Mixed use: real estate base complemented with tourism, high technology and logistics</td>
</tr>
<tr>
<td><strong>Legal &amp; regulatory framework</strong></td>
<td>Free Zone Law</td>
<td>Free Zone Law</td>
<td>None (established under the provisions of Investment Code and Companies Act)</td>
<td>Mauritius Investment Code and partly under Freeport Act</td>
</tr>
<tr>
<td><strong>Land area and phasing</strong></td>
<td>Phase I: 109 ha (year 0-5) Phase II: 45 ha (year 6-10) Total land allocation: 3,000 ha</td>
<td>Phase I: 250 ha Phase II: 1,750 ha Total land allocation: 10,000 ha</td>
<td>Phase I: 100 ha Phase II: 100 ha Total land allocation: 200 ha</td>
<td>Phase I: 70 ha Phase II: 141 ha Total land allocation: 211 ha</td>
</tr>
<tr>
<td><strong>Investment 07/2010</strong></td>
<td>$48 million by zone developer</td>
<td>NA</td>
<td>NA</td>
<td>$15 million on internal infrastructure</td>
</tr>
<tr>
<td><strong>Progress in attracting investment (by 07/2010)</strong></td>
<td>64 companies with licenses to invest in the zone ( $730 million) of which 28 have signed investment agreements</td>
<td>7 companies have some form of presence in the zone</td>
<td>Cement factory established (by company linked to zone developer), gypsum board factory under construction. 11 Chinese companies have signed letters of intent to locate in the zone ($91 million)</td>
<td>9 Chinese companies have expressed an interest</td>
</tr>
<tr>
<td><strong>Domestic investors</strong></td>
<td>Allowed</td>
<td>Allowed</td>
<td>Allowed</td>
<td>Not allowed</td>
</tr>
<tr>
<td><strong>Ownership structure</strong></td>
<td>China-Africa Lekki Investment Co. Ltd (60%) → owned by China Railway Construction Corp. (35%), China-Africa Development Fund (20%), Nanjing Jianging Economic and Technology Development Co. (15%), Nanjing Beyond Investments Ltd (15%) and China Civil Engineering Construction Co. Ltd (15%) Lagos State Government (20%) Lekki Worldwide Investment Ltd (20%)</td>
<td>Consortium of Guangdong Xinguang International Group, China-Africa Investment Ltd and CCNC Group (82%) Ogun State Government (18%)</td>
<td>Consortium of Qiyuan Group (steel producer), Jianglian and Yangyang Asset Management (100%)</td>
<td>Shaxi Jinfei Investment Co Ltd (100%) → owned by Taiyuan Iron and Steel (34%), Shaxi Coking Coal (21%), Tianli Enterprises Group (12.5%) and China-Africa Development Fund (32.5%)</td>
</tr>
</tbody>
</table>
| Incentives to SEZ developers | Lekki Free Trade Zone  
Nigeria | Ogun-Guangdong Zone  
Nigeria | Eastern Industrial Park  
Ethiopia | Jin Fei Economic & Trade  
Cooperation Zone Mauritius |
|-----------------------------|------------------|------------------|------------------|------------------|
| 100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies  
Provision of offsite infrastructure | 100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies  
Provision of offsite infrastructure | Concessionary land lease rate: 1 birr/m²  
30% reimbursement on all infrastructure investment  
Secondment of Ministry of Trade and Industry and local government staff to project team to facilitate bureaucratic processes  
Income tax holiday of 6 years | Concessionary land lease rate for 99 years (actual rate has been kept confidential)  
Issue of passports to Chinese promoters and investors (# depends on investment)  
Establishment of the zone as a Freeport zone during the initial (8 year) construction phase, allowing for duty and tax-free entry of construction materials, equipment and machinery  
Provision of offsite infrastructure |
| Incentives as per the Nigerian FTZ policy:  
100% tax holiday from all Federal, State and Local Government taxes, rates, duties  
One stop approval for permits, operating licenses and incorporation papers  
Duty-free and tax-free import of raw materials and components for goods destined for re-export  
Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture  
Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products  
100% foreign ownership of investments  
100% repatriation of capital, profits and dividends  
Waiver of all expatriate quotas, and import and export licenses  
Prohibition of strikes & lockouts (10 years)  
On-site customs office, immigration and police station  
One-stop-shop services through NEPZA | Incentives as per the Nigerian FTZ policy:  
100% tax holiday from all Federal, State and Local Government taxes, rates, duties  
One stop approval for permits, operating licenses and incorporation papers  
Duty-free and tax-free import of raw materials and components for goods destined for re-export  
Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture  
Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products  
100% foreign ownership of investments  
100% repatriation of capital, profits and dividends  
Waiver of all expatriate quotas, and import and export licenses  
Prohibition of strikes & lockouts (10 years)  
On-site customs office, immigration and police station  
One-stop-shop services through NEPZA | 20% foreign currency retention on export earnings (vs. standard 10%)  
One-stop-shop  
Remaining incentives as per the investment policy for FDI:  
- 100% tax exemption from duties and other taxes on capital goods imports;  
- Exemption from sales and excise taxes for all export commodities except raw and semi-processed hides and skins;  
- Income tax holiday of 2-7 years for all new manufacturing, agri-processing and agricultural businesses  
- Potential to carry forward losses incurred during tax holiday period for half of the income tax exemption period following the expiry of exemption period.  
- Duty drawback scheme, voucher scheme and bonded manufacturing warehouse scheme | No specific incentives offered: based on national framework for FDI, with normal fiscal regime of flat 15% corporate tax and duty-free entry of most materials  
Mauritius will (eventually) become a duty-free country  
100% foreign ownership of investments |

100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies  
Provision of offsite infrastructure
Chapter 1: Introduction

1.1 Context

The genesis of this report were consultations in 2009 and early 2010 between the Ministry of Commerce of China (MOFCOM), the World Bank Group (WBG) and the governments of Nigeria, Ethiopia and Mauritius on learning from the experience of the Chinese Special Economic Zone (SEZ) initiatives as well as exploring the prospects for tripartite collaboration. It was agreed that all three stakeholders share similar objectives in promoting the development of SEZs to support Africa’s industrial development and export growth by encouraging manufacturing and other investments from China as well as from domestic and other foreign investors. Both MOFCOM and the Ministry of Finance of China (MOF) indicated that China viewed WBG support as highly complementary to China’s investments especially in policy dialogue with the host Governments and in infrastructure investments. It was agreed that a WBG mission would visit the SEZ projects in the three countries and meet with stakeholders in the public and private sectors, including with stakeholders in China, to deepen the shared understanding of these projects.

In July 2010, a WBG mission visited four zone project sites and met with the respective developers: (i) in Nigeria, the Lekki Free Trade Zone in Lagos State and the Ogun-Guangdong Free Trade Zone in Ogun State, (ii) in Ethiopia, the Eastern Industrial Park in Dukem, and (iii) in Mauritius, the JinFei Economic and Trade Cooperation Zone in Riche Terre. The mission also met with counterparts from Governments and the private sector as well as the principal stakeholders in China: China-Africa Development Fund, Export Import Bank of China (Eximbank), Guangdong Xinguang International Group, China Railway Construction Corporation (CRCC) and Qiyuan Group. See Annex A for a list of these meetings.

The objectives of this report are twofold:

(3) to improve the shared understanding of these four zone projects including the development objectives, investment structures and institutional arrangements, current status and performance, issues and challenges related to implementation, and the short to medium term plans; and

(4) to identify opportunities on how the Chinese investments in these four zones can provide the maximum possible benefits both for China and for the African countries in terms of leveraging the combined expertise, experience and resources of China, the host governments and the World Bank Group.

See also Bräutigam and Tang (2010) for a useful overview of Chinese SEZ investments in Africa.

The Chambishi zone in Zambia was not included as it was primarily associated with mineral extraction and processing.

The mission was unable to secure a meeting with Taiyuan Iron and Steel Company.
This report discusses the main findings of the mission with respect to the four zones: development goals and the anticipated benefits of the zone projects, key implementation challenges and preliminary proposals on enhancing the development/implementation process moving forward. The report is structured as follows. Chapter 1 provides the context and background on Chinese investments in SEZs, including the experience of Chinese investments in SEZs globally and in Africa in particular, the economic rationale for these investments and the experience of SEZ development in Africa focusing on the lessons learned in developing and implementing successful SEZs in Africa. Chapter 2 provides an overview of the development goals and anticipated benefits of the four zones that were reviewed by the mission, including a discussion of the perspectives of the Chinese and African stakeholders for each of the zones. Chapters 3-5 discuss in brief the implementation status, issues and challenges of each of the zones in Nigeria, Ethiopia and Mauritius, and preliminary proposals for enhancing development outcomes. Finally, Chapter 6 highlights the key lessons learned, required actions, opportunities for collaboration as well as the proposed next steps.

1.2 Rationale for SEZs

SEZs are geographically delimited areas, administered by a single body, offering certain incentives (including more liberal and simplified economic regulations) for businesses that locate and operate within the zone. They vary in size and scope and operate under different regimes such as Economic and Trade Cooperation Zones, Free Trade Zones, Export Processing Zones and Industrial Zones. SEZs offer a combination of serviced land, quality infrastructure, expedited customs and other administrative procedures, and other incentives that aim at overcoming investment barriers at a national level. SEZs are development tools that in several countries have helped to stimulate economic development by attracting local and foreign direct investment (FDI), enhancing competitiveness, and facilitating export-led growth.

There are policy and infrastructure reasons behind establishing SEZs. Policy rationale includes: reducing investment entry and operating costs; facilitating customs and other controls; conveying “free trade status” for exporters; and facilitating regional growth/industry dispersal and, in the case of China, as a controlled test bed for policy and regulatory reform. Infrastructure rationale includes facilitating infrastructure provision and agglomeration benefits of concentrating industry in one location. Developed and developing countries around the world compete for qualified SEZ developers and operators to establish and run zones in their countries. They also compete for attracting local and foreign investors/tenants to locate in these premises. International experience has shown that successful SEZs have compelling business cases, enabling legal/regulatory frameworks, effective management arrangements and enjoy strong political support at all levels of Government. In addition, they are well integrated with the local economy and have clear ownership and accountability arrangements. Perhaps most importantly, the global experience of SEZs suggests that optimal results are achieved when SEZs are established and operated as part of a national economic development reform strategy, and not as a “one off” venture.

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9 In this report, ‘SEZ’ is used as a generic term to describe any of these different forms of zones.
More specifically, good practice SEZs share the following key attributes:

(a) **Physical planning and infrastructure**
   - Integrated, multi-use development
   - Effective IT systems and networks
   - Availability of specialized facilities and business services
   - Public provision of off-site infrastructure

(b) **Development Approach**
   - Business driven (demand driven as opposed to policy driven)
   - Part of a national economic growth strategy
   - Public-private partnerships or private developer builds/owns/operates SEZs on cost-recovery basis

(c) **Policy Features**
   - Political consensus – political ‘champions’ to support required reforms
   - Best practice regulatory framework and stable business environment
   - Targeted at multi-markets and not just for exports
   - Wide range of activities permitted
   - Emphasis on deregulation and de-monopolization
   - Streamlined procedures to establish and operate enterprises
   - Shift towards universal tax incentives/low tax area
   - Adherence to universal labor rights
   - Environmental compliance
   - Equal treatment of all foreign and domestic companies
   - Incentives for private developers

(d) **Institutional Framework**
   - Establishment of a single administration to manage zone activities and high level political support
   - One-stop shop for efficient zone regime regulation
   - Autonomous, flexible, well funded regulatory authority
   - MOUs with stakeholders to govern relationships
   - Public-private partnership arrangements
In summary, the dynamics between what companies seek in locating their investments and what host countries could offer through SEZs are described schematically in Figure 1.1.

**Figure 1.1: Investment location decision-making factors and firm-level decision drivers**

1.3 Sub-Saharan Africa’s experience with economic zones

There are 114 economic zones in SSA\(^{10}\) representing some 3.0 - 4.5 percent of the total number of zones globally. This share is broadly in line with the region’s share of global trade and investment. Economic zones programs have been established in around 30 countries in SSA. A few of these programs launched in the early 1970s\(^{11}\), however, most were only implemented in the 1990s or 2000s\(^{12}\) and are still in the early stages of development (see Table 1.1). Almost all the African zones developed over the past two decades have involved traditional export processing zones (EPZs) and industrial parks (IPs), which differ considerably from the modern large scale multi-use SEZ development programs that are currently being proposed.

**Table 1.1: Overview of African zone programs by decade of launch**

<table>
<thead>
<tr>
<th>Decade</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970s</td>
<td>Liberia, Senegal, Mauritius</td>
</tr>
<tr>
<td>1980s</td>
<td>Djibouti, Togo</td>
</tr>
<tr>
<td>1990s</td>
<td>Burundi, Cameroon, Cape Verde, Equatorial Guinea, Ghana, Kenya, Madagascar, Malawi, Mozambique, Namibia, Nigeria, Rwanda, Seychelles, Sudan, Uganda, Zimbabwe</td>
</tr>
<tr>
<td>2000s</td>
<td>Gabon, Gambia, Mali, South Africa, Zambia, Eritrea, Mauritania, Tanzania</td>
</tr>
</tbody>
</table>

*Source: FIAS (2008) with amendments. Note that this list is not exhaustive.*

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\(^{10}\) FIAS (2008).


\(^{12}\) Both the Liberia and Senegal programs became dormant and are in the process, as of 2010, of being overhauled and re-launched.
The available evidence suggests that SSA’s experience with traditional EPZs and IZs has been relatively poor in terms of both employment generation and export performance (Table 1.2).

Table 1.2: Estimates of direct employment and exports in zones in select regions around 2004-06

<table>
<thead>
<tr>
<th>Region</th>
<th>Direct employment (million)</th>
<th>Exports (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>1.0</td>
<td>8,605</td>
</tr>
<tr>
<td>Asia and the Pacific</td>
<td>61.1</td>
<td>510,666</td>
</tr>
<tr>
<td>Americas</td>
<td>3.1</td>
<td>72,636</td>
</tr>
<tr>
<td>Central and East Europe and Central Asia</td>
<td>1.6</td>
<td>89,666</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>1.5</td>
<td>169,459</td>
</tr>
<tr>
<td>Global</td>
<td>68.4</td>
<td>851,032</td>
</tr>
</tbody>
</table>


While the EPZ program in Mauritius was widely viewed as a success, and Kenya and Madagascar managed to attract relatively large investments and generate employment primarily in the textiles and garments industry (although both are now in decline), most efforts, including in Malawi, Mali, Namibia, Nigeria and Senegal, have struggled. And, again with the exception of Mauritius, no African zone program has managed to mainstream SEZ-initiated reforms or to use SEZs to facilitate structural economic change.

A forthcoming WBG study covering six of the main SEZ programs in SSA found that, while some programs are performing better than others, on the whole African SEZs show low levels of investment and exports, and their job creation impacts have been limited to date. They are also relatively capital-intensive compared to the labor-intensive zones in Asia and Latin America, thus limiting their impact as a tool for job creation. Moreover, none of the programs studied show signs of zones having integrated effectively with the local economy, facilitated industrial upgrading, or acted as a catalyst of wider economic reforms. And while many of the zones studied are still in the early stages of development, growth patterns suggest most were already experiencing stagnating growth, raising questions about the fundamental competitiveness of African zones programs, and of the potential of African zones to compete for the labor-intensive manufacturing activities that have been the traditional basis of growth in the successful EPZ models of East Asia, Central America, and Mauritius.

A wide range of issues have held back the performance of African economic zones, including: (i) poor site location and inadequate infrastructure; (ii) ineffective policy, regulatory and institutional frameworks, weak governance and PPPs; (iii) ineffective management and inefficient procedures

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and controls, notably land and Customs administration; (iv) poor business environment; (v) lack of strategic planning and demand-driven approach; (vi) lack of political leadership and buy-in; and (vii) lack of committed key anchor investors.

Despite the experience to date, governments throughout Africa remain keen to develop SEZ programs in order to support economic diversification, attract investment especially in the manufacturing and services sectors, create employment, and benefit from skills and technology transfer. New SEZ programs are being launched in several countries and a number of major investments are being made to establish new economic zones, coming both from the public and the private sector. Among these are investments from foreign developers, including from China, but also from India, Singapore and Turkey among others.

1.4 Learning from the Chinese SEZ experience

China’s SEZ policy has been widely lauded for its remarkable success as a tool for attracting FDI, promoting export-oriented industrialization, and catalyzing market-wide reforms. Starting in 1979, with the establishment of four SEZs in the southeastern coastal region of the country, more than a hundred zones of various kinds have now been established in the country. They have become one of the principle means by which the Chinese government provides preferential policies to foster the development of technology and industry. Over time China’s national and provincial governments, and its private zone developers, have built up substantial expertise in planning, developing, and operating industrial parks.

As a result, there is especially strong interest in many countries to emulate the experience of China in developing SEZs as a policy instrument in economic liberalization and export-led growth, attracting foreign investments and enhancing the competitiveness of the manufacturing sector (see Box 1.1). Consequently, Chinese investments in SEZs have been welcomed by many countries as a means of benefiting from Chinese capital and proven experience and expertise in SEZ development and management, as well as the prospects of spillovers in terms of skills and technology that may benefit domestic enterprises and enhance their competitiveness in regional and global markets.

<table>
<thead>
<tr>
<th>Box 1.1: Lessons learned from the Chinese SEZ experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>The contributions of SEZs to the economic growth of China in terms of share of gross domestic product (GDP), FDI, employment creation, technology and skills spillovers are remarkable. From experimental beginnings as policy test beds for controlled economic liberalization and market-oriented reforms in 1979/80, Chinese SEZs accounted for more than 22 percent of GDP and 50 percent of FDI in 2007. Many factors contributed to this success including the following:</td>
</tr>
<tr>
<td><strong>Strong commitment to reform and pragmatism from top leadership:</strong> the SEZ policy was backed by the highest levels of national, provincial and local authorities and emphasized a pragmatic approach towards economic reforms.</td>
</tr>
<tr>
<td><strong>Location advantages:</strong> the zones were located in the coastal region with good access to major infrastructure such</td>
</tr>
</tbody>
</table>
as ports, airports and railways and links to international markets and historical trading relationships.

**Preferential policies and institutional autonomy**: the zones had in place preferential policies, including inexpensive land, incentives, rapid Customs clearance and a business-friendly environment. The SEZs also enjoyed institutional autonomy to establish and implement a legal and policy framework conducive to investors.

**Early emphasis on infrastructure investments**: there was a strong commitment towards government investments in infrastructure both onsite and offsite as well as establishment of business support services.

**Role of FDI and the Chinese Diaspora**: the success in attracting foreign investors and the Chinese Diaspora led to significant technology transfer and learning spillovers.

**Technology learning, innovation, upgrading and strong links with the domestic economy**: there was a strong emphasis by the government in supporting learning and skills upgrading through a combination of incentives, policies and regulations and linking SEZs to domestic supply chains.

**Clear objectives, benchmarks and intense competition**: the SEZs were set up with clear objectives and targets for economic growth, exports, employment and investment. The large number of SEZs competed with each other for investments based on quality of services and infrastructure offered to investors.

*Source: Zeng (2010).*

Indeed, one of the key lessons from China’s experience in developing their SEZs was their success in working with established foreign developers—often in government-to-government partnerships. This helped to ensure that their initial zones were established according to good international practices and were managed initially by experienced SEZ professionals. In addition, it provided an opportunity for Chinese officials to learn about all aspects of planning, developing, and managing SEZs. The partnership with Singapore in the Suzhou Industrial Park (see Box 1.2) serves as an illustration.

### Box 1.2 Lessons learned from the China-Singapore partnership for the Suzhou Industrial Park

The China-Singapore Suzhou Industrial Park (SIP) is a fully functioning “new township” located in East Suzhou, a major industrial city approximately 80 km from the commercial center and port facilities of Shanghai. Launched in 1994, SIP was a flagship of Chinese efforts to partner with foreign entities to learn about establishing and managing modern IPs. Although it experienced many difficulties in its early years, SIP has since gone from strength to strength, attracting US$17 billion in FDI and supporting more than 500,000 jobs. The experience of China’s partnership with Singapore for SIP suggests a number of valuable lessons for African host governments engaging in partnerships with China and other countries in partnership structure and governance, planning, development, and operations and learning and knowledge sharing.

**Partnership structure and governance**: A Joint Steering Committee for the project was co-chaired by the Chinese Vice-Premier and the Singapore Deputy Prime Minister and includes Ministers from both countries to ensure high level political commitment. Commercial and political objectives were balanced and the ownership and control of the project shifted from Singapore to China through a phase-in of local management control to leverage local knowledge, capacity and responsiveness. A multi-tiered governance structure was put in place: a steering committee, an empowered local authority and a joint venture development entity and the process of building mutual trust and recognizing capabilities and constraints was critical.
**Development and operation of the zone:** Physical development was complemented with policy reforms to establish a business-conducive environment. The SIP established a comprehensive One Stop Shop service with a strong mandate and devolved decision-making authority. The mind-set shifted from hardware (infrastructure) to software (knowledge).

**Learning and knowledge sharing:** Knowledge sharing was fundamental to the partnership from the beginning through strong two-way institutionalized commitment to learning. This was achieved through formal transfer programs, staff exchanges, a formal institutional structure to promote the learning program, and a comprehensive approach to the curriculum with an evolving focus over time.

*Source:* Zhao and Farole (2010).

### 1.5 Chinese investments in SEZs outside China

In the mid-1990s, the Chinese Government began to emphasize a policy of “going out” (*zou chuqu*) or “Going Global”, which encouraged Chinese companies to target new markets, build global brands, and invest abroad. One component of this policy was the establishment of overseas industrial and trade zones. Overseas economic zones were believed to serve several strategic objectives. First, they would help increase demand for Chinese-made machinery and equipment, while making it easier to provide post-sales product support. Second, by producing overseas and exporting to Europe or North America, Chinese companies would be able to avoid trade frictions and barriers imposed on exports from China. Third, they would assist China’s efforts to boost its own domestic restructuring and move up the value chain at home. Fourth, they were intended to create economies of scale for overseas investment, and in particular, to assist less experienced SMEs to venture overseas “in groups”. Finally, they were viewed as a way to transfer one element of China’s own success to other developing countries; a strategy that the government believed would be helpful for recipient countries.

This strategy was pioneered by Chinese companies such as Haier, which established an industrial zone in Camden, South Carolina, USA, in 1999 to set up a supply chain in the U.S. market. Haier also established an industrial zone in Lahore, Pakistan, in 2001, in a joint venture with a local investor. In 1999, the Chinese Government signed an agreement with Egypt to establish an industrial zone in the Suez economic area. In 2003, Chinese investors also announced that they would establish two zones in Zambia: a copper producing cluster in the Copperbelt Province and a recreational cluster outside Lusaka. In 2006, this development of overseas zones was given significant priority, as the government announced a policy decision to eventually establish up to fifty special economic cooperation zones outside the country.

Under the 2006 policy, the Chinese government identified SEZ projects in at least twelve countries—including four in SSA—that would be formally supported by MOFCOM. The goal

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14 Other Chinese zone investments were in Cuba, Zambia and Dubai.

15 A total of 19 zones were approved in 2006 and according to MOFCOM, 16 were under construction by June 2010.
during the 11th Five Year Plan (2006-2010) was to establish at least ten SEZs with an investment of US$2 billion that would allow around 500 Chinese companies to venture overseas\textsuperscript{16}.

The Chinese Government designed the program to ensure that developers have a profit motive, as they view this as a critical factor to ensure sustainability of the project. MOFCOM emphasizes that the zone projects are driven by market conditions with the companies taking the lead on the business decisions and the Chinese Government only playing a supporting role. Nevertheless, the high profile nature of this initiative has translated into a package of generous financial and non-financial support from the Chinese Government for the zone projects. MOFCOM established a competitive tender process for the zone projects, under which winning bids are eligible to receive a number of incentives, including RMB200-300 million (US$29-44 million) in grants and up to RMB2 billion (US$294 million) in long-term loans.

Subsidies can cover up to 30 percent of specific development, for pre-construction (feasibility studies, visits for planning and negotiating, securing land, the costs of preparing a bid) and actual implementation (the purchase or rent of land, factory or office space, legal and notary fees, customs, and insurance). These costs can be made retroactively to January 1, 2004, for pre-construction and January 1, 2006, for implementation. They can also access rebates on interest for Chinese bank loans, as well as diplomatic support in working with host governments.\textsuperscript{17} With official support of MOFCOM, zone projects are expected to be in a better position to access low-cost finance from Chinese banks (China Development Bank or China Eximbank). Finally, Several Chinese provinces offer additional incentives; for example, the developers of the Eastern Industrial Park can be reimbursed by Jiangsu Province for up to 20 percent of infrastructure costs.

In addition to these incentives, the China-Africa Development Fund (CADF) is a potentially critical facilitator of these zone investments. CADF was launched in June 2007 by the Chinese State Council with an initial US$1 billion provided by the China Development Bank\textsuperscript{18}. It is expected to reach US$5 billion over the next few years. CADF invests in joint ventures with Chinese companies that do business in Africa and it has taken equity positions in several zones. CADF is currently the second largest shareholder in the Lekki FTZ and the JinFei Zone and it is considering a similar investment in the Eastern Industrial Park.

Chinese companies moving into the zones are also eligible for a number of incentives. They can be reimbursed for up to half of their moving expenses, receive export and income tax rebates or reductions on the materials sent for construction, and get easier access to foreign exchange. They can also apply to a second MOFCOM fund—the Special Fund for Economic and Technological Cooperation—to receive a rebate on up to 100 percent of the interest paid on Chinese bank loans—

\textsuperscript{16} Bräutigam and Tang (2010). In addition, the Chinese Government states on its website (http://en.ndrc.gov.cn/hot/W020060531535884722675.jpg) that is aims to optimize its export structure, actively expand imports, develop services trade and improve fair trade policies.

\textsuperscript{17} MOFCOM and MOF (2008). These were, however, noted as being “tentative” and the actual incentives package being executed has not been confirmed by MOFCOM.

\textsuperscript{18} China Development Bank is a stakeholder of CADF.
a benefit valid for five years\textsuperscript{19}. These incentives were designed to reduce the commercial risk for the Chinese investors to venture into new markets.

MOFCOM views overseas zones program as a long-term initiative and the zone projects currently are still in early stages of implementation as shown in Table 1.3. MOFCOM has reported that as of June 2010, a total amount of US$700 million had been invested by Chinese companies in the construction of 16 zones.\textsuperscript{20} MOFCOM also reports that over 200 companies are operating in these zones with an investment of US$2.5 billion. MOFCOM concludes that 10 out of the 16 zones have made considerable progress in infrastructure construction and attracting investment. MOFCOM attributes the successful performance of these zones to the accumulated experience of the Chinese zone developers in the host countries and good planning and management to fit the conditions of the host countries.

Table 1.3 SEZs supported formally by MOFCOM

<table>
<thead>
<tr>
<th>Region</th>
<th>Zone</th>
<th>Initiated</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>Chambishi Nonferrous Metal Mining Group Industrial Park Lusaka sub-zone</td>
<td>2003</td>
<td>Operational, Under construction</td>
</tr>
<tr>
<td>2. Nigeria</td>
<td>Eastern Industrial Park</td>
<td>2007</td>
<td>Under construction and partly operational (a cement plant)</td>
</tr>
<tr>
<td>3. Ethiopia</td>
<td>JinFei Economic and Trade Cooperation Zone</td>
<td>2009</td>
<td>Under construction</td>
</tr>
<tr>
<td>4. Mauritius</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North Africa</td>
<td>Jiqingling Economic and Trade Cooperation Zone</td>
<td>2007</td>
<td>Delayed due to policy issues</td>
</tr>
<tr>
<td>5. Algeria</td>
<td>Tianjin TEDA Suez Zone</td>
<td>2007</td>
<td>Operational</td>
</tr>
<tr>
<td>East Asia</td>
<td>China-Vietnam (Shenzhen-Haiphong) Economic and Trade Cooperation Zone Longjiang Industrial Park</td>
<td>2008 2009</td>
<td>Under construction Under construction</td>
</tr>
<tr>
<td>7. Vietnam</td>
<td>Thai-Chinese Rayong Industrial Zone</td>
<td>2007</td>
<td>Operational</td>
</tr>
<tr>
<td>8. Thailand</td>
<td>Sihanoukville SEZ</td>
<td>2008</td>
<td>Under construction</td>
</tr>
<tr>
<td>10. Indonesia</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{19} Bräutigam and Tang (2010).

\textsuperscript{20} MOFCOM, September 2010.
**South Asia**

<table>
<thead>
<tr>
<th>Country</th>
<th>Zone Name</th>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pakistan</td>
<td>Haier-Ruba Industrial Zone</td>
<td>2006</td>
<td>Delayed (land access problems)</td>
</tr>
</tbody>
</table>

**Eastern Europe**

<table>
<thead>
<tr>
<th>Country</th>
<th>Zone Name</th>
<th>Year</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>Ussuriysk Economic and Trade Cooperation Zone</td>
<td>2006</td>
<td>Under construction and partly operational</td>
</tr>
</tbody>
</table>

*Note: in addition to the above list, there is mention of two other zones in Russia as well as zones in Mexico, Venezuela and South Korea (Bräutigam and Tang, 2010). However no information was available on the status of these zones.*

*Source: World Bank compilation.*

MOFCOM has highlighted four key challenges faced by these overseas Chinese zones, including those in Africa, as follows:

1. **Improving the management capability of the zone developers**: the current Chinese investors are largely industrial, engineering or trading enterprises and lack specific experience in developing and managing industrial development zones;

2. **Difficulties in coordination with host government counterparts**: the practical problems involving laws, policies, government services and work efficiency require effective communication, which is difficult due to the unequal status of the Chinese developers and local governments during the negotiations as well as communication problems;

3. **The lack of external infrastructure**: many zones have to develop their own infrastructure, which increases the development costs and construction difficulties; and

4. **Financing difficulties faced by the developers**: the zone developers are facing financing difficulties due to the high capital requirements for infrastructure development and the high cost of finance in the host countries.

Implementation has been delayed in some cases due to difficulties over access to land, restructuring of the Chinese investments as well as the impacts of the global financial crisis which had affected the financial capability of some Chinese companies. The Chambishi zone in Zambia encountered problems in the past that led to serious labor tension. The zone in Pakistan also ran into problems over access to land while implementation of the Algerian zone is reportedly delayed due to concerns over the SEZ policy framework. It is too early at this stage to draw definitive conclusions on the performance of these overseas Chinese zone projects. However, it would be very useful, particularly for the zones in SSA, to learn from the experience of the more advanced zone projects elsewhere such as those in Egypt, Thailand and Vietnam. For example, Box 1.3 outlines some of the lessons learned from the Egypt Suez Economic and Trade Cooperation Zone developed in partnership with the Tianjin Economic-Technological Development Area (TEDA) Investment Holdings.
Box 1.3: Lessons from the TEDA zone in Egypt

After a challenging start, the TEDA zone in Egypt now appears to be gaining traction. At least 16 companies are established in the 1 km² start-up phase. Banking, catering and customs clearing facilities are available in the zone. Approximately 1,850 local jobs had been created as of July 2009 and the zone aims to attract and host around 50 companies by 2011. Current companies include some selling into the local market, some exporting back to China, and others serving third-country markets. Key success factors are as follows:

**Experienced partner on the Chinese side:** While many of the Chinese zones in Africa are led by infrastructure companies, the Egyptian zone is led by TEDA, which is China’s first provincial-level SEZ and currently the largest multi-industry, economic-technology development area in China.

**Properly structured joint ownership with active local partners:** While Chinese ownership accounts for at least 75 percent of the project, Egyptian partners have active interest, include banks and state-owned enterprises (SOEs).

**Clear management and regulatory structure in place:** There is: (i) a tiered management structure, with an informal high level joint China-Egypt Task Force for the Suez Economic Zone; (ii) an Egyptian SEZ Authority for the zone that operates under the Prime Minister; (iii) a licensed joint-venture—Main Development Company (MDC)—with authority to develop the zone; and (iv) a development company (Egypt TEDA) that executes what has been licensed to the MDC.

**Active joint marketing:** Tianjin Municipality supported the State-owned Assets Supervision and Administration Commission (SASAC) to promote SOEs to invest in the zone. TEDA also formed the China-Egypt Commercial Association in Suez that organizes market information seminars and participates in large-scale trade fairs. The Egypt General Authority for Free Zones and Investment (GAFI) and the General Authority for the Economic Zone North-West Gulf of Suez also market the SEZ.

**Clear legal framework on use of local labor and suppliers:** Egypt has a clear regime for foreign labor: one foreign employee is allowed for every nine Egyptians employed. The first stage of the TEDA zone has more than 1,800 local workers of which less than 5 percent are Chinese. The general contractor for the zone is an Egyptian company and some of the construction work was subcontracted to local Egyptian companies.


The next section of the report focuses on Chinese investments in zone projects in Sub Saharan Africa.
Chapter 2. Chinese investments in SEZs in Africa

2.1 China-SSA trade and rationale for SEZs

The economic rationale for Chinese investments in SEZs seems to be anchored in the burgeoning trade between China and SSA that has expanded over 100-fold since 1990. While China's imports of commodities from Africa—mainly minerals and oil—drive much of this trade, there has been an equally dramatic growth of manufacturing exports from China to SSA (see Figures 2.1-2.2). Chinese imports increased from US$5.3 billion in 2000 to US$38.0 billion in 2009 while Chinese exports increased from US$3.5 billion in 2000 to US$33.2 billion in 2009. SSA recorded a trade surplus with China throughout the period.

Figure 2.1: Total trade (imports + exports) between China and Africa in 1990-2008 (US$ mn)

Figure 2.2: Chinese trade balance with Africa in 2009 by sector (US$ mn)

Chinese trade with Ethiopia, Mauritius and Nigeria also expanded in 2000-2009. In contrast to Chinese trade with SSA, China recorded trade surpluses with the three countries for each year during the ten-year period (see Figures 2.3-2.4). First, Chinese trade with Ethiopia expanded for most of the period and Chinese exports exceeded Chinese imports by a factor of five. Second, Chinese imports from Mauritius remaining largely flat while Chinese exports to Mauritius grew rapidly throughout most of the period. In 2009, Chinese imported goods from Mauritius worth US$6 million while it exported goods to Mauritius worth US$292 million. Third, Chinese trade with Nigeria expanded for most of the period although the aggregate value of imports was rather volatile, reflecting commodity prices. Chinese exports to Nigeria exceeded imports by a factor of six.

A look at trade in specific product categories indicates that Chinese exports to the three countries were overwhelmingly comprised of manufactured goods, machinery and transport equipment (see Table 2.1). Chinese imports were mainly made up of: (i) oil seeds and oil fruits (crude materials, 94 percent) from Ethiopia; (ii) oil and gas (mineral fuels, 93 percent) from Nigeria; and (iii) food and live animals (50 percent) and miscellaneous manufactured materials (36 percent) from Mauritius.

These trade patterns indicate that the Chinese SEZs can potentially serve as logistics and production platforms for Chinese companies to further penetrate national and regional markets. The zones could also serve to shift some manufacturing activities from China to Africa and increase processing and value addition of African natural resources and agricultural output in Africa. In addition, the zones will benefit from recent preferential trade terms for African countries being offered by China. In the 2007 Forum for China-Africa Cooperation (FOCAC), China introduced duty-free access on 440 products from African LDCs. At the 2009 FOCAC, China announced it would extend this incentive over time to 95 percent of products. China also announced, at the 2009 FOCAC, a US$1 billion special loan program, which is established by Chinese financial institutions to support SMEs in Africa.\textsuperscript{21} Overall, the zones have the potential to rebalance non-commodity trade flows between Africa and China if they succeed in reaching their explicit aims.

\textbf{Table 2.1: Chinese trade with Ethiopia, Mauritius, Nigeria and Sub-Saharan Africa in 2009}\\

\begin{tabular}{|c|cc|cc|cc|cc|cc|}
\hline
SITC Ver.3 product category & \multicolumn{2}{c|}{Ethiopia} & \multicolumn{2}{c|}{Mauritius} & \multicolumn{2}{c|}{Nigeria} & \multicolumn{2}{c|}{SSA} \\
\hline
 & Gross exports & Gross imports & Gross exports & Gross imports & Gross exports & Gross imports & Gross exports & Gross imports \\
\hline
Food and live animals [0] & 0\% & 1\% & 4\% & 50\% & 4\% & 0\% & 3\% & 0\% \\
Beverages and tobacco [1] & 0\% & 0\% & 1\% & 0\% & 0\% & 0\% & 0\% & 0\% \\
Crude materials, inedible, except fuels [2] & 0\% & 94\% & 2\% & 1\% & 0\% & 4\% & 0\% & 21\% \\
Mineral fuels, lubricants and related materials [3] & 1\% & 0\% & 0\% & 0\% & 0\% & 93\% & 1\% & 61\% \\
Animals and vegetable oils and fats [4] & 0\% & 0\% & 0\% & 10\% & 0\% & 0\% & 0\% & 0\% \\
Chemicals [5] & 4\% & 0\% & 6\% & 1\% & 7\% & 1\% & 6\% & 1\% \\
Manufactured goods [6] & 29\% & 5\% & 46\% & 2\% & 27\% & 3\% & 31\% & 13\% \\
Machinery and transport equipment [7] & 63\% & 0\% & 27\% & 0\% & 50\% & 0\% & 41\% & 0\% \\
Miscellaneous manufactured articles [8] & 4\% & 0\% & 14\% & 36\% & 12\% & 0\% & 18\% & 0\% \\
Commodities n.e.s [9] & 0\% & 0\% & 0\% & 0\% & 0\% & 0\% & 0\% & 2\% \\
\hline
Total (%) & 100\% & 100\% & 100\% & 100\% & 100\% & 100\% & 100\% & 100\% \\
Total (US$ mn) & 1,252 & 215 & 292 & 6 & 5,476 & 897 & 33,212 & 37,974 \\
\hline
\end{tabular}

\textit{Source: UN COMTRADE database.}

2.2 Overview of Chinese SEZs in Sub-Saharan Africa

Chinese investments in SEZs in SSA are not limited to the projects that were approved by MOFCOM in Nigeria, Ethiopia, Mauritius and Zambia. Chinese companies and provincial governments have also invested in industrial zones elsewhere in Nigeria, and in Sierra Leone and Guinea (some of which subsequently competed unsuccessfully for MOFCOM support). More recently, projects have been initiated in Botswana and South Africa; there are also reportedly Chinese zone proposals in Angola, Mozambique and Uganda. However, there is limited information on the progress of these initiatives and few of the underlying development agreements between governments and the investors have been made available to a wider audience.

Nevertheless, several features of the Chinese investments in SEZs in SSA can be identified based on the information provided on these projects. First, the companies that were successful in the MOFCOM competitive selection process were usually those that had already established a business presence in the host countries in trading, construction or manufacturing. Second, the business models of each of these SEZ investments range from fully Chinese-owned companies (as in Ethiopia and Mauritius) to joint-ventures often with the host governments (as in Nigeria and Zambia). Third, the Chinese zone developers established consortiums with multiple Chinese investors (as in Nigeria and Mauritius), often with the participation of provincial SOEs. Fourth, the Chinese investments were primarily for on-site infrastructure—i.e. within the perimeter of the zone—and based on the expectation that the host governments will provide the required off-site infrastructure investments. Finally, all these zone projects involved high level political support from both the Chinese and African governments.

The current status of the Chinese investments in zones in SSA is summarized in Table 2.2. They have several similarities: (i) all four zones are within relatively close proximity to the economic capital of the three countries (Lagos, Addis Ababa, Port Louis) and key existing or planned infrastructural assets (in Nigeria: APAPA Port, Lagos airport, Lekki Port; in Ethiopia: on the main highway towards Port of Djibouti; and in Mauritius: near the Free Port); (ii) all the zones are proposed as mixed-use zones; (iii) the first phase of planned development are approximately 100 ha for all the zones except Ogun-Guangdong, which is relatively bigger in terms of planned area; and (iv) the ownership of the zone projects is dominated by consortiums of 3-6 Chinese business partners. However, there are differences for example in terms of the estimated size of initial investments; provision of fiscal incentives to developers and companies investing in the zones (Nigeria is by far the more generous); and host government equity participation (Nigerian state governments have equity stakes).

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23 Zones that are not supported formally by MOFCOM were not covered in this study.
24 The Eastern industrial Zone is an exception since the Chinese developer is responsible for both on-site and off-site infrastructure (with the government committing to reimburse 30% of the costs of both investments).
### Table 2.2: Summary of zone characteristics in MOFCOM-supported SEZs in Nigeria, Ethiopia and Mauritius

<table>
<thead>
<tr>
<th></th>
<th>Lekki Free Trade Zone Nigeria</th>
<th>Ogun-Guangdong Zone Nigeria</th>
<th>Eastern Industrial Park Ethiopia</th>
<th>Jin Fei Economic &amp; Trade Cooperation Zone, Mauritius</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>60 km east of Lagos with the Atlantic to the south and Lekki Lagoon to the north</td>
<td>Igbessa Region of Ogun State, 30 km from Lagos international airport</td>
<td>In Dukem, 30 km northeast of Addis Ababa</td>
<td>Riche Terre, 3 km northwest of Port Louis, near the Free Port</td>
</tr>
<tr>
<td><strong>Type of zone</strong></td>
<td>Mixed use: manufacturing, services, commercial and residential property</td>
<td>Mixed use: manufacturing, logistics, commercial and residential property</td>
<td>Mixed use: manufacturing, logistics, commercial and residential property</td>
<td>Mixed use: real estate base complemented with tourism, high technology and logistics</td>
</tr>
<tr>
<td><strong>Legal &amp; regulatory framework</strong></td>
<td>Free Zone Law</td>
<td>Free Zone Law</td>
<td>None (established under the provisions of Investment Code and Companies Act)</td>
<td>Mauritius Investment Code and partly under Freeport Act</td>
</tr>
<tr>
<td><strong>Land area and phasing</strong></td>
<td>Phase I: 109 ha (year 0-5)  &lt;br&gt; Phase II: 45 ha (year 6-10)  &lt;br&gt; Total land allocation: 3,000 ha</td>
<td>Phase I: 250 ha</td>
<td>Phase I: 100 ha  &lt;br&gt; Phase II: 100 ha  &lt;br&gt; Total land allocation: 200 ha</td>
<td>Phase I: 70 ha  &lt;br&gt; Phase II: 141 ha  &lt;br&gt; Total land allocation: 211 ha</td>
</tr>
<tr>
<td><strong>Estimated investment commitments</strong></td>
<td>Phase I-II: $392 million  &lt;br&gt; State Government: $67 million</td>
<td>Phase I: $220 million  &lt;br&gt; Phase II: $280 million</td>
<td>Phase I: $22 million  &lt;br&gt; Phase II: $78 million  &lt;br&gt; Final: $413 million</td>
<td>Phase I: $220 million  &lt;br&gt; Final: $720 million</td>
</tr>
<tr>
<td><strong>Investment 07/2010</strong></td>
<td>$48 million by zone developer</td>
<td>NA</td>
<td>NA</td>
<td>$15 million on internal infrastructure</td>
</tr>
<tr>
<td><strong>Progress in attracting investment (by 07/2010)</strong></td>
<td>64 companies with licenses to invest in the zone ($730 million) of which 28 have signed investment agreements</td>
<td>7 companies have some form of presence in the zone</td>
<td>Cement factory established (by company linked to zone developer), gypsum board factory under construction. 11 Chinese companies have signed letters of intent to locate in the zone ($91 million)</td>
<td>9 Chinese companies have expressed an interest</td>
</tr>
<tr>
<td><strong>Domestic investors</strong></td>
<td>Allowed</td>
<td>Allowed</td>
<td>Allowed</td>
<td>Not allowed</td>
</tr>
<tr>
<td><strong>Ownership structure</strong></td>
<td>China-Africa Lekki Investment Co. Ltd (60%) → owned by China Railway Construction Corp. (35%), China-Africa Development Fund (20%), Nanjing Jianging Economic and Technology Development Co. (15%), Nanjing Beyond Investments Ltd (15%) and China Civil Engineering Construction Co. Ltd (15%) Lagos State Government (20%) Lekki Worldwide Investment Ltd (20%)</td>
<td>Consortium of Guangdong Xinguang International Group, China-Africa Investment Ltd and CCNC Group (82%) Ogun State Government (18%)</td>
<td>Consortium of Qiyuan Group (steel producer), Jianglian and Yangyang Asset Management (100%)</td>
<td>Shanxi Jinfei Investment Co Ltd (100%) → owned by Taiyuan Iron and Steel (34%), Shanxi Coking Coal (21%), Tianli Enterprises Group (12.5%) and China-Africa Development Fund (32.5%)</td>
</tr>
<tr>
<td>Incentives to SEZ developers</td>
<td>Incentives to SEZ-based companies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lekki Free Trade Zone Nigeria</td>
<td>Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, and duties. Provision of offsite infrastructure.</td>
<td>Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, and duties. Provision of offsite infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eastern Industrial Park Ethiopia</td>
<td>Concessionary land lease rate: 1 birr/m². 30% reimbursement on all infrastructure investment. Secondment of Ministry of Trade and Industry and local government staff to project team to facilitate bureaucratic processes. Income tax holiday of 6 years.</td>
<td>Concessionary land lease rate for 99 years (actual rate has been kept confidential). Issue of passports to Chinese promoters and investors (# depends on investment). Establishment of the zone as a Freeport zone during the initial (8 year) construction phase, allowing for duty and tax-free entry of construction materials, equipment and machinery. Provision of offsite infrastructure.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jin Fei Economic &amp; Trade Cooperation Zone Mauritius</td>
<td>No specific incentives offered: based on national framework for FDI, with normal fiscal regime of flat 15% corporate tax and duty-free entry of most materials. Mauritius will (eventually) become a duty-free country. 100% foreign ownership of investments.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Incentives to SEZ-based companies:
- Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties. One stop approval for permits, operating licenses and incorporation papers. Duty-free and tax-free import of raw materials and components for goods destined for re-export. Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture. Permission to sell 100% of manufactured, assembled, or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products. 100% foreign ownership of investments. 100% repatriation of capital, profits, and dividends. Waiver of all expatriate quotas, and import and export licenses. Prohibition of strikes & lockouts (10 years). On-site customs office, immigration and police station. One-stop-shop services through NEPZA.

Remaining incentives as per the investment policy for FDI:
- 100% tax exemption from duties and other taxes on capital goods imports;
- Exemption from sales and excise taxes for all export commodities except raw and semi-processed hides and skins;
- Income tax holiday of 2-7 years for all new manufacturing, agri-processing and agricultural businesses.
- Potential to carry forward losses incurred during tax holiday period for half of the income tax exemption period following the expiry of exemption period.
- Duty drawback scheme, voucher scheme and bonded manufacturing warehouse scheme.
2.3 Perspectives of Chinese and African stakeholders

While the benefits to the Chinese investors seem clear, the potential benefits to the African countries may be less obvious. The potential stream of benefits vis-à-vis the costs of developing these SEZs (when designed and implemented properly and based on lessons of international experience) is summarized in Table 2.3.

Table 2.3: Potential development benefits and costs of SEZ development for the host countries

<table>
<thead>
<tr>
<th>Potential SEZ development benefits</th>
<th>SEZ development costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct and indirect employment generation</td>
<td>External infrastructure costs borne by government</td>
</tr>
<tr>
<td>Economic diversification</td>
<td>Government services costs</td>
</tr>
<tr>
<td>Increase in government revenue, FDI and exports</td>
<td>Social opportunity costs of land and infrastructure provision</td>
</tr>
<tr>
<td>Capital investment (infrastructure, plant)</td>
<td>Value of foregone taxes and duties from locating in the SEZ dependent on:</td>
</tr>
<tr>
<td>Regional development and decentralization</td>
<td>- Simple relocation of existing companies without expansion</td>
</tr>
<tr>
<td>Technology and skills transfer</td>
<td>- Extent to which new investors would have started operations without an SEZ scheme</td>
</tr>
<tr>
<td>Net foreign exchange payments for components of local value-added:</td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td></td>
</tr>
<tr>
<td>Fees for government, utilities, transport services</td>
<td></td>
</tr>
<tr>
<td>Locally sourced raw material, machinery, intermediate goods and other inputs</td>
<td></td>
</tr>
<tr>
<td>Local repair, maintenance, and other services</td>
<td></td>
</tr>
</tbody>
</table>

The main stakeholders—i.e. the Chinese consortiums and the host Governments—in the four SSA zones provided the following perspectives as to the challenges and perceived benefits from the investments25:

1. Lekki FTZ and Ogun-Guangdong Zone, Nigeria

The key partner in the Chinese consortium developing the Lekki Free Trade Zone, the China Railway Construction Corporation (CRCC), was first established in Nigeria 15 years ago, when it became involved in upgrading Nigeria’s railway system. The decision to invest in the Lekki FTZ was taken after high-level discussions between the CEO of CRCC and members of the Nigerian Government. CRCC identifies its objectives in line with the Chinese Government’s “going out” strategy, as well as expanding the market for Chinese goods in Africa, and supporting the growth of Nigeria’s industrial sector by learning from the experience of China’s industrial zones. Additionally, CRCC indicates a long-term corporate strategy to use the Lekki project as a flagship to help build the CRCC brand name in the region.

25 Based on interviews conducted by the WBG team in both China and the three countries in Africa
In the case of the Lekki FTZ, the Chinese consortium has indicated a positive experience, with strong support especially coming from the Lagos State Government. Its concerns are primarily about the availability of off-site infrastructure; especially the port, access roads, and power (including access to the natural gas pipeline) as well as delivery on promised policies with regard to Customs, foreign exchange and work permits.

The Lekki project has a high profile within the Lagos State Government—but less so within the Nigerian Federal Government—which expects significant benefits to result from the project, with the main objective being employment creation. The Lagos State Government is attempting to create an entirely new city within proximity of Lagos. The partnership with Chinese investors in the zone is only one part of this overall development strategy and a critical catalyst to it. While the Lagos State Government recognizes the “high visibility” of the project on the side of the Chinese Government, it also notices a gap between the stated aims of the Chinese Government and the reality of the Chinese developers on the ground, which has resulted in delays related to perceived differences within the Chinese consortium and slower than expected access to financing. The Lagos State Government seems to acknowledge that it should have been clearer in establishing its initial agreements with the Chinese consortium, in particular stating specifically the expectations with regard to funding as well as a stricter implementation schedule. On the other hand, it recognizes that the major challenges to the success of the project relate to the financing of off-site infrastructure.

Like most of the Chinese developers in African industrial zones projects, China Africa Investment Limited (CAIC), the developers of the Ogun zone, were already involved in infrastructure activities in Nigeria and later decided to get involved in a zone project. CAIC’s strategic objectives also very much respond to the “going out” strategy of the Chinese Government. Hailing from Guangdong, they see the opportunity to attract investments from Chinese companies that want to shift labor-intensive activities out of Guangdong. Managers at CAIC indicated that they see Nigeria as being similar to Guangdong and China 30 years ago, specifically with low labor costs and the potential for high returns on investments. They make the case that although Guangdong-based companies will face higher costs of infrastructure and management in setting up in Nigeria, these will be more than offset by lower costs of raw materials, labor, and taxes, and also by the opportunities to tap into growing African markets and the relative proximity to the European and the U.S. markets.

The experience of CAIC has, however, been mixed to date. They first attempted to set up the zone in Imo State, but faced problems with security and high “administrative fees”, which forced them to abandon the project and seek an alternative partner, which turned out to be Ogun State. While things have improved significantly for them since moving to Ogun, they continue to face difficulties in terms of poor infrastructure, administrative barriers, and skills shortages. In the case of infrastructure in particular, CAIC stated that they expect to spend 2 to 2.5 times more on infrastructure in Nigeria than they would have to in China. They have also indicated concerns over some of the regulations (or their interpretation by Customs) with respect to purchase from the local market and sales to the local market. However, the challenges for CAIC are not limited simply to the Nigerian side. Specifically, they noted that they are not getting the support they had expected
from departments of the Guangdong local government and they are struggling to get credit extended from Chinese banks, which do not accept assets held abroad as collateral.\textsuperscript{26} They may also be finding it more difficult than expected to convince Guangdong-based companies to shift investments to Nigeria, noting a “poor understanding and negative perception of Chinese companies about Africa in general and Nigeria in particular”.

For the State of Ogun, the development of the zone is part of a regional development strategy as it has located three free zones in different parts of the state. The primary aim is to enhance manufacturing investment and job creation. The main concern of the government was the delay that occurred between 2006 and 2009 when the Chinese partner was unable to move forward on financing the infrastructure for the zone due to perceived internal problems.

2. Eastern Industrial Park, Ethiopia

Like almost all of the lead Chinese investors in similar SEZ projects, the Qiyuan Group identifies the Chinese Government’s “going out” strategy as the basis for their investment in the Eastern Industrial Park. The Feasibility Study\textsuperscript{27} for the project highlights a number of factors behind this strategy: overcoming non-tariff barriers imposed by developed country markets, taking advantage of excess production capacity in China in some industries, concerns over energy supply becoming a bottleneck for the development of the Chinese economy and enhancing regional cooperation with Africa. But beyond this backdrop, the Qiyuan Group’s decision is mainly driven by the business opportunity—cement and steel pipes have much higher profit margins in Ethiopia than in China; and in considering establishing the investment in Ethiopia, they took the opportunity of seeking financial support through the MOFCOM tender process.

The experience of the Qiyuan Group has been mixed. Although the company still believes strongly in the opportunities of the zone project, they continue to face significant financing shortfalls that have prevented them from moving forward on the Eastern Industrial Park project as quickly as they would have wished. Although they were promised a 30 percent subsidy on infrastructure investment through MOFCOM, a further 20 percent subsidy from the Jiangsu provincial government, and another 30 percent from the Ethiopian government, realizing these subsidies, which are provided as reimbursements after investment stages have been completed, has proven difficult in practice.

The Qiyuan Group appreciates the support provided by the Government of Ethiopia, noting for example that the Minister for Industry and Trade personally visits the site every quarter and holds an "open business session" attended by all relevant ministries in order to address any issues that are standing in the way of the project. However, they have a number of concerns with the policies and delivery of the government on the project. These include:

- Concerns over perceived policy reversals and/or gaps between policy and implementation. For example, they note that certain subsidies offered by the government, including the 30

\textsuperscript{26} Guangdong Xinguang is reportedly facing financial difficulties in the Ogun project

\textsuperscript{27} Feasibility Study Report, Construction Project of Oriental Industrial Park in Ethiopia, May 2009
percent infrastructure subsidy, have not been fulfilled. Qiyuan was initially granted a license to import cement, but this decision was later reversed without clear reasons. Qiyuan is also concerned that the government is offering incentives only after the zone achieves certain objectives, which they see as problematic in the initial stages of the zone. This is a different approach than was taken in China with the development of the zones, where government invested heavily up front.\textsuperscript{28}

- The strict controls on foreign currency in Ethiopia are seen as a severe hindrance to operations, making it almost impossible for foreign companies to engage in trading activities.

- High transport costs associated with the 910 km transport route from Addis Ababa to the Port of Djibouti, a general shortage of containers, lengthy cargo dwell time at the Port of Djibouti, and ESL’s shipping line monopoly.

- Efficiency of government support services.

- A weak local industry chain: the developer indicated that they generally have difficulty finding local suppliers that can provide the volumes and quality they require. The biggest example is in cement, which resulted in the developer having to build their own cement plant in the zone and import clinker from abroad.

In reality many of the concerns in the relationship between the Chinese developer and the Government of Ethiopia seem to be the result of miscommunication.\textsuperscript{29} According to sources from the Ministry of Trade, the objectives of the Eastern Industrial Park project are to create employment, to facilitate technology transfers and to generate tax flows to the Government. Overall, there appears to be some frustration with the progress of the project and with the enforcement of the agreement with the Chinese investors. Due to the Government’s relative inexperience of negotiating an SEZ deal, it learned from perceived mistakes and is now taking a more proactive and measured approach to new negotiations with zone developers from other countries. The Government indicated that they have agreed on a five-year construction plan with the Chinese investors but that the current performance is well behind schedule. They do acknowledge that some of the delay is attributable to the cement shortage in the local market. However, they also have concerns about the investor’s financing problems and the perception that the investor appears to be struggling to attract companies to locate in the zone. There are also concerns over the scale of residential development being proposed in the zone and the access of Ethiopians to these residential properties in order to avoid creating Chinese enclaves.

\textsuperscript{28} Although it is worth noting that the approach the Government of Ethiopia is using in implementing its 30 percent infrastructure subsidy is the same model that MOFCOM follows in the provision of its infrastructure subsidy to the zone developers.

\textsuperscript{29} For example, the developer apparently expected the 30 percent subsidy on infrastructure investment to come up front, while the Ethiopian Government offered this subsidy as a rebate after the investor had put in place the relevant infrastructure. When the government offered a new incentive of “20 percent” retainable foreign currency (as opposed to the existing 10 percent standard in the country), the investors misunderstood this “20 percent” to instead be an offer of a VAT rebate (\textit{source: meeting attended by World Bank mission team, Eastern Zone management team, and government liaison officials; July 13, 2010}).
3. JinFei Zone, Mauritius

The original project developer—Tianli Enterprise Group—is now a minority shareholder in the consortium. Taiyuan Iron and Steel Company (TISCO) is the new leader both financially and from a management perspective.\(^3\) They view the project as having significant potential as a multi-use development project, given its excellent location and infrastructure. However, they are struggling with marketing and, to some degree, financing. Financial support from China's MOFCOM and the Shanxi Provincial Government is not forthcoming as expected.

While the initial aim of the project was to develop a manufacturing and service base for Chinese enterprises doing business in Africa, the new investors and apparent new views on the possibilities to attract investors from China, has changed these objectives quite significantly, both in terms of the sectors and markets being targeted. According to the JinFei “Project Execution Statement”\(^3\)1: “After one year local market investigation and analysis, the initially planned 7 segments of tourism, real estate, education, commerce, logistics, green energy and reserved area will be re-defined as “real estate as a basis” (emphasis added) while tourism, high technology, logistics will be developed at same time.” The new definition is mainly based on the domestic situation of China. BOI will share its knowledge and contacts to assist and promote the JFET project from inside and outside of Mauritius, while a domestic promotion organization is prepared to set up”. Thus it appears that the investors are shifting focus significantly, with the likelihood that the project could be largely real estate focused.

Perhaps more so than in any of the other projects, the Chinese consortium has a close relationship with officials from the Government of Mauritius (despite the Government’s lack of equity participation). Indeed, the consortium appears to look to the Mauritius Board of Investment to take the lead in terms of marketing, investment promotion, and even to some degree, strategic planning.

The Government of Mauritius views the project primarily as one designed to attract new FDI and to support its strategy of positioning the country as a trade gateway between Asia and Africa. While the Government remains confident that the project can be successful, given the high priority it has been accorded by the Mauritian and Chinese Governments, there are concerns that the project has not been rigorously planned, with a clear feasibility analysis and marketing strategy. There is also a perception that the investors and the management team lack specific experience and expertise in zone development and management coming from a manufacturing background. This is not only contributing to the slow pace of development of the project, but also compounding the already poor communication with the local private sector and community. The Government is considering the need to take a much more active role in supporting the project from a strategic planning and marketing perspective.

The next three sections of the report focus on the review of these zone projects in Nigeria, Ethiopia and Mauritius.

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\(^3\) It was not clear whether TISCO had finally agreed to take over the zone investment.

\(^3\)1 Dated June 2010.
Chapter 3: Lekki FTZ & Ogun-Guangdong FTZ, Nigeria

3.1 Economic context and business environment

Nigeria is one of Africa’s largest consumer markets and the continent’s most populous country with approximately 150 million people. The economy remains dependent on oil, which contributes 20 percent of Nigeria’s GDP (US$183 billion in 2009) and about 90 percent of the country’s foreign exchange earnings, with cocoa exports coming a distant second in terms of importance. The non-oil sector, largely consisting of agriculture which forms 40 percent of GDP, has recently been growing faster than the oil sector.

Macroeconomic management has improved markedly in recent years. Nigeria’s Paris club debt was written off in 2006 and the introduction of the oil price based fiscal rule has largely served to avoid the boom and bust cycles of the past. Inflation has been brought under control and interest rates although historically high have decreased dramatically in the past year. The country depends on imports. It is estimated that almost 90 percent of finished products and commodities are imported due to the lack of competitiveness of the domestic manufacturing sector arising from investment climate challenges. The SEZs could potentially provide an efficient manufacturing and logistics platform for an import substitution strategy that will revitalize the Nigerian manufacturing sector, eventually paving the way for development of the export sector.

To the extent that the Lekki FTZ and Ogun-Guangdong FTZ could offer access to much needed infrastructure and a streamlined business environment, they could have a real impact in reducing transactions costs in the zone. According to the WBG Doing Business Indicators, Nigeria ranks 137 out of 183 countries in terms of ‘ease of doing business’. It is particularly onerous to register a property (179th), obtain a construction permit (167th), trade across borders (146th) and pay taxes (134th).32 Associated transaction costs could be reduced in a zone environment through the provision of secure land titles, streamlined administrative procedures, embedded customs facilities and time-bound tax holidays for example.

On the local level, there is some evidence that FTZs in Lagos State and Ogun State could have even more scope to reduce transaction costs than at the national level.33 For example, while Nigeria already is one of the most onerous countries in which to deal with construction permits and to register a property, Ogun State ranks among the most onerous states for these activities (37 and 35, respectively, out of 37 states). Lagos State is not much better ranked (35 and 27, respectively). In Lagos, the power to allocate land is vested in the State Governor. However, foreign companies can lease or buy land interests from private landowners who have been granted rights of occupancy by the state. Leases may also be obtained from government-owned property development corporations.34 The time to lease private land takes an average of four months and the time to lease

32 World Bank (2010a).
33 World Bank (2010b).
34 World Bank (2010c).
public land takes more than eight months. Reducing this lead time and associated uncertainty would be a major achievement for the SEZ developers.

In addition to administrative efficiency, the cost and reliability of inputs and services also help decide the attractiveness of an SEZ. Enterprise surveys and various indicators highlight that access/quality/cost of electricity, finance and transportation are three principal investment climate impediments in Nigeria.\textsuperscript{35}

First, companies lose some 10 percent of sales to power outages. Increasing supply capacity and reliability of power is a main policy objective of the government yet the constraint is unlikely to be effectively addressed on a national scale in the short or medium term. Therefore, guaranteed supply of electricity is an incentive that is likely to attract investors to the zones. Second, external finance is a rarity in the country: only one out of sixteen companies with external credit requirements have access to finance. Small companies are particularly affected. Companies that do manage to obtain a loan are required to repay the loan in less time than companies in most other countries. The complexity of the application process and onerous collateral requirements are the main reasons for low banking penetration. Access to finance for zone development and operation as well as for the companies locating in the zones will be a key requirement for success going forward.

Third, more than two-thirds of inputs are delivered by road in Nigeria and transport constraints account for 4 percent of annual sales losses. The FTZs in Lekki and Ogun are located near major seaports and airports. Thus, the time and cost of transport from the port of entry to the zones should be relatively limited compared to the time and cost of clearing customs and port procedures. The FTZs will have customs officials integrated in the zones and this solution should reduce time, and associated costs, if it is properly implemented and supported by the Customs Authority. However, the Customs Authority in Abuja indicated that they have yet to be consulted in this process and the lack of communication may cause delays and uncertainty. Integrated customs solutions in several other Nigerian FTZs are not working well due to institutional conflicts, rent seeking and inconsistency with the application of regulations.\textsuperscript{36}

The high number of documents required for exporting/importing and associated time (14/19 days) and cost for document preparation could be addressed in the FTZs through the establishment of an efficient, dedicated customs regime.\textsuperscript{37} Slow and costly customs clearance and technical control, however, could be improved and ports and terminal handling (4-5 days, $450 per container) and inland transportation and handling (4-5 days, $180-$300 per container) could also be alleviated if planned investments in new roads and the Lekki port materialize. Nigeria’s relative weaknesses in logistics are found in the performance of its customs authority: \textit{i.e.} in the efficiency of the clearance process by border control agencies (speed, simplicity and predictability of formalities); and the timeliness of shipments in reaching destination within the scheduled or expected delivery time.\textsuperscript{38}

\begin{itemize}
  \item \textsuperscript{35} Iarossi, Mousley and Radwan (2009).
  \item \textsuperscript{36} Farole (2010).
  \item \textsuperscript{37} World Bank (2010a).
  \item \textsuperscript{38} World Bank (2010d).
\end{itemize}
Nigeria could also do better in terms of the quality of trade and transport related infrastructure (e.g. ports, railroads, roads, IT) and the competence and quality of logistics services (e.g. transport operators, customs brokers). Consequently, the performance of the dedicated Customs administration in the two zones would be critical aspects of the zones’ prospective success.

Despite the trade preferences enjoyed through Nigeria’s membership in the Economic Community of West African States (ECOWAS) and inclusion in the U.S. African Growth and Opportunity Act (AGOA), as well as various incentives to boost and diversify exports, including grants, credit facilities, duty drawbacks, manufacture-in-bond, and existing FTZs, non-oil exports remain low. According to the World Trade Organization, Nigeria has raised its applied import tariffs and the country applies several other duties and charges, value-added tax, and import bans. These measures distort price incentive structures and lead to inefficient resource allocation, high consumer prices, and incentives for smuggling. The current factor prices and the overall investment climate are obviously key challenges for the successful implementation of the Lekki FTZ and Ogun-Guangdong FTZ.

3.2 Nigeria’s free zone program

Export Processing Zones and Free Trade Zones (SEZs) have been part of Nigeria’s development strategy to increase industrialization, create new jobs, and attract FDI since the early 1990s. The zones in Nigeria, including the Lekki FTZ and the Ogun Guangdong FTZ, are licensed and regulated by the Nigerian Export Processing Zones Authority (NEPZA) established in 1992 under the Federal Ministry of Commerce. In 1996, the Oil and Gas Free Zone Authority (OGFZA) was created and given regulatory authority over all oil and gas related industrial zones and over all oil and gas activities in EPZs and FTZs.

The authority to declare a new Free Trade Zone lies exclusively with the President of Nigeria. NEPZA is empowered to grant all requisite permits and approvals for operators in EPZs to the exclusion of all other government agencies and bodies. NEPZA’s responsibilities, as outlined in the Act, include marketing and promotion, supervision and coordination of functions of public and private sector organizations, and resolution of trade disputes between employers and employees, among others. For the NEPZA regulated zones, incentives are standard across the country. Although the NEPZA Act sets out the broad regulatory regime and the incentives available to companies wishing to set up their operations in the zones, specific regulations must be enacted for each individual zone. Annex B provides details of all 24 zones licensed since 1992.

An assessment of the Nigerian Free Trade Zone program found that companies in Nigeria’s Free Trade Zones operate in an environment that is substantially more attractive than that faced by companies outside the Free Trade Zones. The cumulative benefits that the FTZs provide in terms of reducing the percentage of sales lost due to the bad investment climate in Nigeria is significant. For example, companies in the Onne FTZ can expect almost a two-thirds decrease (equivalent to 20

40 Farole (2011).
percent) in sales loses due to five main business constraints examined, while companies in the Calabar zone can expect a one-third decrease (10 percent) in sales lost due to the same factors. Consequently, there is real scope to improve the performance of companies based inside the zones relative to those outside the zones. Nevertheless, evidence from the study suggests it has not been the case for a number of reasons:

- First, the scale of investment climate improvements in the free zones appears to be insufficient to support significant improvement in competitiveness. On critical issues like reliability of the power supply and, to a lesser extent, customs clearance, the investment climate inside Nigeria’s zones may be better than in the domestic economy, but it still falls well below world standards.
- The zones have not managed to address issues of infrastructure beyond the walls of the zone. This is an issue both of lack of investment and poor coordination, between horizontal ministries and between federal and national government on issues like ports, road, rail, and energy.
- The program relies heavily on incentives, at the expense of investing in services.
- Finally, and perhaps most importantly, Nigeria’s Free Trade Zones program has not yet established a reliable, predictable policy environment in which companies can operate. Not only are Free Trade Zone companies exposed to Nigeria’s general political uncertainty, but the history of uncertainty and inter-agency conflict over the Free Trade Zone regulatory authority and the incentive and customs regime makes the policy environment in the zones particularly precarious.

One particular example of this is the lack of clarity over how goods being sold from zone-based companies should be treated in the local market. According to the Free Trade Zone authorities, it is possible for 100 percent of production to be sold to local markets (provided duties are paid), but Customs has disputed this and often refuses to allow entry. Further confusion is caused by the lack of clarity over the level of value addition required for any sales to the local market.

3.3 Lekki Free Trade Zone, Lagos State

The Lekki Free Trade Zone (LFTZ) is located 60 km east of Lagos on a sandy peninsula with the Atlantic Ocean to the south and Lekki Lagoon to the north. The LFTZ is part of the overall multi-use development plan for a new city on the Lekki peninsula which includes residential, commercial, industrial, logistics and recreational development as well as a new airport and deep water port. The illustration plan reflects a large-scale vision plan that has been completed for the entire Lekki peninsula, but detailed planning is only underway for the southwest and southeast quadrants as shown in Annex C.

The development objective of the LFTZ project is to “establish a free economic zone and an international city with multi-functions of industry, commerce, trade, tourism, recreation and
residence to attract foreign investment, create employment and expedite economic growth. The major milestones in the planning and implementation of the LFTZ are shown in Table 3.1.

Table 3.1: Major milestones in the planning and implementation of the Lekki FTZ

<table>
<thead>
<tr>
<th>Time</th>
<th>Major milestones</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 2004</td>
<td>Establishment of the Chinese consortium led by CRCC for the LFTZ project</td>
</tr>
<tr>
<td>May 2005</td>
<td>Establishment of the Implementation Committee for the LFTZ by Lagos State government</td>
</tr>
<tr>
<td>Sept 2005</td>
<td>Framework Agreement on Cooperation between the Chinese consortium and the Implementation Committee</td>
</tr>
<tr>
<td>Jan 2006</td>
<td>Tripartite Agreement between Chinese consortium, Lagos State government and Lekki Worldwide Investments Ltd</td>
</tr>
<tr>
<td>Mar 2006</td>
<td>CCECC-Beyond International Investment and Development Ltd registered in Beijing</td>
</tr>
<tr>
<td>Apr 2006</td>
<td>Conceptual Master Plan covering the entire Lekki development of 165 sq. km which was prepared by CCECC-Beyond was approved by both the Federal and Lagos State Government</td>
</tr>
<tr>
<td>May 2006</td>
<td>Establishment of Joint venture company, Lekki Free Zone Development Company between CCECC-Beyond, Lagos State government and Lekki Worldwide Investments Ltd</td>
</tr>
<tr>
<td>May-Sept 2006</td>
<td>Investment promotion events in Beijing and Lagos</td>
</tr>
<tr>
<td>Oct 2006</td>
<td>Certificate of Land Occupancy for 30 sq. km site for a period of 99 years issued by Governor of Lagos State</td>
</tr>
<tr>
<td>Dec 2006</td>
<td>Management Agreement between CCECC-Beyond and NEPZA on preferential policies and incentives granted to Lekki FTZ and special legal status as a Free Zone in Nigeria</td>
</tr>
<tr>
<td>Mar 2007</td>
<td>Construction works begin at the site on roads, fencing and main entrance</td>
</tr>
<tr>
<td>July 2007</td>
<td>First loan approved by Jiangsu Branch of the State Development Bank of China for US$ 9 million</td>
</tr>
<tr>
<td>Nov 2007</td>
<td>MOFCOM approval for CCECC-Beyond investment in Lekki FTZ as qualifying for support as an Overseas Economic and Trade Cooperation Zone</td>
</tr>
<tr>
<td>Dec 2007</td>
<td>Submission of the Urban Plan for the 30 sq. km and the District Plan for Phase 1 submitted to the Nigerian authorities</td>
</tr>
<tr>
<td>Mar-Apr 2008</td>
<td>Investment promotion events in Beijing and Nanjing</td>
</tr>
<tr>
<td>Mar 2009</td>
<td>Submission of LFTZ-China-Nigeria Economic and Trade Cooperation Zone (Phase 1) Feasibility Study to Nigerian authorities</td>
</tr>
<tr>
<td>July 2010</td>
<td>Completion of office buildings, internal roads, utilities and ready-built industrial and warehousing units</td>
</tr>
</tbody>
</table>


The project started as a joint venture between a consortium of four Chinese companies (60 percent), the Lagos State Government (20 percent) and its sub-entity, Lekki Worldwide Investment Ltd (20 percent). Lekki Worldwide Investments is an investment company, owned largely by the

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41 CCECC-Beyond International Investment and Development (2009).
Lagos State Government: 40 percent of Lekki Worldwide Investments is owned by LSDPC, the Lagos State Government Development Corporation, while another 40 percent is owned by Ibile Holdings, the investment company of Lagos State. The Lagos State government allocated 16,500 ha of land of which 3,000 ha has been officially transferred to the developer so far. The Lagos State Government’s equity share is in return for providing the land and the 50-year right to operate the zone to the Chinese consortium. The State Government is also expected to contribute towards construction costs.

In March 2006, a Chinese consortium, CCECC-Beyond was set up in Beijing. In May 2006, CCECC-Beyond entered into a joint venture with the Lagos State Government to establish a special purpose vehicle, the Lekki Free Trade Zone Development Company. CCECC-Beyond successfully bid for MOFCOM support in November 2007. There have been changes within the Chinese consortium with the most recent involving the participation of the China-Africa Development Fund (CADF) in 2009. The Chinese consortium currently is China-Africa Lekki Investment Co. Ltd (CALIC) which is an investment holding company registered in China solely for the purpose of investing in the Lekki FTZ. CALIC consists of CRCC (35 percent), CADF (20 percent), Nanjing Jianning Economic and Technology Development Corporation (NJETDC, 15 percent) Nanjing Beyond Investments Limited (NBIL, 15 percent) and China Civil Engineering Construction Corporation Ltd (CCECC, 15 percent).

Table 3.2: Change in ownership structure of the Chinese consortium for the LFTZ

<table>
<thead>
<tr>
<th>Entity</th>
<th>CCECC-Beyond</th>
<th>Current CALIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Railway Construction Corporation Ltd (CRCC)</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Nanjing Jianning Economic and Technological Development Corporation (NJETDC)</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>Nanjing Beyond Investment Ltd (NBIL)</td>
<td>35%</td>
<td>15%</td>
</tr>
<tr>
<td>China Civil Engineering Construction Corporation (CCECC)</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>China-Africa Development Fund Ltd (CADF)</td>
<td>0%</td>
<td>20%</td>
</tr>
</tbody>
</table>

3.2.1 Development phasing and financing

According to the March 2009 Feasibility Study, Phase I of the LFTZ (the China-Nigeria Economic and Trade Cooperation Zone) consists of the development of 1,176 ha over a period of five years with a start up area of 780 ha. Based on more recent information, it is understood that this plan has been scaled down considerably. The start up phase, which is currently under construction, now consists of a total land area of 154 ha.\(^{42}\) The first stage of this development involves the construction works for the provision of necessary infrastructure facilities, including site clearance and leveling (partial), internal roads, landscaping, water supply and sewerage, power supply, telecommunications, gas supply, industrial workshop, warehousing/logistics/storage facilities, public/commercial facilities, residential buildings and environment protection facilities. This is expected to take up to five years to complete, and will encompass 109 ha. The second stage, also

\(^{42}\) the team was informed that the 2009 Master Plan has been revised but was not provided the revised Master Plan as it was yet to be approved by NEPZA
estimated at five years, will see the completion of construction of the remaining 45 ha of land. The total project cost is estimated at US$392 million. The project envisages a mixed use of industrial companies, service-sector companies, commercial property, residential property, and other amenities. The developer estimates that the full development of the zone could create more than 10,000 new jobs directly and many more indirectly once the zone was fully occupied and completely operational.

There appears to be a financing gap for the development of the proposed on-site infrastructure over the first five years. Under the terms of the current arrangement the offsite infrastructure costs, will be the joint responsibility of the Lagos State Government and the Federal Government (for some of the major access roads). These infrastructure needs are significant, including: a dedicated power plant for the Lekki peninsula, water and waste water treatment plant, access roads, airport, and deep sea port (see below) as well as two additional bridges to the mainland. Costs to deliver the full range of infrastructure would likely be a minimum of US$5 billion, possibly up to US$10 billion. No discrete revenue sources have also been identified for financing offsite infrastructure and the zone developer does not appear to be participating in the construction or financing of offsite infrastructure.

3.2.2 Current status and infrastructure

Completed works in the start up phase include an entry gate and associated offices, land clearing, construction of around 14 km of internal roads and drains, water supply from six bore wells and power supply from a 1,750 kW diesel generator. A 7 km drainage canal is under construction. A small industrial unit producing construction materials for the project is operational. A ready-built standard factory (3,500 m²) and warehouse (3,000 m²) have been completed and the developer expects these two units to be occupied by the end of 2010. Residential facilities for Chinese workers have also been completed and are partially occupied. A Lekki One Stop Shop has been established at the zone and was formally launched in September 2010. The developer indicated that several marketing activities are being planned in both Nigeria (Investment Forums in Lagos and Abuja) as well as in China (Shanghai Expo). There are also plans to organize an exhibition on construction equipment in which ten Chinese companies have confirmed their participation.

3.2.3 Business prospects

Based on the 2009 Feasibility Study, the zone is targeting four types of activities:

- Light industry including furniture, textile and garments, footwear and headwear production, construction and building materials, household electrical appliances and other consumer products;
- Vehicle assembly including buses, trucks, tractors, motorcycles as well as construction and engineering equipment;
- Warehousing and logistics including for petroleum products; and

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43 The total financing to date and the required investment costs were not available.
44 Estimates by the World Bank Country Team for Nigeria
- Real estate development for urban services, finance, trade, hotel, recreational and business and residential facilities.

The light industry and vehicle assembly activities are consistent with the current Chinese exports to Nigeria and proximity to the Nigerian and the ECOWAS market could potentially outweigh the higher production costs compared to China. According to the investment targets in the study, the zone was expected to attract 175 investors in the first five years with a total investment of over US$800 million. The expectation was that half of the investors will be local and one-third of the investors Chinese.\(^45\)

According to the developer, 79 investors have signed MOUs to date, 64 are registered in the zone of which 12 have signed investment agreements. However, the original investment targets are unlikely to be met at least within the timeframe specified in the Feasibility Study. According to local business associations, awareness of the benefits of the Lekki FTZ facilities and location is not widespread in local and international markets.

There are two other proposed private investments that are critical to the success of the LFTZ: the Lagos FTZ (and Lekki Port), which is being developed in partnership with Singaporean investors, and the recently announced collaboration between the Nigerian National Petroleum Corporation (NNPC) and a consortium of Chinese investors known as China State Engineering Construction Corporation (CSECC). The latter group will establish a crude oil refinery and hydrocarbon industrial park with the Lekki Greenfield Refinery as the flagship project. The adjacent Lagos FTZ is both a risk: competition for a limited number of investors and Lagos FTZ's control of the port; and an opportunity: sharing of infrastructure costs, economies of scale and scope for specialization, etc.

The proposed Port@Lekki is essential for the long-term future of the LFTZ given that APAPA port is operating at full capacity and there are already efficiency constraints. The developer, Eurochem Corporation, is a highly diversified Singaporean company that is venturing into infrastructure, oil and gas. The infrastructure (fencing, internal road network, drainage works) for the Lagos FTZ is being developed over a 220 ha port area on a 50 year lease agreement and the zone is scheduled to be operational earliest by 2014. The Lagos State government has committed an additional land area of 1,275 ha for oil and gas-based activities (including a methanol plant), warehousing, agro-processing and manufacturing activities. The developer is also proposing a 30 MW gas based power plant as an IPP. The development of the deepwater port with a capacity of 1.2 million TEUs is proposed as a BOOT (Build Own Operate Transfer) PPP transaction and the developer indicated that in principle approval on the Master Concession Agreement has been obtained from the Nigeria Port Authority, which is also supposed to take a 20 percent stake.

There are other PPP opportunities in the pipeline. At the moment the tender for the new Lekki airport is under consideration for a PPP arrangement but the project seems to have stalled. A potential light rail line from Lekki to the mainland is also being considered. However, much of the

\(^{45}\) CCECC-Beyond International Investment and Development (2009).
future viability of PPP opportunities rests on resolving the current impasse on toll collection for the recently completed Lekki toll road.

3.2.4 Development challenges and recommendations

The LFTZ is facing a number of challenges which need to be addressed systematically going forward. These include establishing a more robust business case and financial model for the project, greater clarity on planning and financing of critical external infrastructure especially access roads and power supply including access to gas supply, strengthening of the legal, regulatory and institutional framework for SEZ development and management, the capacity of the Government to support and coordinate the various private investments in the LFTZ including the Lekki Port/Lagos Free Zone and the hydrocarbon industrial park projects and deliver high quality support services to the zone, the effective management of environmental and social impacts and establishing stronger linkages between the zone investments and the local economy. The Nigerian FTZ regime has been in place since 1992, and over the 18 year period since then it has not delivered the expected results in terms of investment, employment and diversification of economic activity. There are a number of areas both at the national level and at the level of the LFTZ where the regime and its execution can be improved to increase development outcomes. These are as follows:

i) Clarify the partnership agreement based on robust market and demand analysis

**Issue:** At the core of the LFTZ concept is a public private partnership between the Lagos State Government and a private Chinese consortium backed by the Chinese government. The process to date has been a learning experience for all parties, and has lacked clarity in terms of definite goals, performance indicators and concrete timetables. Risk mitigation measures are not evident and in the absence of up-front robust market and demand analysis, unrealistic initial expectations have had to be scaled back, and plans altered accordingly. With the revised Master Plan, there is now an opportunity to develop a new business plan based on a PPP model that incorporates good practice principles of such PPP transactions.

**Recommendations:** The capacity of the Lagos State government and the Chinese consortium to develop and execute a practical and market oriented FTZ development agreement based on a PPP model needs to be strengthened. With the revised Master Plan, there could be an opportunity to revisit the existing agreements to introduce mutually acceptable performance indicators that could also be used in a standard form across all FTZ developments including the Lagos FTZ. This will enable more robust FTZ-related PPPs in the future, and ensure that future FTZ developers will be able to participate on a “level playing field” basis.

ii) Offsite infrastructure provision is critical

**Issue:** The LFTZ will rely on substantial external infrastructure which does not currently exist. While some progress has been made on the road network in the area, efforts to provide electricity, telecommunications, and natural gas pipeline connections are behind schedule and the infrastructure provision plans remain unclear. Further delays in construction of this infrastructure
will severely restrict the ability of the start-up zone to attract industrial companies. The FTZ site currently has no access to the electric grid and a power plant for the project is required. However the project has yet to secure an IPP investor or an agreement over gas supply for power generation. The regulatory framework for IPPs is not in place as yet which hinders new investments. Similarly the arrangements for private provision of water supply, as envisaged by the developer, are not in place.

The existing toll road (concession between Lagos State and a private concessionaire that includes the Macquarie Infrastructure Fund, in a project financed by African Development Bank, and South African and local banks) stops around 10 km short of the site. And plans to extend the expressway to the site are unclear. There is a need to upgrade the road network linking the site to the expressway including the coastal road as well as the road and bridge links to the north and east of Nigeria, bypassing Victoria Island. While the current plan is to obtain water from boreholes, the sustainability of extracting groundwater for the development as well as the costs of alternative sources such as desalination are yet to be assessed. There are also design issues related to wastewater and storm water management (dry drainage) that need to be addressed given changes in design to reduce the depth of landfill at the site and introduction of drainage channels.

**Recommendation:** Both the Federal Government and the Lagos State government need to jointly establish an overall infrastructure development program for the LFTZ including a realistic timeline and financing arrangements including through PPPs. The regulatory framework for IPPs and private provision of water supply are critical for the LFTZ and need to be developed and approved.

**iii) Establishing a new SEZ regime**

**Issue:** The existing Nigerian FTZ legal framework—the NEPZA Act—could be updated to better support the development of the LFTZ as an SEZ. The SEZ concept has a broad definition, supporting all types of economic activity in an integrated and well-planned space, and including small and large developments under a well-regulated, highly functional institutional framework. Specific shortcomings of the existing legal framework include non-WTO compliant export requirements; lack of clear criteria and procedures for zone designation; positive list (versus negative list) of allowable activities; regressive and non-ILO compliant labor practices; unclear and confusing institutional jurisdiction for oil and gas FTZs and activities; and lack of clarity on the role of PPP arrangements and the regulation of utilities in the FTZ context.

There is a lack of clarity and certainly a lack of shared understanding on the regulations concerning sales to the local market. In particular, this involves: (i) requirements for value-addition—although some officials indicate that 35 percent value addition is required for free zone originating goods to be sold into the domestic market, the actual regulations are not clear on this; and (ii) tax treatment of output sold to local market is also unclear—although NEPZA and most investors understand that 100 percent of output can be sold into the local market upon payment of duty, the regulations still limit it to 25 percent (and in fact, the current draft of the revised bill sitting with Cabinet would reduce this dramatically to only 10 percent). This could have significant implications on attracting
the initial wave of Chinese investors into Lekki many of whom expect to be selling Chinese-manufactured products into the local market, prior to establishing a full local manufacturing presence. In the case of Lekki, for example, clarity on this issue is fundamental to the development of the planned logistics and warehousing developments.

**Recommendations:** Adoption of a new SEZ Act that encompasses modern SEZ best practices and addresses the issues listed above will significantly improve the business environment and competitiveness of the LFTZ. Pending this, an interim program needs to be put in place clarifying the provisions for sales to the domestic market.

**iv) Clarifying and reinforcing institutional arrangements**

**Issue:** It is especially critical to ensure that there is smooth coordination and transparent communications around the LFTZ, the Lagos FTZ and the hydrocarbon industrial park for optimal planning of infrastructure and to avoid wasteful competition. The capacity of the Lagos State government to plan, coordinate and facilitate these large private investments requires considerable strengthening.

There remains significant confusion over the roles and responsibilities of OGFZA, as the oil and gas free zone authority and NEPZA, as the export processing zones authority. The two institutions have clashed over their roles in the past and in March 2008, a ruling was issued in favor of OGFZA as responsible for all oil and gas related activities in the country. This meant that NEPZA not only did not have any authority over the oil and gas free zones, but that even oil and gas activities within NEPZA-regulated zones are technically the responsibility of OGFZA. Several ongoing zone projects, including Lekki, Lagos, and Olokola, are said to be under the responsibility of NEPZA despite having significant oil and gas activities. The risk of confusion and overlapping or conflicting regulations remains. This may have significant implications for the refinery, tank farms, and other oil and gas activity. Finally, the current regulations grant significant discretionary power to the authority, which may create a sense of unpredictability, which is particularly problematic for large-scale investors that will require long-term paybacks, as in the case of Lekki.

Strengthening coordination between key institutions such as NEPZA and the Customs Department; greater clarity on the regulatory provisions for the LFTZ under the current regime; improving the institutional capacity for essential functions of FTZ regulation and promotion; extending the knowledge of the FTZ regime within other facilitating agencies such as the Immigration and Police Departments; and strengthening the knowledge within NEPZA and Customs of international good practice in the regulation and promotion of SEZs will strengthen the coordination and delivery of efficient business support services to the investors in the zone.

**Recommendation:** Create an interim program to audit and optimize current LFTZ implementation in parallel with the longer-term creation of the newer regime. A high-level Joint Federal and Lagos State Steering Committee would need to be established for both tracks, reporting back to the Cabinet, and resourced with the necessary technical skills.
v) **Strengthening communications and local economy linkages**

**Issue:** The sustainability of the LFTZ depends on linkages to the local economy in terms of creating jobs and opportunities for local companies to locate in the zone and establish business and technology partnerships with foreign companies. There are no initiatives currently to address these challenges including skills development, business linkages and SME support programs. Concerns have been raised (e.g. by the Nigerian Manufacturers Association) over the use of imported labor. Overall, the communication and outreach activities targeted at domestic investors need to be scaled up.

**Recommendation:** Linkages with the local market must be strengthened. This can be achieved through a series of measures, including an identification of existing and potential backward linkages with local producers and service providers within promising industry sectors; establishment of a vocational education/training center, which could be done through a PPP arrangement; and executing public awareness campaigns. This is intended to benefit local suppliers and producers, business associations and chambers, labor force and citizens, vocational education centers, incoming investors, and zone developers. NEPZA could benchmark and track the degree of linkage between the LFTZ and the local economy, and put measures in place to improve these including specifying linkage requirements to be incorporated in the revised Development Agreements.

vi) **Environmental and social impacts need to be managed comprehensively**

**Issue:** The Lekki master plan will almost certainly have significant environmental impacts, due to the scale of the project in a relatively green field site and the developer has prepared and submitted an Environmental Impact Assessment (EIA) for review and approval by the Nigerian authorities. The development will create significant traffic impacts from increased business activity and from truck traffic carrying goods to and from Lagos and other areas. To some extent these may be mitigated by the development of the new toll road. Secondly, the project will include a wastewater treatment plant that will treat sewage and other effluents to Nigerian standards, but the impact of discharge into the Lekki lagoon (or the ocean) would need to be studied. Water supply will come initially from groundwater and subsequently from the Lekki lagoon, with uncertain impacts on the level of the lagoon and saltwater intrusion. Finally, the contemplated power plant will likely produce significant air emissions, the effects of which are uncertain. The EIA should be able to address these issues and provide an initial evaluation of the extent to which mitigations beyond those contemplated will be required. The feasibility study calls for a number of environmental measures to mitigate potential impacts during construction, including air quality, soils, surface water, hydrological conditions, biology, and other standard measures. It is not clear to what extent these measures are being followed during construction.

The site conditions at Lekki are difficult as about two thirds of the 3,000 ha site is considered swampy land requiring large volumes of land fill. It is understood that the revised design has

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46 The EIA was not available to the WBG team.
increased the height of the landfill from 1.9 m originally to 3.0 m but has reduced the total surface area of fill by introducing drainage channels. A careful assessment of this design is necessary to ensure that climate change impacts are adequately addressed.

A memorandum of understanding was signed between the Lagos State Government and the communities affected by the zone project represented by the Lekki Coastal Area Resettlement Committee in the Ibeju Lekki local government (12 major communities); and the Epe Lagoon Area Resettlement Committee in the Epe local government (46 major communities). There is no publicly available documentation on the number of households affected and the socio-economic impacts of the project arising from involuntary resettlement. Based on the MOU, the obligations of the Lagos State Government towards the affected communities include gazette of their present village excision, provision of 750 ha of land for resettlement, provision of employment opportunities and skills acquisition programs and compensation for loss of economic crops, burial sites and shrines. The Lagos State government indicated that 80 percent of these obligations have been met for those communities in the first Phase of the FTZ project. However the developer indicated that dissatisfaction amongst the affected communities apparently continues with concerns over the level and speed of compensation, lack of employment opportunities, lack of social amenities and lack of formal channels for interaction with the Lagos State Government and the developer.

**Recommendation:** Preparation, disclosure and approval of an Environmental and Social Impact Assessment for the project including public consultation with stakeholders and development, implementation of management plans for environmental and social impacts including comprehensive resettlement action plans. Attention should also be focused on ensuring that the labor and management practices in the zone are in line with international good practice and there is a strong regulatory structure in place. The zone developer and tenants could also be given incentives for adoption of green technologies and other innovative practices that support the climate change agenda.

### 3.4 Ogun-Guangdong Zone, Ogun State

The Ogun-Guangdong Zone is located in the Igbessa Region of Ogun State, west of Lagos State, 30 km from Lagos international airport. Its shareholders include Guangdong Xinguang International Group, China-Africa Investment Ltd., Chinese CCNC Group, and the Ogun State Government. The project originated from a 2004 study of South China University of Technology on the feasibility of setting up a Guangdong economic trade cooperation zone in Nigeria. This study was used in the successful bid by Xinguang International Group in the first MOFCOM tender in 2006. The project was originally planned to locate in Imo State, but the developers ran into high administration fees imposed by the State Government and a general climate of insecurity, and decided to relocate their project to Ogun State. The move in addition to the developer's legal and financial problems back in China caused delays to the project implementation. Construction began in Ogun only in the first half

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47 The team was not given access to the feasibility study and master plan for this zone and the analysis is therefore limited and based on information provided by the Chinese consortium.

48 This study was not available to the team.
of 2009. The zone has a total area of 10,000 ha, which will be developed in two phases. Phase I consists of 2,000 ha with an estimated investment of US$500 million; within this, the start-up zone will be developed on 250 hectares, with an estimated investment of US$220 million. The zone will focus primarily on light manufacturing, including construction materials and ceramics, ironware, furniture, wood processing, medicine, small home appliances, computers, lighting, and paper.

The zone is being developed as a joint-venture between a Chinese consortium (82 percent) which consists of Guangdong Xinguang International Group, China-Africa Investment Ltd and CCNC Group and the Ogun State Government (18 percent). The equity share of the Ogun State is in return for the land and a 100-year concession for the developer. A joint venture agreement is in place. 49

3.4.1 Business prospects

There are three FTZs in Ogun State—the Ogun-Guangdong FTZ, the Olokola (OK) FTZ (an LNG facility on the border with Ondo state) and a Specialized Railway Industry FTZ. An oil refinery is under construction, and the state government has plans for a new seaport at Olokola as well as a cargo airport (Gateway). Given Ogun’s location, it serves as an important commercial gateway to the Lagos metropolitan area. As a result, it hosts a number of major foreign investors, including Nestle. The development objectives of the Ogun-Guangdong zone are similar to Lekki and the zone is envisioned to be a multi-use development project with manufacturing, logistics, commercial and residential areas. The zone seems to be initially targeting relocation of Chinese companies which are already operating in Nigeria and focusing on attracting light manufacturing and resource-based industries. The developer indicated that 20 investors have confirmed investments in the zone of which seven companies are to start operations in 2010 (in steel works, furniture, packaging/printing, footwear, detergents and leather products). In comparison to the other three zones studied in this report, the Ogun-Guangdong FTZ was the only zone with some limited operational activity on the ground as of July 2010.

3.4.2 Development challenges and recommendations 50

The challenges are similar to that for the Lekki FTZ. The site is in a fairly undeveloped location with no access to grid electricity supply. The zone developer indicated that they have received a number of proposals for an IPP at the site from Chinese investors, and that the local concessionaire for Gas, Shell Corporation, has indicated willingness to supply gas for power generation. The main gas pipeline to West Africa is approximately two kilometers away, so a gas supply appears to be possible which in turn will make a power plant feasible (assuming regulatory approvals). In addition, offsite roads are in poor condition and need to be improved significantly—the State Government has agreed to upgrade part of the main access road to the zone. The current road access to the port and airport is via a circuitous route due to the absence of critical bridges. The plans to improve the road access and the financing arrangements are unclear.

49 Details of the joint venture agreement were not available.

50 More specific and detailed recommendations were not possible given the limited information made available.
The zone developer has expressed interest in creating one or two toll bridges, and associated roads, to create a more direct connection to Lagos and the port and airport, which may mitigate traffic impacts to some extent. The developer indicated that the project would connect to wastewater treatment facilities operated by a nearby Municipality. This would require a capacity assessment and an agreement on operation and maintenance. It was not evident if an Environmental and Social Impact Assessment was submitted and approved by the Government and there was no information available on how environmental and social impacts are being managed. According to the developer there has been no study of traffic impacts or emissions for the Ogun-Guangdong zone. The developer and other stakeholders did not have any information about the social impacts of the project and the proposed mitigation measures. Some residents have been displaced, and the developer has indicated that they are constructing an elementary school for local residents.
Chapter 4: Eastern Industrial Park, Ethiopia

4.1 Introduction

The Eastern Industrial Park (EIP) is located 35 km from Addis Ababa, in the vicinity of the town of Dukem, in the National Regional State of Oromia. The nearest urban center is Debre Ziet, with a population of 132,000, around 3 km from the site. EIP is approximately 900 km from Djibouti Port, which handles more than 90 percent of Ethiopia’s overseas trade, and it is situated on the national highway which forms part of the Ethio-Djibouti Corridor. Oromia State is the most populous regional state in Ethiopia with over 35 percent of the total population and a major producer of coffee and other agricultural products, offering both an abundant workforce and a growing market for EIP.

The original planned area for the EIP in 2007 was 500 ha. It was reduced to 200 ha in 2009 after a change in the ownership structure. At the request of the developer, the government reserved the remaining 300 ha for future expansion of the SEZ. The start up phase currently under construction covers an area of 100 ha consisting of mixed use development including residential, commercial and trade, warehousing and open spaces. There are provisions for a railway transfer facility and bonded warehousing.

The EIP is developed entirely by a Chinese consortium, the Jiangsu Yongyuan Investment Corporation. This consortium originally consisted of two steel companies, Jiangsu Yonggang Group and Jiangsu Qiyuan Group from Zhangjiagang city in Jiangsu Province. The Jiangsu Qiyuan Group initiated the project and the participation of the Yonggang Group, one of China’s top 500 manufacturing enterprises, guaranteed financing which enabled it to win the second MOFCOM bidding in 2007. Two other Zhangjiagang companies (Jianglian International Trade Co., and Zhangjiagang Yangyang Asset Management) later joined the consortium and Zhangjiagang Free Trade Zone was brought in as a technical partner (without an equity stake). The Jiangsu Qiyuan Group is currently involved in two other investment projects in Ethiopia approved by MOFCOM: a cement plant which has just started operations in the EIP and a galvanized steel pipe plant which is under planning.

However, the Jiangsu Yonggang Group left the consortium in 2009, leaving the much smaller Jiangsu Qiyuan Group as the major shareholder and executor of the project. The change in the investment structure is shown in Table 4.1.

The departure of the Jiangsu Yonggang Group reportedly led to financing difficulties, which led to the scaling down of the project from 500 ha to 200 ha. The original estimated investment cost for 500 ha was US$250 million. The revised investment cost for 200 ha is US$101 million and the current start up investment is estimated at US$22 million. The consortium is seeking equity participation from CADF (of up to 40 percent) as well as negotiating with China Eximbank for

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51 Jiangsu Engineering Consulting Center (2009).
concessional financing to support this investment. The IFC is assessing a potential investment in the consortium and a key factor will be the participation of CADF amongst other considerations.

Table 4.1 Investment Structure of the Jiangsu Yongyuan Investment Corp

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<tr>
<th>Entity</th>
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<th>Current 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jiangsu Qiyuan Group</td>
<td>50%</td>
<td>80%</td>
</tr>
<tr>
<td>Jiangsu Yonggang Group</td>
<td>30%</td>
<td>-</td>
</tr>
<tr>
<td>Jianglian International Trade Co</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Zhangjiagang Yangyang Asset Management (Zhangjiagang Yangyang Pipe-making Co)</td>
<td>10%</td>
<td>10%</td>
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Source: Jiangsu Engineering Consulting Center (2009).

4.2 Institutional arrangements

The roles and responsibilities of the Government of Ethiopia and the Chinese consortium are defined in the MOU signed by the two entities. The developer consortium is responsible for planning and development of the EIP facilities, management and operation, promotion and marketing and securing adequate financing. The Municipal Government of Zhangjiagang appointed members of the Management Committee of the Zhangjiagang Economic Development Zone of Jiangsu Province to serve as directors of the Management Committee of the EIP to share their experience in planning, management, investment promotion and training.

The Government of Ethiopia commits to: (i) cover 30 percent of infrastructure costs and offers land on a concessional basis, (ii) administer the investment incentives for qualifying export oriented investments, (iii) provide 20 percent foreign currency retention on all export earnings (compared to 10 percent for other enterprises in Ethiopia), (iv) create one-stop shop arrangements to facilitate the business operations of companies located in the EIP (including customs clearances); and (v) ensure coordination and support in the delivery of services through placement of Ministry of Trade and Industry officials in the offices of the developer. The Development Bank of Ethiopia has reportedly agreed to provide concessional financing for enterprises located in the EIP that are engaged in the priority sectors.

The Government of Ethiopia’s Five Year Growth and Transformation Plan focuses on the establishment of industrial zones and clusters/value chains to enhance the global competitiveness of strategic and priority industries. The Government is keen on the development of SEZs and perceives their involvement in the EIP as a learning experience in negotiating with potential Turkish, Indian and Egyptian investors who have all made proposals for zone development projects in Ethiopia. As the first SEZ in Ethiopia, the Government provided land on a concessional basis for the EIP to attract a qualified developer who will transfer knowledge of developing and operating zones as well as bring in FDI. The developer is responsible for all compensation related to involuntary resettlement. There is no formal development agreement in place between the developer and the Ethiopian government, which treats EIP as a fully private initiative. The
developer is currently constructing all required infrastructure and the Government is expected to reimburse the costs once the individual facilities are completed and operational. The payments will be made to the developer once the Government is able to review and approve invoices and supporting documents for incurred expenditure. These arrangements are based on an exchange of official letters between the Government (represented by the Ministry of Trade and Industry) and the developer, based on the MOU that sets out the principles for managing the relationship with regards to development and operation of EIP.

Both the Chinese and a more recent Turkish zone investment are being managed through provisions in the existing National Investment Code especially on incentives. Under these provisions, foreign investors are entitled to a corporate tax holiday ranging from two to seven years based on an assessment of three factors: (i) export orientation (projects that are 50 percent or more export-oriented automatically receive at least five years of tax holiday; (ii) the sector of the investment (government has identified specific “target sectors” in its Industrial Development Strategy that receive favorable incentives); and (iii) the location of the investment within the country. As per the exchange of letters between the government and Chinese developers, the investors will benefit from: (i) tax holiday of five years if exports are greater than 50 percent; and (ii) tax holiday of seven years if the investors are technology oriented and are approved by the investment board.

4.3 Business and logistics environment

EIP could offer an improved business environment to prospective investors. Existing indicators of Ethiopia’s public administration show that a well designed zone policy could have a positive impact in reducing transaction costs. Ethiopia ranks 104 out of 183 countries in terms of ‘ease of doing business’. The main weakness is the onerous process of trading across borders (157th), reflecting the country’s landlocked status, the 900 km distance between Addis Ababa and the Port of Djibouti, and the border and port procedures. The country’s rankings for starting a business (89rd), registering property (109th) and dealing with construction permits (53th) are higher than the national income per capita may indicate but significant improvements would be within reach in a professional SEZ environment. As in the case of Nigeria, the secure provision of land, streamlined administrative procedures, and an embedded customs facility would provide a more attractive proposition to future investors.

The investment climate in Ethiopia has improved significantly in the last ten years. But while Ethiopia’s domestic wages are a third of the average in Sub-Saharan Africa, firm productivity levels remain low. Enterprise survey data suggest that productivity is held back by structural and economic factors that combine to make the economy less flexible and responsive to incentives. Many of these factors will not be improved in EIP, such as the protection of several prominent services sectors to foreign competition and existing patterns of inter-firm contracting. Neither will

54 World Bank (2009a).
concerns linked to macroeconomic conditions, political stability and access to human capital be addressed in the enclave. However, three of the main challenges to business operations and growth—land title, customs and trade regulation, and finance—could partly be alleviated in EIP.\footnote{Ibid.}

First, the EIP could remove some of the obstacles associated with land policy: 56 percent of companies indicate that their growth is significantly hampered by lack of access to land. By controlling for a number of business characteristics, companies that are constrained to access land grow 43 percent slower, with lower fixed investment and employment rates. All land in Ethiopia is owned by the state. Consequently, the option for foreign companies is to lease land for up to 99 years: either by leasing it directly from the provincial government; or by private negotiation with a leaser. This process is often time-consuming and opaque. The situation is not aided by the lack of formal land information agencies. The time to lease private land is around two-and-a-half months while the time to lease public land is almost five months.\footnote{World Bank (2010c).} The reduced time taken to secure leases for land in the EIP would therefore be of significant value to prospective investors, both domestic and foreign.

Second, 41 percent of companies report that customs and trade regulations are an obstacle to business operations. Ethiopia’s relative weaknesses in logistics are found in particular in the low quality of trade and transport related infrastructure (e.g. ports, railroads, roads and IT), the inefficiency of the clearance process of border control agencies and Customs (i.e. speed, simplicity and predictability of formalities), and the limited competence and quality of logistics services (e.g. transport operators and customs brokers).\footnote{World Bank (2010d).} An embedded Customs Administration would therefore have an important role is facilitating access to foreign inputs and capital equipments as well as providing a more expedient and less costly exit for exports.

For example, the time (25/29 days) and cost (US$550/US$700) associated with document preparation for exporting/importing a container could be reduced if the EIP were to benefit from more efficient administration of trade in its planned one-stop shop and dedicated Customs administration. More expedient (10/5 days) and less costly (US$290/US$393) customs clearance and technical control for exporting/importing could also be achieved. However, ports and terminal handling (5/6 days, US$400/US$600) and inland transportation and handling (9/5 days, US$700/US$1,300) per exported/imported container are unlikely to be alleviated in the short-term.\footnote{World Bank (2010a).} Given the geographic location of the EIP, the cost of transport will be relatively high but the performance of the transport sector is only considered to be a constraint by a small minority of companies (8 percent). The lack of containers is a serious constraint and the network of dry ports and weighbridges as well as border and ports procedures could be streamlined and made more efficient.
In addition, the Port of Djibouti is located within the major global maritime highway connecting Asia, Europe and the Americas and it is also one of the more efficient ports in Africa. Managed by Dubai Ports World, a new high capacity container terminal was recently opened at Doraleh, which increased the port’s capacity significantly, yet cargo dwell time is unnecessarily high. Beyond road transport, overall transport costs could be reduced significantly if shipping line services were liberalized. Finally, Ethiopia’s producers enjoy regional trade preferences in COMESA. They also have preferential market access to the United States through AGOA and the European Union market through the Everything But Arms Initiative. Ethiopia is not a member of the World Trade Organization, however, and Ethiopian goods do therefore not enjoy guaranteed Most Favored Nation (MFN) treatment. If sustained, these trade preferences could be attractive to prospective Chinese investors.

Third, 60 percent of companies report to be constrained by access to finance. The importance of collateral has increased in banking operations over time, emphasizing the importance of secured land title, and hence there is a prospective role that EIP can play in improving access to finance for investors. Finally, the supply of electricity receives relatively few complaints by the private sector in Ethiopia. Nevertheless the availability of adequate energy supply is critical for the success of the EIP to attract tenants. It is therefore important that the consortium plans ahead and coordinates closely with the electricity provider.

4.4 Current status and infrastructure

The start up phase is currently under construction and appears to be adequately planned, both in terms of the mix of uses and the layout of sites and infrastructure. Access to the national road and railway is good. There is an old narrow gauge railway right of way nearby but it is currently unused and there are no concrete plans to put it back into operation. Onsite infrastructure consists of internal roads and office buildings.

Power supply to the EIP is not expected to be a constraint given the investments in place to expand national power production in Ethiopia. The site currently has a temporary six-megawatt power connection to support construction. The developer is planning to build approximately 11 km of 230 kV transmission lines to two separate substations in order to provide redundant grid connections, with a planned capacity of 100 MW. The demand estimate for the project is based on the current use of 58 MW, which leaves some excess capacity to accommodate changes in tenant use. There are no plans for onsite power generation. The Ethiopian Electric Power Corporation (EEPC), the state-run electric utility, will provide power at standard rates using the transmission facilities constructed by the developer. Once these facilities are completed they will be owned, operated and maintained by EEPC. Onsite substations constructed by the zone developer will reduce the voltage in steps from 200 kV to 220 V. Although Ethiopia suffered some power shortages in the summer of 2009, by most accounts significant hydroelectric power is coming online over the next two years and power will be abundant enough that Ethiopia is planning on selling power to Kenya and Sudan.
There are abundant groundwater resources at the site and borehole water supply is being developed and water lines are under construction. At full build out the water facilities will generate 20,000 m³/day. This capacity appears to be sufficient for the development planned for the zone, based on independent calculations. The zone operator will charge zone tenants for water service and will use that revenue to pay for operation and maintenance of the water system. According to the feasibility study the developer plans on charging US$0.30/m³ for water. Although available data is extremely limited, this appears to be below rates for water utilities elsewhere in Ethiopia.

A wastewater treatment facility is also under construction to service the first phase of the project. The plant is phased and will be added to as development progresses. At full capacity the plant will be able to process 12,000 m³/day. This figure is based on a fraction of the total water demand for the project, which is an acceptable method of calculation. The plant will be designed to produce gray water for secondary uses such as irrigation and industrial processes. The wastewater lines are currently being constructed in conjunction with the roads, and will operate exclusively by gravity. The zone operator will operate and maintain the plant, financed by fees charged to tenants within the zone. The feasibility study indicates that the developer plans on charging US$0.15/m³ of wastewater discharge.

Telecommunications services will be provided by the Ethiopian Telecommunications Corporation, which will operate the equipment and charge tenants for use on the same basis as other businesses in Ethiopia.

4.5 Business prospects

The recently completed Oriental or Zhongshun Cement Manufacturing Plant constructed by Jiangsu Zhongshun Import and Export Trade Co. Ltd. and supported by CADF, is the first investor in EIP inaugurated officially in March 2010. A gypsum board factory is under construction. Besides the cement and gypsum board factories, eleven other Chinese companies have signed letters of intent to locate in the zone with a total estimated investment of US$91 million. These investments include the production of construction materials, steel products, home appliances, garments, leather processing, and vehicle assembly. However, as of July 2010 none of these prospective investors have initiated the construction or administrative process to establish their facilities in EIP. Moreover, the current performance of the EIP lags significantly from the original target of attracting 80 investors in the park in five years to create over 10,000 jobs.

The Ethiopian economy is dominated by agriculture, which contributes to nearly half of the country’s GDP and accounts for about 80 percent of the labor force. With its large consumer market, covering some 80 million inhabitants, and limited manufacturing capacity, Ethiopia is dependent on imports of foreign goods. The main imports include motor vehicles, petroleum products, civil and military aircrafts, spare parts, construction equipment, medical and pharmaceutical products, agricultural and industrial chemicals, agricultural machinery, fertilizers, irrigation equipment, and food grains. China is one of the country’s top trading partners and an industrial park in Ethiopia
could provide a logistics and manufacturing platform to facilitate greater penetration of Chinese imports into Ethiopia and the region.

The Chinese investors who have expressed an interest in EIP would focus on the domestic and COMESA markets. Based on the feasibility study, the consortium is targeting textiles, leather, agro-processing, metal works and construction materials for the Ethiopian and regional markets in addition to logistics and support services. The consortium intends to initially target its investment promotion to companies in the Suzhou, Wuxi and Changzhou cities in Jiangsu Province. The participation of domestic companies in the EIP will depend on the attractiveness of the business enabling environment that is offered by the industrial park to overcome the existing investment climate constraints.

4.6 Development challenges and recommendations

The EIP is facing a number of similar challenges as the Nigerian zones. These include the lack of clarity on the business case and financial model for the project, absence of a clear legal, regulatory and institutional framework for SEZ development and management, the capacity of the Government to coordinate and deliver support services to the zone, the management of environmental and social impacts, and the establishment of stronger linkages between the zone investments and the Ethiopian economy.

i) Establishing a Development Agreement based on a robust business model

**Issue:** The project is facing financing gaps due to changes in the investment structure. A more robust business plan including a rigorous market analysis and a realistic assessment of the total investment costs and expected returns will lead to better financial planning and more realistic development phasing. A clear development agreement between the Government and the Chinese consortium will also reduce miscommunication and wrong perceptions on the responsibilities and obligations of the various stakeholders. The EIP business plan could also be better linked to the industrial development strategy of the government which is focused on developing priority sectors and clusters focusing on value-added processing and employment generation.

**Recommendation:** It is recommended that the developer, possibly working with other stakeholders, develops a three-year business and marketing plan, with specific marketing targets, promotion tools, financial and human resources required and timelines. Joint marketing in partnership with other national investment promotion agencies is recommended. In addition, PPPs are powerful implementation mechanisms for the development and operation of large-scale infrastructure projects such as SEZs. A development agreement between the Ethiopian Government and the developer consortium that clearly defines roles, responsibilities and obligations of both parties will minimize miscommunications and strengthen the partnership. The development agreement needs to be consistent with a best practice SEZ legal framework and include key performance indicators upon which the performance of both parties can be measured. This will lay the foundation for all future similar developments in Ethiopia.
Enabling institutional and regulatory framework for SEZs

**Issue:** The absence of a clear SEZ policy and a legal framework that establishes the rights and obligations of all parties raises several challenges with respect to the zone project. For example, the government is allowing Chinese investors to bring in a large share of Chinese workers during the initial stages of the project. They stated that this is a policy "for now", but that they will get stricter on local employment in the future. Should government impose new policy changes at some point in future as a response to political pressure or increased local tensions, it can risk creating an unpredictable policy environment for the Chinese consortium.

In the absence of a transparent and predictable legal framework, the Government is taking a case by case approach in negotiating zone investments and linking land lease rates to compensation for involuntary resettlement. Given the current difficulties related to licensing, Customs, tax procedures, administration of investment incentives and the reliance on informal inter-agency coordination, a transparent and predictable regulatory framework is essential for a competitive business environment in the zone and a level playing field for all zone investors. The lack of a transparent incentive structure in particular is of concern.

Applications for the corporate tax incentive are currently decided upon by the Investment Board based on established criteria but without a clear formula. In addition, while the government aims to provide effective facilitation services for investors in the form of a “one stop” service, in reality they continue to rely on an informal approach to inter-agency coordination. This may deliver effective services to investors in some cases but the lack of formal rules and procedures also limits predictability. This absence of formal policies and incentives has contributed to the miscommunication that has been a problem in the relationship between the Ethiopian Government and their Chinese partners. A different perception on what was to be delivered in terms of the incentives and responsibilities has been a constant source of disagreement between the parties. For example CADF expressed concerns at the five year tax holiday (instead of seven years) and the restrictive foreign exchange regulations which hinder trading activities.

**Recommendation:** Develop a good practice SEZ policy and regulatory framework. The Government of Ethiopia has a strategy for industrialization that is articulated in its Industrial Development Strategy and is aware of the urgent need to develop a more systematic approach to dealing with SEZ development issues. The government also recognizes the need to build capacity of the agency, and its staff, that will eventually be responsible for the SEZ program. A good practice SEZ program should be guided by the government's overall policy and development goals and should clearly state how the zones will be used as a tool to realize these goals. The strategy must articulate the government's objective of encouraging local linkages, knowledge transfer, and piloting key legislative reforms.

As part of a good practice SEZ framework, zone development should be ideally private-led with provisions allowing for PPP models. The framework will set clear rights and responsibilities for each stakeholder, establish a transparent criteria for designating sites as SEZs, including a
requirement for proper financial and economic analysis, provide a good business climate, and an autonomous or semi-autonomous regulatory authority that has sufficient capacity and integrates good governance. The Government of Ethiopia can set a transparent and level playing field for all future investments while grandfathering existing investments by establishing the good practice SEZ framework in consultation with the existing developers. Prioritizing and establishing such a framework will send the right signals to all investors at the same time benefiting tax payers and the Government of Ethiopia significantly.

iii) Strengthening capacity of the Government for implementation support

**Issue:** Oversight of the zone project is supposed to be under a Steering Committee headed by the Minister of Trade and Industry and including all stakeholders. This Committee is yet to function and the institutional arrangements to support the zone development need to be strengthened considerably. The main link between the government and the project is through the placement of Ministry officials at the EIP. The role of the officers is to ensure that all the facilitation needs of the project are met, including support for infrastructure, Customs, tax incentives, work permits and other approvals. Although Ethiopia’s Investment Authority (which reports directly to the State Minister for Trade and Industry) has formal, delegated authority to approve all licenses and work permits for foreign investors, it appears in the case of EIP that such facilitation is happening outside the Investment Authority.

**Recommendation:** Establish a capacity building program. The Ministry of Trade and Industry should design and implement a thorough capacity building program for executing SEZ development agreements. This can be achieved through training and knowledge transfer programs and/or appointing advisors to provide technical assistance and/or SEZ program management services. This recommendation is in line with a request made by the Government of Ethiopia for technical assistance. Since Ethiopia’s experience in zones development and operation is limited at present, a capacity building program that focuses on market assessment and feasibility studies of SEZs, among other factors, is recommended. This will enable government officials to perform and/or evaluate benchmarking, industry analysis and demand projection exercises, and also to determine/confirm utility/service/infrastructure requirements to ensure that zone development is executed in a phased, cost-effective manner.

iv) Clarity on Infrastructure financing and investment arrangements

**Issue:** While the zone has reasonably good access to infrastructure, the mechanism for sharing of all offsite and onsite infrastructure costs (70:30) is a fairly unusual arrangement as typically the offsite infrastructure costs are borne by Government and the onsite costs by the developer. At present, the developer is financing the entire infrastructure investment upfront and there seem to be some ambiguities among the parties on how the reimbursement mechanism will actually work. In addition to the corporate tax holiday, the government has offered to reimburse 30 percent of infrastructure costs (onsite and offsite) incurred by the developer.
This incentive has been offered for both the EIP project and the Turkish zone project. The government has offered both developers land at a highly subsidized rate. With regard to land, however, a different approach was taken between the EIP and the newer Turkish development. With the EIP, land was provided to the Chinese consortium at a rate of only 1 birr/m², and the developers are responsible for paying the land compensation costs according to Ethiopian law. In the case of the Turkish zone, land lease rates are not clear but at the request of the developer, the Government has agreed to bear the costs of land compensation, which is being taken as equity in the project. It is not clear, however, what the level of equity is and whether this has been valued at market price. In general, what is emerging is that each project is being negotiated separately under different terms, and without a standard evaluation framework. This case by case approach poses risks of setting weak precedents as well as setting the stage for protracted negotiations and dissatisfaction down the road.

**Recommendations:** The infrastructure financing arrangements need to be spelled out clearly in the Development Agreement specifying the investment costs, the timetable and mechanism for payment including performance standards and the obligations of the respective parties.

**v) Strengthening communications and local economy linkages**

**Issue:** The sustainability of the zone depends on linkages to the Ethiopian economy in terms of creating jobs and opportunities for local companies to locate in the zone and establish business and technology partnerships with foreign companies. There are no initiatives currently to address these challenges including skills development, business linkages and SME support programs. The Ethiopian private sector is not aware of the opportunities in the zone and there are no communication or promotion activities targeted at domestic investors.

**Recommendation:** Linkages with the local market must be strengthened. This can be achieved through a series of measures, including an identification of existing and potential backward linkages with local producers and service providers within promising industry sectors; establishment of a vocational education/training center, which could be done through a PPP arrangement; and executing public awareness campaigns. This is intended to benefit local suppliers and producers, business associations and chambers, labor force and citizens, vocational education centers, incoming investors, and zone developers.

**vi) Environmental and social impacts need to be managed effectively**

**Issue:** The EIP is being constructed on a site which was formerly agricultural land. Given the nature of activities in the zone, there will be a number of impacts including on traffic, waste management and groundwater extraction. There is no publicly available Social and Environmental Impact Assessment for the project and the developer did not provide any information on the mitigation measures during construction. There are also concerns on the compatibility of for example food processing industries located next to industries such as cement production and metal industries within the EIP. The project required involuntary resettlement of a number of households (a number
of households were still seen on the site) and there is no publicly available information on the number of households displaced, the socio-economic impacts of the resettlement including loss of income from farming and the adequacy of the compensation program.

**Recommendation:** Preparation, disclosure and approval of an Environmental and Social Impact Assessment for the project including public consultation with stakeholders and development, implementation of management plans for environmental and social impacts including resettlement action plans. It is also important to ensure that labor and management practices are based on international good practice and the zone developer and tenants are provided incentives to adopt green technologies and other measures to manage climate change impacts.

vii) Integration of industrial park into a regional development plan

**Issue:** The corridor from Addis Ababa towards Dukem is emerging as a growth corridor with evidence of construction of new industrial properties along both sides of the road, including in the areas adjacent to the industrial park site. The road from Addis Ababa is being widened into a major multilane highway to accommodate the growing traffic. While there is a multi-use master plan for the industrial park, this plan does not seem to have been integrated into the overall development planning for the entire corridor and Dukem area (unlike in the case of the Lekki Corridor Master Plan in Lagos, Nigeria). Integration of the industrial park master plan with a regional development plan would strengthen both physical and economic linkages between the park and the Dukem region and facilitate improved infrastructure provision.

**Recommendation:** Formulation and adoption of a corridor or regional development plan for the Addis Ababa-Dukem region incorporating the master plan for the industrial park and taking into account the economic growth in this region.
Chapter 5: JinFei Economic & Trade Cooperation Zone, Mauritius

5.1 Introduction

The JinFei Economic and Trade Cooperation Zone is located in Riche Terre—an undeveloped area 3 km northwest of Mauritius’ capital Port Louis—near the Free Port. The ‘JinFei Zone’ will cover 211 ha of mixed-use development. The rationale originally stated for the zone is to provide a manufacturing and services platform for Chinese companies doing business in Africa. A first phase of the zone, covering 70 ha, will require an investment of around US$220 million and be developed between September 2009 and September 2012. A second phase, covering an additional 141 ha, will cost an estimated US$500 million to develop and work is expected to take place between Q3 2010 and Q4 2016. The second phase will aim to attract companies producing solar energy, pharmaceuticals, medical equipment, processed sea food, and steel products as well as providing housing, hotels, and real estate. If realized as planned, the JinFei Zone would be the single largest investment in Mauritius and create more than 30,000 jobs.

The JinFei Zone was initiated in 2006 by Tianli Enterprises Group—a provincial SOE active in trade, construction, real estate, and textiles. Having established in Mauritius in 2001, Tianli Enterprises Group invested a total of US$35 million in a state-of-the-art spinning mill that was expanded several times to supply local and foreign companies. Its proposal for the JinFei Zone was one of the winners of the first MOFCOM tender launched in 2006. Issues pertaining to the securing of land and the resettling of farmers caused significant delays. In addition, the Tianli Enterprises Group also ran into financial difficulties which forced the restructuring of the consortium. The ownership structure was overhauled following the visit of President Hu Jintao in February 2009. In May 2009 and at the request of MOFCOM, the Provincial Government of Shanxi nominated two leading SOEs—Taiyuan Iron & Steel Group Co Ltd (TISCO) and Shanxi Coking Coal Group Co Ltd (SCCG)—to participate alongside Tianli Enterprise Group in the development of the zone.

In July 2009, the new Shanxi Jinfei Investment Co Ltd was set up in China with a registered capital of RMB260 million as a holding company for the Mauritius Jinfei Economic and Trade Cooperation Zone Co Ltd (JFET). In August 2009, JFET was registered under the Mauritius Companies Act 2001 and construction began in September 2009. In addition, successful negotiations with the China Africa Development Fund (CADF) in May 2010 led CADF to agree to invest RMB120 million in the Shanxi Jinfei Investment Co Ltd, making it the second largest investor in the joint venture, and bringing the authorised capital to RMB380 million. Thus, the existing ownership structure of the JinFei Zone is: TISCO (34 percent), SCCG (21 percent), Tianli Enterprise Group (12.5 percent) and CADF (32.5 percent).

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59 A master plan has been prepared for the project with rough outlines of development, but the mission was not provided with a master plan or other detailed planning documents.

60 Tianli Enterprises Group is an SOE from Shanxi Province with a turnover of US$29.4 million active in trade, construction, real estate and textiles. TISCO is the world’s largest producer of stainless steel with a turnover
The new owners have seemingly changed the vision of the JinFei Zone. While the initial aim was to develop a manufacturing and services base for Chinese companies doing business in Africa, more recent communications suggest that the targeted sectors and markets may have shifted. According to the JinFei “Project Execution Statement” dated June 2010: “After one year of local market investigation and analysis, the initially planned 7 segments of tourism, real estate, education, commerce, logistics, green energy and reserved area will be re-defined as “real estate as a basis” (emphasis added) while tourism, high technology, logistics being developed at same time.” The new definition is mainly based on the domestic situation of China. BOI will share its acknowledge and contacts to assist and promote the JFET project from inside and outside of Mauritius, while a domestic promotion organization is prepared to set up”. It may be too early to tell what the refocus on real estate development will mean for the original plans to also attract manufacturing activities. However, the developers seem to look to the Board of Investment to take the lead in terms of marketing, investment promotion, and to some degree, strategic planning.

The Government of Mauritius, on its side, views the JinFei Zone as a tool to attract FDI and to support its strategy of positioning the country as a trade gateway between Africa and Asia. It remains confident that the project can be successful; given the high priority it has been given by both governments, but nevertheless is concerned about the slow progress to date. For example, the project planning does not seem to include a clear feasibility analysis and marketing strategy. The investors and the current management team do not seem to reflect Chinese experience and expertise in zone development and management. There also seems to be a lack of communication with the local private sector and population over the objectives and status of the project. The Government of Mauritius is considering taking a much more active role in supporting the project from a strategic planning and marketing perspective.

5.2 Institutional arrangements

The Chinese consortium and the Government of Mauritius have clearly defined roles. The Chinese consortium controls 100 percent of the equity in the Mauritius JinFei Economic and Trade Cooperation Zone Co. Ltd. and it is responsible for construction of the zone in line with an agreed 8-year construction schedule. It is in charge of developing the onsite infrastructure, including roads, power, and water, wastewater and drainage. In addition, it has agreed to specific deliverables in terms of FDI, local job creation, and export earnings. The Government of Mauritius is responsible for the provision of the offsite infrastructure, including the upgrading of two road links and connecting the zone with the national water, sewerage, power, and telecom networks. It will also provide work permits for Chinese construction workers and an unspecified number of residence permits and passports (accorded to the developer based on the level of investment made) as well as facilitating, through the Board of Investment, the issuing of all licenses, permits and authorizations. For this purpose, the Government of Mauritius earmarked Rs850mn (US$26.5mn) in its budget for

of US$15 billion. Shanxi Coking Coal’s output of 66 million tons of raw coal production has generated a turnover of more than US$10 billion. CADF, managed by the China Development Bank, is a proposed equity shareholder in the project. It is also envisaged that the China Development Bank will provide financing options to Chinese businesses to set up in the JinFei Zone.
2007/8. It also provided land at a subsidized price, which was not disclosed, and it remains a source of controversy in the country.

The framework agreement between the Government of Mauritius and the Chinese developer entails no fiscal concessions, is a 99-year lease, and subjects the developer and companies that will locate in the zone to the standard 15 percent corporate tax rate and a registration duty of 1.25 percent that are applied to all domestic and foreign companies. However, the zone is limited to use by foreign investors; primarily, but not exclusively, Chinese investors. A joint Mauritian-Chinese coordination committee oversees matters related to the management of the agreement. There are some performance indicators that are tied to a specific timeframe: e.g. attracting FDI of about US$700 million in eight years. The agreement stipulates that if the developer fails to meet these performance targets, it will lose its right to develop/operate the zone and must return the land to the Government.61

This approach is in line with the Government of Mauritius’ development model adopted in 2005 and centered on competitiveness. The model shuns protectionist policies and seeks to break with economic dependence on preferential market access in Europe and the United States. Rather than supporting the use of incentives and special regimes to facilitate investment, the Government of Mauritius has liberalized the economy, made it easier and less costly to do business, created new economic pillars, removed labor market rigidities, consolidated public finances and simplified and lowered taxes. The discretionary powers of the Ministry of Finance have also been removed. For this purpose, the Government of Mauritius also disbanded its fairly successful EPZ Authority and its EPZ policy. However, the Board of Investment provides concessionary rates on land to all investors.

A Freeport regime does still exist in Mauritius and it is designed for logistics and commercial activities related to trade. It is licensed and regulated through the Board of Investment. Corporate tax holidays available from this regime are expected to expire in 2011 at which time it is proposed that Mauritius will be converted into a duty-free island. However, until the duty-free policy is implemented, the Freeport regime will still provide certain customs benefits. The JinFei Zone has been delimited as a Freeport zone during the initial eight-year construction phase for the entry of construction materials, equipment and machinery. While the JinFei developers will have a Freeport license during the construction phase, such licenses will not extend to individual investors in the zone.

The Board of Investment is responsible for facilitating all FDI in Mauritius and no other regulatory authority is expected to oversee the JinFei Zone project. The Board handles all licensing and immigration-related issues for the project and coordinates with other Government agencies to ensure that government commitments for offsite infrastructure are met. It is taking an increasingly active role in the marketing and promotion of the project. A Coordination Committee, headed by the Board, has been established to facilitate the implementation of the project.

61 This agreement is confidential and additional details were not available.
5.3 Business and logistics environment

Mauritius has an attractive business environment which the JinFei Zone will benefit from. Several performance indicators conclude that producers in Mauritius enjoy the lowest transaction costs in Africa. The country ranks 20 out of 183 countries in terms of ‘ease of doing business’.\(^{62}\) From the perspective of a potential investor, Mauritius ranks as number 12 for starting a business, 69 for registering a property, 39 for dealing with construction permits, and 22 for trading across borders. The low associated cost and time spent on the public bureaucracy is a significant incentive to invest in Mauritius.

Unlike in Nigeria and Ethiopia, foreign companies can choose between leasing or buying privately or publicly held land. Land may be leased for a maximum of 99 years and public leases granted for industrial or commercial purposes may be leased for a maximum of 60 years. The lease contract can offer the lessee the right to sublease, subdivide, and/or mortgage the leased land. The Board of Investment has created a Property Acquisition and Management System that allows online submission and processing of applications to acquire property for business purposes. Consequently, while undeveloped land may be sparse on the 2,040 km\(^2\) island, land regulation is not a barrier to investors. In addition, out of 33 sectors studied by the World Bank in 2010, 32 were fully open to foreign capital participation in Mauritius.\(^{63}\) Mauritius is among the world’s most open economies to foreign ownership and is among the largest recipients of FDI per capita.\(^{64}\)

The existing evidence therefore indicates that the scope to reduce transaction costs is rather limited and unlikely to be the focus of future efforts to further improve the attractiveness of the zone. However, the JinFei Zone could offer other incentives to potential investors such as (but not limited to): (i) trade preferences (COMESA, SADC); (ii) first class infrastructure and services; and (iii) local market access. In addition, given the relative efficiency of the public administration, the country will in the future need to focus on improving financial and energy sector performance, building human capital, encouraging investments in R&D intensive activities, and reducing the time it takes to trade.\(^{65}\) These are activities that by extension would help raise the attractiveness of the zone for foreign investors.

Integrating Mauritius into the global value chain linking Africa and Asia is a key priority for the Government and port performance is therefore critical. Port metrics show that Port Louis is reasonably efficient—the port has an advanced vessel and terminal management system—but there is room for improvement. The cargo dwell time is 3 days for exports and 6 days for imports. The development of the port as a transshipment center will benefit industry in Mauritius due to economies of scale and improved shipping line connectivity. The port is operating at 67 percent of its current design capacity and could thus handle new traffic generated by a successful JinFei Zone. While the World Bank ranks Mauritius as the fifth country in Africa in terms of logistics

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63 The only exception is the TV broadcasting industry. World Bank (2010c).
64 Ibid.
65 World Bank (2009b).
performance, it is only 82nd in the world with some weaknesses in trade and transport related infrastructure, logistics competence and international shipments (price).66 The Mauritius Revenue Authority (MRA) has the required systems and flexibility to support the development of the JinFei Zone. Depending on volume of trade, MRA can establish offices on site at major enterprises.

Two alternatives were originally considered for linking the JinFei Zone and the port: a new, direct access road; and relying on the existing motorway. The former plan is not currently under active consideration, according to the Road Authority, nor are there plans for a direct rail link to the port. The government is financing the construction of an access road from the motorway to the zone. An additional lane is also proposed between the access road to the port and the access road to the zone and this improvement is likely to be funded through a toll structure, potentially as a PPP. In the short and medium term the freight traffic likely to be generated by the zone can be accommodated by the proposed additional lanes to the existing road. However, depending on the success of the zone and the volume of its output, it may be necessary to consider a direct access road between the port and the zone in the future.

5.4 Current status

Development started in September 2009 and around 202 ha of land had been cleared by July 2010. A master plan prepared for the project included areas earmarked for hospitality and real estate development, a business hotel and a resort hotel, an information and business cluster comprising office buildings, a knowledge park, and a logistics/industrial park.67 By July 2010, the developer had invested US$15 million in infrastructure and other improvements. In comparison, the project feasibility report estimated the total investment by the developer at US$750 million with an infrastructure budget of US$119 million (see Table 5.1). Recent achievements included 2.1 km of internal roads, 5.4 km of perimeter fencing, and some office buildings. Internal power transmission facilities are available and the developer reports construction of over 2 km of joint trenches for utility lines. The construction of internal infrastructure is being managed by 21 staff members; consisting of key personnel from TISCO and SCCG. The developer expects the first tenants to be move in sometime in 2011.

The Government of Mauritius earmarked funds for the necessary offsite infrastructure development offsite infrastructure appears to be under construction and on schedule for completion by the end of 2010.

- The Mauritius Road Authority has already completed the connector road of around 1 km, at a cost of US$3.7 million, linking the site to the main highway to Port Louis.

66 World Bank (2010d). In 2008, half of the declarations for customs clearance were cleared within an hour, and two-thirds of all declarations were cleared within 7 hours. Physical inspections are minimal and export clearances are handled within a few minutes.

67 JFET has developed a master plan but it was not shared with the World Bank. The business case of the zone was not articulated to the mission.
Table 5.1: Onsite infrastructure cost estimates (US$ mn)

<table>
<thead>
<tr>
<th>Work</th>
<th>Land Extent</th>
<th>Amount in US$*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land Preparation</td>
<td>202 ha</td>
<td>1.0</td>
</tr>
<tr>
<td>Roads within the zone</td>
<td>12.4 km</td>
<td>20.8</td>
</tr>
<tr>
<td>Boundary Walls</td>
<td>5.4 km</td>
<td>1.7</td>
</tr>
<tr>
<td>Water Supply Pipeline</td>
<td>15 km</td>
<td>3.0</td>
</tr>
<tr>
<td>Sewage Pipeline</td>
<td>15 km</td>
<td>3.7</td>
</tr>
<tr>
<td>Business Center</td>
<td>30,000 m²</td>
<td>45.9</td>
</tr>
<tr>
<td>Pre built shop building</td>
<td>20,000 m²</td>
<td>8.0</td>
</tr>
<tr>
<td>Apartment Complex</td>
<td>3,000 m²</td>
<td>1.1</td>
</tr>
<tr>
<td>Landscaping</td>
<td></td>
<td>1.5</td>
</tr>
<tr>
<td>Power supply &amp; Telecom</td>
<td></td>
<td>18.4</td>
</tr>
<tr>
<td>Hotel development</td>
<td></td>
<td>6.1</td>
</tr>
<tr>
<td>Work reserves</td>
<td>5%</td>
<td>5.6</td>
</tr>
<tr>
<td>Others (design, survey, supervision etc)</td>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>119.0</strong></td>
</tr>
</tbody>
</table>

* 1 US$ = 30.05 MUR, recalculated.

Source: JinFei Development.

- The Central Water Authority (CWA) is expanding the treatment plant capacity from 66,000 to 100,000 m³ per day to serve the project as well as the entire area. The associated cost of US$13.5 million will be repaid by water fees. Onsite water facilities will be constructed and maintained by the developer. The developer’s initial request of 33,000 m³ per day has been revised downward by CWA to 18,000 m³. CWA indicated that they have had virtually no contact with the zone developer and the regular drought season, during which water supplies are curtailed, has not discussed with the developer.

- The Wastewater Management Authority (WMA) is constructing a US$4.1 million, 3.5 km force main to connect the site to an existing wastewater treatment plant that already serves the area. WMA indicated that contact with the zone developer has been very limited despite several outstanding coordination issues. For example, the local sewage treatment plan is simply a screen that removes solids and raw liquid sewage is pumped out to sea untreated. Until that plant is upgraded, the JinFei users will have to pre-treat their wastewater.

- The Central Electricity Board is constructing a transmission line to connect the project to the nearest sub-station at a cost of US$10.1 million. No onsite power generation is planned and tenants will pay CEB at standard tariffs.

- Mauritius Telecom will provide telecom services and charge individual tenants on the same basis as other businesses in Mauritius.
In July 2010, the financing and provision of offsite infrastructure was on schedule. It is planned to be of a sufficient standard of service and the only remaining service issue appears to be the wastewater treatment plan, which is currently a screen for solid waste and is inadequate for the JinFei development. The Government of Mauritius is aware of this deficiency and is exploring options for upgrading the plant. However, the coordination and communication between the utility providers and the JinFei developer with regards to the infrastructure implementation issues could be much improved.

5.5 Business prospects

Mauritius is SSA’s most competitive economy according to the World Economic Forum (ranked 55 out of 139 countries, on par with South Africa). While the overall economy is small (GDP = US$8.6 billion in 2009), the income per person (GDP purchasing power parity per capita = US$12,858) is the fourth highest in SSA. The economy is rather well-diversified and dominated by textiles and garments, sugar, tourism, financial services and ICT. Main merchandise exports are textiles and garments, sugar and various other food items.

The zone was initially expected to provide a manufacturing and services platform for Chinese enterprises doing business in Africa, with a second phase that would focus on solar energy, pharmaceuticals, medical equipment, sea food processing, steel products as well as housing, hotels and real estate development. The developer reported that nine Chinese companies have expressed interest in the zone in various sectors ranging from construction materials, a business school, real estate, electronics, food processing and chemicals. However, no investments were confirmed as of July 2010. Moreover, as discussed previously, the zone appears to have shifted toward an even greater focus on real estate development. According to the development agreement, the JinFei Zone is not allowed to host Mauritian companies (reportedly due to concerns of relocation of existing Mauritian companies into the zone) and it currently targets investors who are almost exclusively from China. However, BOI is now increasingly targeting investors from outside China as well.

5.6 Development challenges and recommendations

The Chinese SEZ developer is facing fewer political, institutional, and infrastructural constraints in Mauritius than in Nigeria and Ethiopia. But existing challenges are similar to some of those that the developers in Nigeria and Ethiopia are facing. They include the lack of clarity on the business case and financial model for the project, the need to improve coordination and communication with key stakeholders, the establishment of linkages between the zone investments and the domestic economy, and the management of environmental and social impacts.

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68 World Economic Forum (2010).
69 World Bank (2010e).
i) Robust business planning and adequate financing

**Issue:** The project is facing financing gaps and there is a recent departure from the original investment and development targets. The absence of prior detailed market analysis and specific investor targeting is likely to further delay project implementation, lead to uninformed decisions, which will further accentuate a wait and see attitude by investors, and continue to cause confusion in terms of the project identity and its master and land use plans. It will negatively affect JFET's ability to attract FDI, which is a major performance indicator in the framework agreement between the developer and the government.\(^70\)

**Recommendation:** First, a more robust business plan, including a rigorous market demand and investor analysis, and feasibility studies that provide for proper financial and economic analysis, will lead to better financial planning and more realistic development phasing. It is recommended that a business and marketing plan be prepared as a basis to review the current development agreement on the basis of a PPP model. Second, a significant investment promotion and marketing campaign would provide impetus for the developer to achieve the set target of attracting US$ 700 million in FDI in eight years' time. There is significant experience and capacity in Mauritius in the planning and development of SEZs that could be tapped to strengthen such an effort. Third, it appears necessary for the Government of Mauritius and the JinFei Zone to reengage and discuss alignment of key development objectives and common goals for the project in order to help achieve economic growth through greater participation of the domestic private sector.

ii) Strengthening coordination, communication and implementation support

**Issue:** In line with the changes and reforms implemented in 2005 by the Government, the investment framework provides for a transparent and rule-based system for both local and foreign investors operating in Mauritius. However, the establishment of the JinFei project as a zone development under confidential terms appears to run counter with this policy. In this context, the local business and residential community has raised concerns and this sentiment has been exacerbated by the concern over the failure, so far, to integrate with the local community and provide opportunities for local workers and suppliers.

Oversight of the zone project is the responsibility of the Board of Investment, which handles all licensing and immigration-related issues and coordinates Government commitments for offsite infrastructure. A Coordination Committee headed by the BOI has been set up for this purpose. The BOI is playing an active role in the marketing and promotion of the project. However the coordination and communication between the Government—especially the agencies involved in providing offsite infrastructure—and the developer could be strengthened to ensure shared understanding of the development objectives and implementation challenges.

**Recommendations:** The zone should be viewed as an extension of the capital city and the new business hub of the North. The JinFei Zone should also act as a master developer for both domestic

\(^70\) For example it was not entirely clear if TISCO will continue to remain engaged in the Project.
and foreign companies alike. Other similar zones have been created with Government support in the past, including the Ebene Cybercity, where the state-owned Business Parks of Mauritius Ltd acted as a master developer and the Indian Government providing financial support. The coordinating functions under BOI could be strengthened. Learning from the Chinese experience with Singapore, a high level joint Committee may also facilitate communication and coordination between the developer and the Government.

iii) **Linkages to the domestic economy are critical for sustainability**

**Issue:** The sustainability of the zone depends on linkages to the Mauritian economy in terms of job creation and opportunities for local companies to participate and establish business and technology partnerships with foreign companies. There are no initiatives currently to address these challenges, including skills development, business linkages and SME support programs. The Mauritian private sector is not aware of the opportunities in the zone and there have been very limited involvement of local workers and suppliers in the construction and management of the zone to date.

**Recommendation:** Outreach activities targeting the local market, engaging local suppliers, and/or tapping into the local labor force, are essential for public and private sector support. Establishing benchmarks and performance indicators to track local economy linkages will also help.

iv) **Environmental and social impacts need to be managed effectively**

**Issue:** Given the nature of activities in the zone, there will be a number of impacts including on traffic, effluent production, air emissions and groundwater extraction. There is no publicly available Social and Environmental Impact Assessment for the project and the developer did not provide any information on the mitigation measures during construction. Of particular concern is the wastewater treatment capacity required for the zone. In addition, the project required involuntary resettlement of at least 28 farmers and there continues to be dissatisfaction over the compensation, the alternative site provided and the consultation and grievance handling process that is in place.

The Environmental Protection Act of 2002 requires an Environmental Impact Assessment (EIA) for many of the uses contemplated for the JinFei Zone. As with any large-scale development project, the project will likely have significant environmental impacts. The relevant utility authorities of Mauritius are providing facilities, such as roads, water supply and wastewater treatment that will mitigate impacts to some extent. Although the government is building a connection to wastewater facilities, the facility that will serve the project is a simple screen designed to separate out solids. As a result the effluent will require pre-treatment or the treatment plant will need to be upgraded. The government is studying this issue but there are no current plans to perform such an upgrade.

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71 The site was previously occupied by 120 planters growing vegetables with a lease agreement from the Ministry of Agro Industry and 107 planters growing sugar cane. All these planters had running leases and most of them have been compensated by the Government.
Socioeconomic impacts have been mitigated to some extent through the compensation of those who had leasehold interests on the land before the creation of the zone. Active farmers were given equivalent land elsewhere, and those who were not active farmers or preferred it received cash payments. According to the Riche Terre Mixed Farming Cooperative Society which claims to represent 28 farmers who were affected by the project, there were no proper consultation processes in place and there is dissatisfaction with the amount of compensation paid for loss of livelihood.

**Recommendation:** Disclosure of an Environmental and Social Impact Assessment and implementation of management plans for environmental and social impacts including resettlement action plans will allow for a comprehensive approach towards addressing the social and environmental impacts. The zone developer and tenants should have a comprehensive approach to the climate change agenda and there need to be both incentives and a regulatory structure in place to ensure compliance with international good practice standards.
Chapter 6: Lessons and Recommendations

6.1 Lessons learned

The zones have the potential to contribute to industrial development and job creation. All the zone projects reviewed have the potential to attract investments, create jobs and catalyze industrial and real estate development in the host countries. Moreover, there is strong commitment to these zone projects from the African governments, the Chinese Government and the developers. The developers and the Chinese Government are responsive to the challenges facing the zones and have taken actions to address some of the challenges such as through restructuring of the Chinese consortiums in Mauritius and Ethiopia as well as securing financial support from CADF.

Key implementation challenges need to be addressed between the Chinese Government, the developers and the host governments to improve outcomes. In general, SEZ projects typically tend to have long gestation periods and the projects in question have made some progress in terms of planning, financing and infrastructure development over the past five years. Nevertheless, the zones remain in very early stages of development and the pace of implementation is slower than expected. There appear to be significant gaps between the articulated project objectives and the reality on the ground. The African Governments perceive these projects as an opportunity to attract FDI and address infrastructure constraints while capitalizing on Chinese experience in developing and managing SEZs that was so useful in its own economic transformation. The Chinese developers work within China’s longstanding state-to-state external cooperation framework based on principles of mutual benefit, reciprocity, and complementarities. This means that while the program has developmental aims, the individual projects are grounded in commercial objectives. Indeed, the zone projects, which have been established through bilateral agreements, appear to be designed to tap into African domestic markets and resources and gain access to preferential trade agreements from Africa for third country exports. The objectives of the Chinese developers and the African host governments are not incompatible, but much more could be done to strengthen dialogue and collaboration to optimize the development outcomes of these zones.

Policy objectives need to be better aligned with the operational realities: The gap between what African host governments expect and what the Chinese private developers are currently delivering appears significant. Current developers do not appear to be well positioned to draw on and incorporate “best practice” from China’s SEZ experience in their projects, as they may lack both the expertise (in terms of the composition of their teams) and instruments to do so. Bridging this gap requires African Governments to take a much more proactive stance to ensure that they are in a position to reap the dynamic potential of these projects. Similarly, if the Chinese developers are to realize their objectives from these projects, MOFCOM may need to engage more actively to ensure that the development objectives receive adequate priority.

The required software for managing and operating the zones is equally important as the infrastructure investments: The zone developer teams on the ground could better leverage the Chinese zone development expertise available amongst the equity and technical partners and share
this knowledge with the host governments so that the technical capacity overall for the development, management and marketing of these zones is strengthened. The zone developers and host governments could place greater focus on ensuring that the software for managing and operating these zones, including management capacity and marketing, is world class and offers a clear business advantage for potential investors. There is clearly a need for increasing emphasis on promotion and marketing of these zones through more focused and targeted activities, jointly by the zone developers and the host governments. While the zones are all open to non-Chinese investors, much more emphasis could be laid by the zone developers on opening up the zones more to investors from outside China.

**Learning and knowledge sharing should be given higher priority:** One of the key expectations of host governments is the learning and knowledge sharing on how to plan and run SEZs based on the successful Chinese SEZ experiences. There are several institutes in China (e.g. the SEZ Institute at Shenzhen University) that have carefully documented and developed expertise and training material based on China’s SEZ experience. However this aspect seems to be missing in the current arrangements except for rather ad-hoc training and study visits. There is a need for more concrete and proactive initiatives from both host country governments and MOFCOM to ensure the right mix of skills and experience are available in each of these zones, and to design and implement specific learning programs beyond high level experience sharing events. This would include formal transfer programs, staff exchanges, a formal institutional structure to promote the learning program, and a comprehensive approach to the curriculum with an evolving focus over time, based on the different stages of zone development. There are also opportunities for the various zone developers to share information and experiences and learn from each other especially from the more advanced zones such as in Thailand and Egypt. China’s own experience with partnership arrangements in their SEZs (e.g. with Singapore in establishing the Suzhou Industrial Park – see Box 1.2) offers valuable lessons for these zone projects.

**Political commitment should be matched by more robust business and financial planning by the developers:** The projects have strong government support and are necessarily taking a long-term view. However, the feasibility studies and business plans that the WBG team was given access to did not cover the rigorous and tailored financial analysis and business planning that is necessary to establish realistic phased development plans and identify the requirements for hard and soft infrastructure.

**Financing gaps faced by zone developers need to be better understood and addressed to improve the pace and quality of zone development:** Despite the significant incentives available to the zone developers, they have indicated challenges in financing the zone infrastructure development, which has slowed the pace of infrastructure development. This does not only affect the developers but also host governments, who have made their own commitments to the projects, through preferential access to land and commitments for infrastructure investment. It is unclear as to why the developers are unable to access finance given the strong backing and subsidies/incentives from the Chinese Government. It is possible that the developers are only
approaching the Chinese banks that do not accept foreign assets as collateral or it could be the case that the business case/plans are viewed as insufficient to attract international financing.

**Zone strategic plans need to consider the opportunities and / or constraints in regional trade agreements:** Indications are that investors are likely to target domestic and, increasingly, regional markets through the SEZs. However, access to regional markets will be heavily dependent on the treatment of SEZ regimes within the regional trade agreements. In ECOWAS, for example, products emanating from a free zone within an ECOWAS country are considered to be outside the preferential trading bloc. On the other hand, regional trade agreements may offer an opportunity to facilitate integration of regional supply chains. To date, there is no evidence from the existing feasibility studies and marketing strategies that any of the zones have considered the implications of regional trade agreements.

**Host governments** need to strengthen legal and regulatory arrangements to more effectively support zone development: Ethiopia has no legal, regulatory and institutional framework with which to govern the development of SEZs. Nigeria’s legal, regulatory, and institutional regulatory framework for zones has a long way to go before it could be considered international good practice. In Mauritius, given the sophisticated business environment and high quality infrastructure, there is no "special" legal and regulatory framework to facilitate such large multi-use zones. Given the high-level political backing, each of these projects has been able to negotiate special concessions with respect to land and other incentives which in most cases seem more generous than what other local and/or foreign investors would receive. These incentives are in addition to the generous subsidies that also appear to be offered by the Chinese authorities to the developers. There appears to be need for clearly defined development criteria and rights and responsibilities of the parties involved through a transparent regulatory framework.

**Host governments** need to ensure delivery of external infrastructure critical to zone success: Significant public sector investments are required in access roads, energy, water, waste management, ICT and port facilities to support the zones. There is a need for clear financing and PPP implementation arrangements for these infrastructure investments to enhance the attractiveness of the zones for private investors. The timing and sequencing of these investments is also an important factor that appears to have been given only limited attention.

**Greater access of local companies and workers to the zones will be vital to ensure linkages to the local economy:** As was the case with China's SEZ experience, the success of the zones in realizing economic and social development objectives will depend heavily on providing opportunities for supply chain, skills and technology linkages. At the moment, efforts to establish and maintain these linkages are not in place. This affects the perception of the projects by local communities and governments, who have already expressed reservations over the use of Chinese

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72 Mauritius has a very competitive regulatory environment. However there is a perception that the confidentiality agreement for this zone runs counter to the Government’s intention to establish a transparent, rule based system for all investors.

73 With the exception of Mauritius.
suppliers and labor during the initial stages of these projects. Experience from SEZs around the world also suggests that poor integration risks the long-term competitiveness of the zones.

**Integration of the zone master plans into regional urban development plans will enhance economic and social benefits:** While most of the projects are being designed as mixed-use (industrial, services, commercial and residential property) zones, they are generally being developed as isolated enclaves. The integration of these zone master plans into regional urban development plans and trade infrastructure (as in the case of Lekki in Lagos State, Nigeria) will enhance the economic and social benefits and reduce the risks of the zones becoming enclaves.

**Communications and outreach strategies need to be improved to garner public and investor support:** The mission encountered perceptions among most local communities and stakeholders about a lack of transparency, a lack of visible progress on the ground and limited linkages to the local economy. Greater transparency and more effective communications between government agencies and zone developers, including overcoming language barriers, targeted public relations as well as regular dialogue with the local private sector and other stakeholders will help allay some of the concerns.

**Effective social and environmental impact management strategies are a must for sustainable development of the zones:** All the zones are dealing with involuntary resettlement issues and environmental concerns which pose reputation risks for the developers and host governments. Comprehensive impact management plans drawn up and implemented in consultation with the major stakeholders and disclosed in the public domain will go a long way in both addressing project sustainability and investor concerns. The zones could also take advantage of opportunities in supporting green technologies and addressing climate change concerns in the design and implementation.

### 6.2 Priority actions

The key challenges and priority actions for the three zones are summarized below.\(^7^4\)

\(^7^4\) There was insufficient information on the Ogun-Guangdong FTZ for the team to make specific recommendations. However, many of the recommendations for Lekki FTZ are equally relevant for Ogun-Guangdong FTZ.
### Lekki FTZ, Nigeria

#### Challenges

<table>
<thead>
<tr>
<th>Issues that represent significant risk to project implementation and priority actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity in the partnership agreement: define goals, performance indicators and concrete timetables based on robust market/demand analysis</td>
</tr>
<tr>
<td>Provision of off-site infrastructure is critical especially for an IPP (and gas supply), external road network and utilities as well as port and airport connectivity</td>
</tr>
<tr>
<td>Lack of clarity in understanding and interpretation on sales to the domestic market</td>
</tr>
<tr>
<td>The current legal and regulatory framework for FTZs is outdated and does not support an SEZ strategy</td>
</tr>
<tr>
<td>Comprehensive management of environmental and social impacts, including labor standards and climate change issues, required to minimize adverse effects</td>
</tr>
</tbody>
</table>

#### Recommendations

<table>
<thead>
<tr>
<th>Issues that need to be addressed for long-term success and medium-term actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen communication and local economy linkages</td>
</tr>
<tr>
<td>Establish and track performance indicators for domestic linkages</td>
</tr>
<tr>
<td>Clarify and reinforce institutional arrangements to improve efficiency of services delivered to zone investors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project operator(s) (Host Govt / developer)</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
# Eastern Industrial Park, Ethiopia

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issues that represent significant risk to project implementation and priority actions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of clarity in infrastructure financing arrangements</td>
<td>Spell out clearly the infrastructure financing arrangements in the Development Agreement</td>
<td>✓</td>
</tr>
<tr>
<td>Lack of robust market and demand analysis.</td>
<td>Develop a business and marketing plan as the basis of a Development Agreement based on a PPP model</td>
<td>✓</td>
</tr>
<tr>
<td>Comprehensive management of environmental and social impacts, including labor standards and climate change issues, required to minimize adverse effects</td>
<td>Disclosure of an Environmental &amp; Social Impact Assessment and implementation of management plans for environmental and social impacts</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Provide strong regulatory oversight by Govt agencies and incentives provided by MOFCOM for adoption of green technology, training of workers and good labor practices</td>
<td>✓ ✓</td>
</tr>
<tr>
<td><strong>Issues that need to be addressed for long-term success and medium-term actions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insufficient Govt capacity to support implementation</td>
<td>Ministry of Trade and Industry to develop and implement a comprehensive capacity building program on executing the SEZ development agreement under the oversight of the Steering Committee (explore establishing a high level Joint Committee for the project)</td>
<td>✓ ✓</td>
</tr>
<tr>
<td>Lack of legal and regulatory framework for SEZ development.</td>
<td>Develop and implement a modern SEZ policy and regulatory regime in line with Govt's industrial strategy</td>
<td>✓</td>
</tr>
<tr>
<td>Strengthen communications and local economy linkages</td>
<td>Design and implement a linkages program, a communications and outreach strategy, and establish and track performance indicators</td>
<td>✓</td>
</tr>
<tr>
<td>Integration of the EIP with a regional development plan</td>
<td>Adopt a corridor or regional development plan for the Addis Ababa-Dukem region incorporating the master plan for the industrial park</td>
<td>✓ ✓</td>
</tr>
</tbody>
</table>

# JinFei Zone, Mauritius

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Recommendations</th>
<th>Responsibility for implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issues that represent significant risk to project implementation and priority actions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviewing the Development Agreement based on a robust</td>
<td>Develop a business and marketing plan and review the current Development Agreement</td>
<td>✓</td>
</tr>
</tbody>
</table>
market and demand analysis based on a PPP model

| Comprehensive management of environmental and social impacts, including labor standards and climate change issues, required to minimize adverse effects | Disclosure of an Environmental & Social Impact Assessment and implementation of management plans for environmental and social impacts | ✓ |
| Provide strong regulatory oversight by Govt agencies and incentives provided by MOFCOM for adoption of green technology, training of workers and good labor practices | ✓ | ✓ |

**Issues that need to be addressed for long-term success and medium-term actions**

| Strengthen coordination and communications with stakeholders including the local private sector | Strengthen the role of the Joint Committee for the project | ✓ | ✓ |
| Design and implement a communications and outreach strategy and strengthen coordinating arrangements under BOI | ✓ |
| Strengthen local economy linkages | Establish benchmarks and track performance indicators for local economy linkages | ✓ |

### 6.3 Potential opportunities for bilateral and tripartite collaboration

The potential for the zones to play a role in supporting African development is clear, especially in light of prevailing infrastructure deficits, China’s substantial experience, and the need to attract investment into Africa. There is scope to further enhance the developmental impact of this engagement and WBG experience may be brought to bear in the areas outlined below.

a) **Learning and knowledge sharing:** A joint learning and experience sharing event amongst the zone developers, African Government counterparts and MOFCOM will be of value to all stakeholders. Important issues to be addressed in such a forum include the management of social and environmental safeguards issues, strategic planning, offsite infrastructure, communications, local linkages and marketing and promotion.

b) **Technical assistance and capacity building:** The Ethiopian Ministry of Trade and Industry has requested technical assistance on designing a policy, legal, regulatory and institutional framework for the development, management and regulation of zones, as well as on models for public financing and PPP arrangements for external infrastructure for zones. Support was requested in Nigeria in the implementation of the Lekki FTZ and the One Stop Shop model as well as PPPs for infrastructure development. In addition, technical assistance could be provided in all countries to local institutions and zone developers for undertaking feasibility and market demand studies, as well as in marketing and promotion of the projects.

c) **Establishing training and technology transfer centers to promote linkages:** In order to promote greater linkages with local suppliers and labor markets, the development of training and technology transfer centers, in close cooperation with zone developers, could be pursued in all three countries. There are good examples of such technical assistance
programs in China as well as in countries such as Malaysia, Singapore and Thailand that could offer valuable lessons.

d) **Integrated planning and financing of offsite infrastructure:** The WBG can provide technical assistance and potentially financing for planning and implementing critical offsite infrastructure to support these projects, particularly where they are part of a comprehensive urban or regional development plan as in the case of the Lekki development in Lagos State, Nigeria. There may also be possibilities for the Chinese Government to support off-site infrastructure investment through concessional financing.

e) **IFC investments:** IFC is currently appraising potential investments in the Lekki FTZ and Eastern Industrial Park projects. Given the size and complexity of the Lekki project in particular, the Chinese sponsors and Government have expressed strong interest in the IFC/World Bank Group's support for these projects, potentially including the development of infrastructure outside the zone. IFC is also expecting to assist in the detailed analysis of the market and financial viability, and help the projects address the environmental and social risks in a thorough manner.

### 6.4 Next steps

a) **World Bank Group:** As a first step, the findings and proposals in this report could be discussed at a Joint Learning and Experience Sharing Event, which could also include lessons learned from the global experience on zone projects. IFC will continue appraising potential investments in the Lekki FTZ and Eastern industrial Park projects with the expectation of completing due diligence and assessment in the near future.

b) **China:** The team would welcome reactions from MOFCOM, MOF, the developers and other stakeholders in the zone projects to the findings and proposals in this report. Going forward, it would be useful to have clarification of the business and financial planning, promotion and marketing arrangements and performance targets, the required financial and technical capacity, strengthening linkages with the local economy and establishing communications and outreach strategies.

c) **African governments:** The team would also welcome reactions from Government counterparts in Nigeria, Ethiopia and Mauritius. They have expressed interest in assistance from the WBG on the implementation of zone projects in areas such as policy, legal, regulatory and institutional frameworks for the development, management and regulation of zones, models for public financing and private-public partnership arrangements for external infrastructure for zones. It will be important for these Government counterparts to establish dialogue with the zone developers on the issues that have been highlighted in this note and the WBG could facilitate this process.
References


Eurochem (2010), Port@Lekki Project, presentation to Lagos State Government.

FIAS (2008), Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development.


—— (2010d), *Logistics Performance Index*,

—— (2010e), World Development Indicators database, available online:

   http://gcr.weforum.org/gcr2010/.


Annexes

Annex A: List of meetings

Meetings conducted in Nigeria

Ify R. Abraham, MGR (Legal), Nigeria Export Processing Zones Authority
David Ademola Adejuwon, Ag. Director, Federal Ministry of Commerce and Industry
Sina A. Agboluaje, Managing Director, Nigeria Export Processing Zones Authority
Yosolaoluwa Akinbi, Economic Advisor, Governor’s Office, Ogun State Government
Bayo Akindeinde, Team Coordinator, Investment Climate Program, The World Bank Nigeria Country Office
Abraham Leva Ako, Director, Trade Information, Planning & Cooperation, Nigeria Export Promotion Council
Musa Lainab Aliyu, AGM (ZTS), Nigeria Export Processing Zones Authority
Olumide Ashaju, Lekki Worldwide Investments Ltd
Kemi Babalola, Lekki Worldwide Investments Ltd.
Xiaoxing Chen, Managing Director, Lekki Free Zone Development Company
Yetunde Dania, Lekki Worldwide Investments Ltd
Gbenga Daniel, Governor, Ogun State
Chijioke Egejuru, Investment Analyst, Africa Department, International Finance Corporation
Hao Guo, Senior Advisor, China-Africa Lekki Investment Ltd.
Joe A. C. Ifejika, Director of Field Services, Manufacturers Association of Nigeria
Ije Ikoku, Investment Officer, Africa Department, International Finance Corporation
Ope George, Lekki Worldwide Investments Ltd
Keith Hammond, Economic Advisor, Growth Team, Department for International Development, British High Commission
Dr Abayomi O. Majekodunmi, Chief of Staff to the Governor, Ogun State Government
Jida A. Mike, Director General, Manufacturers Association of Nigeria
Chris O. Ndibe, Secretary General, Africa Free Zones Association
Ojo T. Olatunde, Assistant General Manager, Nigeria Export Processing Zones Authority Reps, Lekki Free Trade Zone
Olusola Senapon Oworu, Special Advisor, Ministry of Commerce and Industry, Lagos State Government
Kundan Sainani, Director - Finance, Lekki Port LFTZ Enterprise
Mindy Sun, Project Manager, China-Africa Lekki Investment Ltd.
Adeyemo Thompson, Deputy Managing Director, Lekki Free Zone Development Company
Otunba Moshood O. Tijani, Member, Council for the Regulation of Freight Forwarding in Nigeria
Adegoke Oyewole Wonuola, Assistant General Manager Marketing, Lekki Free Zone Development Company
Xiang Xi, Engineer, Guangdong Xinguang International (Nigeria) Co. Ltd.
Chen Xiaoxing, Managing Director, Lekki Free Zone Development Company
Ding Yonghua, Director, Lekki Free Zone Development Company, and, Director, China Africa Construction Ltd.
Muda Yusuf, Director General, The Lagos Chamber of Commerce and Industry
Jun Zheng, CEO, China-Africa Lekki Investment Ltd.

Meetings conducted in Ethiopia
Abebe Abebayehu, Senior Attorney, Ministry of Trade and Industry
Asegid Adane, National Programme Coordinator, UNIDO
Addis Alemayehou, Chief of Party, Ethiopia Volunteers for Economic Growth Alliance (VEGA), IESC
Asfaw Alemayehou, General Manager, the American Chamber of Commerce in Ethiopia
Getachew Asfaw, Board Director, North-East Freight Forwarding and Customs Clearings Corp.
Getachew Ayele, President, The American Chamber of Commerce in Ethiopia
Teshome Beyene, Secretary General, Addis Ababa Chamber of Commerce & Sectoral Associations
Randy Chester, Deputy Chief – BEAT, Environment, Agriculture & Trade, USAID
Damitew Demiss, Advisor to the Director General, Tax and Customs Affairs, Ethiopian Revenues and Customs Authority
Marissa Jacobus, Economic Advisor, Ministry of Trade and Industry
Teshome Kebede, Program Director, Business and Marketing, Hides, Skins and Leather Sector Manager, USAID for the Agribusiness and Trade Expansion Program
Teklu Kidane, Deputy Chief of Party, Ethiopia Volunteers for Economic Growth Alliance (VEGA), IESC
Gizachew Kilme, Ethiopian Revenues and customs Authority
Pengfei Li, Associate Director, Eastern Africa Investment Department, China-Africa Development Fund
Hailemikael Liqu, Manager, Private Sector Development Hub
Zhenhua Liu, Deputy General Manager, Jiangsu Qiyuan Group
Qiang Lu, Third Secretary, Economic & Commercial Counselor’s Office, The Embassy of P.R. China in Ethiopia
Qiyuan Lu, President, Jiangsu Qiyuan Group
Aliou Maiga, Resident Rep., International Finance Corporation
Aklili W. Mariam, Senior Investment Promotion Expert, Ethiopian Investment Agency
Kassaye Mekuria, General Manager, Nazareth Garment Share Company
Guoqing Qian, Deputy Managing Director, The Ethiopian Eastern Industry Zone Administration
Hagos Sequar, Public Relation Department Manager, Eastern Industry Zone P.L.C.
Wendwesson Shewarega, Senior Attorney, Ministry of Trade and Industry
Endalkachew Sime, Secretary General, Ethiopian Textile and Garment Manufacturers Association
Dr. David Tommy, UNIDO Representative to Ethiopia, UNIDO
Yong Wang, Chief Investment Officer, China-Africa Development Fund
Wang Wei, Representative Office in Ethiopia, China-Africa Development Fund
Lu Qi Yuan, President, The Ethiopia Eastern Industry Zone, The Ethiopia East Cement Share Company, Jiangsu Yongyuan Investment Corp. Ltd.
Giuliana Zuccato, Addis Garment Sh. Co.

Meetings conducted in Mauritius
Assad Bhuglah, Director, Trade Policy, Ministry of Foreign Affairs, Regional Integration and International Trade, Government of Mauritius
Dorsamy Caderassen, General Manager, Road Development Authority
Ada Chellapermal, Director – Economic & Finance, Ministry of Finance and Economic Development
Chavan Dabeedin, General Manager, Central Electricity Board
B. Dabeesing, Chief Executive Officer, State and Development Co. Ltd.
Min Dai, Economic and Commercial Counselor, The Embassy of P.R. China in Mauritius
Georges Dewit, Project Director, Wastewater Management Authority
Shen Fangfang, Business-in-charge and General Administrative Dept., Mauritius JinFei Economic Trade and Cooperation Zone Co. Ltd.
Jacques R. Faustin, Deputy Managing Director, Cargo Handling Corporation Ltd
Dominique de Froberville, Chief Executive Officer, Mauritius Freeport Development Company, Ltd
Kishore Gujadhur, Project Manager, Business Parks of Mauritius Ltd
Jingyang Han, Third Secretary, Economic & Commercial Counselor’s Office, The Embassy of P.R. China in Mauritius
Aïda Der Hovanessian, Country Manager, Madagascar, Mauritius, Comoros, Seychelles, International Finance Corporation
Raju Jaddoo, Business Alliance
Haidar Ally Kinoo, Project Manager, Wastewater Management Authority
Dharmarajen Kundasamy, Officer in Charge, Wastewater Management Authority
Archimede Lecordier, Managing Director, Cargo Handling Corporation Ltd
Raj Makoon, Director, Joint Economic Council
Ali Mansoor, Financial Secretary, Economic & Finance, Ministry of Finance and Economic Development
R. Maunthrooa, Managing Director, Board of Investment
Stephen John Mendes, Director, Customs Department, Mauritius Revenue Authority
Mustupha Mosafeer, Director, Large Taxpayer Department, Mauritius Revenue Authority
Dharam Naugah, Executive Chairman, Business Parks of Mauritius Ltd
Seewoosagar Nemchand, Director Finance & Administration, AML
Hassam Gorah Nubheebucus, Divisional Manager, Road Development Authority
Seewraj Nundlall, Director, Manufacturing, Agri-Business, Energy and Environment, Board of Investment

Vincent Pilot, Division Manager – Commercial, Rogers Logistics (Freeport Operations [Mauritius] Ltd)

Capt. P. Ponambalum, Deputy Director General, Mauritius Ports Authority

Subashini Rama, Lead Analyst

Aruna Bunwaree Ramsaha, Deputy Director General, Mauritius Ports Authority

Nomita Devi Seebaluck, Assistant Commercial Manager, Mauritius Ports Authority

Prabhakar Sembhoo, Transmission and Distribution Manager, Central Electricity Board

Dr Prabodh Seth, Director, Research, Policy and Planning, Mauritius Revenue Authority

Shekur Suntah, Director General, Mauritius Ports Authority

Wen Wen, Staff, Economic & Commercial Counselor’s Office, The Embassy of P.R. China in Mauritius

Danielle Wong, Director, Mauritius Export Association

Gao Zhiyi, Chief Finance Officer, Mauritius JinFei Economic Trade and Cooperation Zone Corp. Ltd.

Other Meetings

Winnie Wei Chu, Secretary of the board and Investment Promotion Manager, China-Africa Investment Co. Ltd., Guangdong Xinguang International Group.

Jianxiong Sun, Chairman of the board, China-Africa Investment Co. Ltd., Guangdong Xinguang International Group.

Hongbo Wang, Deputy Division Chief, Central, Western and Northern Africa, Concession Loan Dept, China EXIM Bank

Haimo Wen, Project Manager, Corporate Banking Department I, China EXIM Bank

Kang Zhao, Deputy Division Chief, Multilateral Financial Institutions, International Business Dept., China EXIM Bank

Hongjun Zhou, Deputy General Manager, China EXIM Bank

John Zhong, Vice General Manager, China-Africa Investment Co. Ltd., Guangdong Xinguang International Group.
### Annex B: Registered Free Zones in Nigeria

<table>
<thead>
<tr>
<th>Zone</th>
<th>Location</th>
<th>Year of approval</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational Zones</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calabar Free Trade Zone</td>
<td>Cross River State</td>
<td>1992</td>
<td>Federal Government</td>
</tr>
<tr>
<td>Kano Free Trade Zone</td>
<td>Kano State</td>
<td>1996</td>
<td>Federal Government</td>
</tr>
<tr>
<td>Onne Oil &amp; Gas Free Zone</td>
<td>River State</td>
<td>1996</td>
<td>Federal Govt./ Private</td>
</tr>
<tr>
<td>Maigatari Border Free Zone</td>
<td>Jigawa State</td>
<td>2000</td>
<td>State</td>
</tr>
<tr>
<td>Snake Island Integrated</td>
<td>Lagos</td>
<td>2005</td>
<td>Private</td>
</tr>
<tr>
<td>Airline Services EPZ</td>
<td>Lagos State</td>
<td>2006</td>
<td>Private</td>
</tr>
<tr>
<td>Lado Logistics Free Zone</td>
<td>Lagos</td>
<td>2006</td>
<td>Private</td>
</tr>
<tr>
<td>ALSCON FTZ</td>
<td>Akwa Ibom</td>
<td>2007</td>
<td>Private</td>
</tr>
<tr>
<td>Tinapa FZ and Tourism Resort</td>
<td>Cross River State</td>
<td>2007</td>
<td>State/Private</td>
</tr>
<tr>
<td><strong>Zones Under Construction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lagos Free Zone</td>
<td>Lagos State</td>
<td>2002</td>
<td>Private</td>
</tr>
<tr>
<td>Lekki Free Zone</td>
<td>Lagos State</td>
<td>2004</td>
<td>State/Private</td>
</tr>
<tr>
<td>Olokola Free Zone</td>
<td>Ondo and Ogun</td>
<td>2004</td>
<td>States/Private</td>
</tr>
<tr>
<td>Ibom Science and Tech. Park FZ</td>
<td>Akwa Ibom</td>
<td>2006</td>
<td>State/Private</td>
</tr>
<tr>
<td>Living Spring Free Zone</td>
<td>Osun State</td>
<td>2006</td>
<td>State/Private</td>
</tr>
<tr>
<td>Specialized Railway Ind. FTZ</td>
<td>Ogun State</td>
<td>2007</td>
<td>State/Private</td>
</tr>
<tr>
<td>Abuja Technological Village</td>
<td>Abuja</td>
<td>2007</td>
<td>Public/Private</td>
</tr>
<tr>
<td>Brass LNG Free Zone</td>
<td>Bayelsa</td>
<td>2007</td>
<td>Public/Private</td>
</tr>
<tr>
<td>Imo Guangdong FTZ</td>
<td>Imo State</td>
<td>2007</td>
<td>State/Private</td>
</tr>
<tr>
<td>Ogun Guangdong FTZ</td>
<td>Ogun State</td>
<td>2008</td>
<td>State/Private</td>
</tr>
<tr>
<td>Delta FTZ</td>
<td>Delta State</td>
<td>2009</td>
<td>Public</td>
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<tr>
<td>Kwara FTZ</td>
<td>Kwara State</td>
<td>2009</td>
<td>Public</td>
</tr>
<tr>
<td><strong>Zones Being Designed</strong></td>
<td></td>
<td></td>
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<tr>
<td>Banki Border Free Zone</td>
<td>Borno State</td>
<td>2000</td>
<td>State</td>
</tr>
<tr>
<td>Egbeda Free Zone</td>
<td>Oyo State</td>
<td>2002</td>
<td>State</td>
</tr>
<tr>
<td>OILSS Logistics Free Zone</td>
<td>Lagos</td>
<td>2004</td>
<td>Private</td>
</tr>
</tbody>
</table>

*Source: NEPZA.*
Annex C: Lekki Free Trade Zone Master Plan

Annex D: Infrastructure Constructed by JFET and the Government of Mauritius in JinFei Zone