Special Economic Zones

Performance, policy and practice- with a focus on Sub-Saharan Africa

by

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OVERVIEW EDITION

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EXECUTIVE SUMMARY

Background

1. **Economic zones[1] have grown rapidly in the past 20 years**. In 1986, ILO's database reported 176 zones in 47 countries. By 2006 it reported 3,500 zones in 130 countries. This huge growth comes despite many zones having failed to meet their objectives. However, there are a number of examples of zones contributing significantly to growth in FDI, exports, and employment as well as playing a catalytic role in: 1) integration to global trade; and 2) structural transformation including, industrialization and upgrading.
2. **With some exceptions, Sub-Saharan African countries adopted economic zones only recently**, with most programs being initiated in the 1990s. The consensus from previous research is that African zones have generally underperformed, with the significant exception of Mauritius and the partial exception of Kenya, and possibly Madagascar and Lesotho[2].
3. **There has been a long-running debate over the value of economic zones as a policy instrument**. Orthodox economic perspectives view zones as "second best", preferring instead economy-wide liberalization of trade and investment. But other researchers and policymakers point to potential of economic zones to overcome market and coordination failures and to act as catalysts, both of market forces and of political-economic reforms.
4. **Despite three decades of research on economic zones, many important questions remain unanswered**. There is a lack of systematic data-driven analysis on the performance of economic zones around the world; policymakers are forced to rely on the same small handful of case studies (some now ten or twenty years old) when considering or assessing SEZs. For African policymakers there is virtually no research on the performance of zone programs in the region.
5. **This study aims to address some of these gaps and to deliver analysis that is both data driven and policy focused**. The objective of this study is to explore the experience of zone programs – with a particular focus on Sub-Saharan Africa – to understand the factors that contribute to static and dynamic outcomes. It aims to provide input to the question of whether and how zones can make a significant contribution to job creation, diversification, and sustainable growth in African and other low income countries.
6. **The study draws on research conducted across 10 countries, focusing on six in Africa (Ghana, Kenya, Lesotho, Nigeria, Senegal, and Tanzania); and four cases of established zones programs**

[1] Definitional note: we refer to "zones" "economic zones" or "SEZs" interchangeably as generic terms to encompass a wide range of modern "free zone" types as per FIAS (2008), including export processing zones (EPZs), free trade zones (FTZs), special economic zones (SEZs) and other spatially defined areas that combine infrastructure and policy instruments with the aim of promoting investment and exports. The countries covered in the research were mainly operating EPZ or FTZ programs, although several were shifting their regimes to become focused on so-called "wide-area" SEZs or other more integrated industrial park models (for example, Ghana Multi-Purpose Industrial Park)

[2] Lesotho does not have a zone program per se, but they combine policy instruments to support export manufacturers, including a special fiscal and administrative regime and public provision of industrial infrastructure.

from other regions (Bangladesh, Dominican Republic, Honduras, and Vietnam). The research included two components in each country: 1) a case study, based on secondary research and interviews with investors, zone developers and operators, regulatory authorities, government and other stakeholders; and 2) surveys of investors operating in the zones. Details of the research methodology can be found in the Appendix. All field research was conducted between May 2009 and January 2010.

7. **The study is confined largely to formal, manufacturing oriented zones. As such it excludes any detailed discussion on ICT Parks and Science Parks; it also excludes discussion of industrial clusters or other forms of less "formal" agglomeration**. Both ICT /Science Parks and clusters have close links with SEZs and their relationship is an important topic for future research.

Outcomes to date in African SEZs

8. **Defining and measuring success of SEZ programs is far from straightforward** – zones may be established to achieve various objectives. In assessing performance, we define three types of outcomes: 1) *static economic outcomes* as being those derived in the short-term through the use of economic zones as instruments of trade and investment policy, and include primarily investment, employment, and exports; 2) *dynamic economic outcomes*, including technology transfers, integration with the domestic economy, and ultimately structural change (including diversification, upgrading, and increased openness); and 3) *socio-economic outcomes* including the quality of employment created and the gender-differentiated impact of zones.

9. **Against "static" measures of success, most African programs are not fulfilling their potential and are underperforming relative to the Asian and Latin American programs included in the study**. With the possible exception of Ghana, African zones show extremely low levels of investment and exports, and their job creation impacts have been limited – African zones are surprisingly capital intensive. However, most of the programs are still in the early stages of development and some show signs of promise. Despite poor nominal performance, the relative contributions of African SEZs to national FDI and exports is in line with global experiences – this points to a bigger competitiveness challenge in the region, and suggests that the SEZs may not be doing enough to catalyze wider structural change.

10. **There is little evidence that African programs have made progress toward "dynamic" measures of success**. None of the programs studied shows signs of zones having played any significant role in facilitating upgrading[3] or having catalyzed wider reforms; and integration between the zones and their domestic economies is limited.

11. **Success in meeting socio-economic objectives has also been elusive.** While zones have created job opportunities for poor, mainly rural women (although outside of possibly Lesotho and Madagascar, this has not been on a scale anywhere near that in Asia and Latin America) most are still failing to deliver quality employment and a "living wage". And given the high concentration of female workers in many zones, gender-specific concerns are not yet being addressed effectively. Moreover, in many

[3] Upgrading here refers to a shift toward more technology or knowledge-intensive activities, involving either a shift to new sectors or moving up the value chain within an existing sector.

countries, land acquisition, compensation, and resettlement practices are inadequate.

12. **Worryingly, in the post-MFA, post-crisis environment, there is a risk that many African zones will shift permanently and prematurely to a low-growth path**. While the typical path of a successful zone program is slow-to-moderate growth initially (5-10 years) followed by a period of exponential growth before eventually reaching maturity, the African zones under study appear to have already experienced stagnating growth.
13. **The analysis of performance raises questions over the competitiveness of African zones programs, and over the potential of African zones to compete for labor intensive manufacturing activities,** which have formed the foundation of traditional export processing zones (EPZ) programs and has been the basis of growth in the successful models of East Asia, Central America, and Mauritius.

The determinants of SEZ success and African zones performance against these

14. **Results from the surveys underscore the importance of the national investment climate, providing quantitative evidence to what has been observed anecdotally – that the success of SEZs is closely linked to the competitiveness of the national economy**. Strong correlations are observed between SEZ outcomes and measures of national competitiveness and the national investment environment. There are likely to be deep determinants behind some of these, but issues of state capacity and governance are of critical importance.
15. **Location and market size matters** – zones with proximate access to large consumer markets, suppliers, and labor tend to be more successful.
16. **But in addition to these broad factors, the survey results show clearly that the investment climate inside the zones – specifically infrastructure and trade facilitation – is linked with program outcomes**. The data show a strong correlation between infrastructure quality and investment, exports, and employment in zones. Trade facilitation shows a similarly strong, positive relationship with outcomes. On the other hand, factors related to business licensing and regulations in the zones (e.g. one-stop-shop services) appear to be less critical.
17. **By contrast, the traditional sources of competitiveness for zones – low wages, trade preferences, and fiscal incentives – are not found to be correlated to SEZ outcomes**. This may be, in part, because these factors are often employed as alternatives to making the hard policy choices that lead to improvements in productivity and the investment environment. The results suggest that these are insufficient substitutes.
18. **On the SEZ-specific factors that matter most to SEZ investors and to SEZ program outcomes – infrastructure and trade facilitation – African SEZs are delivering a much-improved investment climate to what would be available to firms operating outside the zones.** For example, data from the surveys shows that on average across the African SEZs, firms inside the zones report more than 50% less downtime resulting from electricity failures than exporters based outside the zones. Customs clearance times are reported to be 30% faster.
19. **However, this improvement in the investment climate may not be sufficient for SEZs aiming to attract global investors. Even the improved investment climate performance inside the zones falls well below international standards. And the non-African SEZs in the study show much more**

dramatic improvements inside their zones. For example, despite the 50% reduction in electricity-related downtime in the African zones, reported average downtime (44 hours per month) only reaches the average level of the non-African countries *outside* their zones. Non-African SEZs showed an average 92% reduction in downtime, bringing it to only 4 hours per month. A similar pattern is observed in customs clearance.

Policy conclusions: when are SEZs an appropriate policy choice?

20. **The cases where zones have been successful in terms of both static and dynamic outcomes suggest there is no orthodox role or model for zone development**. In small markets, successful zones programs have tended in the first stage to take advantage of location, trade preferences and labor arbitrage to create large-scale employment and support a transition away from reliance on natural resources sectors toward the development of a light manufacturing sector. Many of the large-country successes used zones to leverage an existing comparative advantage in factor-cost based manufacturing, to facilitate a transition away from inward-looking development policies to export-led growth. Here, zones have offered foreign investors the potential to operate in a protected environment while giving government time and natural experiments for testing reforms. They have also helped attract the foreign technology needed to support the transformation of domestic industrial capacity and facilitate scale economies in emerging sectors.
21. **The most complex environment for zones probably exists at opposite ends of the investment climate spectrum**: where the national investment climate is so poor that implementing a successful zone is extremely difficult; and where the national investment climate has so few constraints that the cost to government of maintaining a special trade and investment regime for the program is likely to outweigh any incremental benefits. In the former situation, SEZs would need to find a way to almost fully circumvent the weak or predatory state[4]; in the latter SEZs might still play a role in sectors at the edge of the technology frontier where coordination challenges and uncertainty constrain investment.
22. **SEZs will tend to benefit FDI and larger domestic investors most in the short term. They are not a direct solution for local SME development.** Most SEZs are designed to attract and larger businesses, with world-class infrastructure, incentives that are usually geared toward exporters, and usually high lease costs relative to what is available in the local market. As a result, attracting local SMEs into SEZs on a large scale may not be a realistic objective. Instead, the emphasis should be on developing effective links between local SMEs and the globally-competitive firms anchored in the zones. This might be achieved through cluster-based policies.

Policy conclusions: what type of SEZ approach is most likely to be effective in the African context?

23. **The global trade and investment context from which assembly-based EPZs emerged has changed significantly in recent years**. The rapid growth of SEZs and their success in contributing to export-led

[4] This may be the situation, for example, in post-conflict environments. Additional research is needed to assess the experience of zones in this context.

growth owes in part to an unprecedented era of globalization of trade and investment that took place during the 1980s and 1990s, with the rise of global production networks (GPNs). But African countries, most of which launched programs only well into the 1990s and 2000s face a much more difficult competitive environment resulting from such factors as: the emergence and entrenchment of "factory Asia"; the expiration of the Multifiber Arrangement; the consolidation of GPNs; and recently slowing demand in traditional export markets. On the other hand, new opportunities may also emerge through regional markets, South-South trade and investment, and the growth of services offshoring.

24. **In this changing context, there is reason to question whether the traditional EPZ model (which has been adopted by most African programs): 1) supports the comparative advantages of most African countries; and 2) provides the potential for the African zone programs to grow to a significant scale and generate spillovers to the wider economy.** Much evidence suggests that Africa has a fundamental competitiveness challenge with respect to manufacturing, due to issues of geography, scale, and transactions costs, particularly since China and India have integrated into global markets. If most African zones are unlikely to be competitive as manufacturing export platforms in the near term, they may need to rethink their strategies and move away from the traditional EPZ model.

25. **One implication is that African zones may need to re-orient themselves toward activities that better exploit sources of comparative advantage – in many countries this will be in natural resources-based sectors (agriculture, minerals, oil & gas, tourism) in the near term**. This does not mean that there will not also be some manufacturing and services opportunities (including trading and logistics) worth pursuing. Indeed, one of the main opportunities may be to use economic zones to develop improved competitiveness in first- and later-stage processing of resources. But the traditional assembly of imported components is unlikely to be the main driver. Whether such a model is capable of delivering the large-scale direct job creation experienced by Asia and Latin America under the traditional EPZ model is, however, questionable.

26. **Such an approach should allow African countries to better exploit the dynamic potential of economic zones and to achieve higher employment multipliers, but it will require significant attention to improving the competitiveness of local value chains**. As natural resources-based activities will necessarily involve greater requirements for local supply, this model offers scope for delivering greater job creation through multipliers. It may also offer more potential for spillovers of knowledge and technology from zone-based FDI to the domestic economy through the integration with local industry clusters. But the flip-side of this is the fact that competitiveness of the zones will depend on the existence of competitive local value chains. In many African countries, serious barriers to competitiveness up and down value chains (especially in extended value chains, which is the case in much of the agricultural sector) will need to be addressed.

27. **The shift toward SEZ models offers potential for zones to play a catalytic role as part of integrated regional growth initiatives, such as "growth poles".** Wider-scale SEZs can be integrated around key trade infrastructure (ports, roads, power projects), with domestic industry clusters, and local labor markets. This may begin to unlock the potential of zones as catalysts rather than enclaves.

28. **Overcoming land constraints will be a critical role for African SEZs.** Despite substantial

undeveloped land in many African countries, problems related to titles, registration, and connective infrastructure make access to industrial land one of the biggest constraints to investors on the continent. SEZs can play a critical role in unlocking this.

29. **For African zones, regional trade opportunities may be significant, but a bigger opportunity may be to use zones as a tool of spatial industrial policy, to support a scaling up of regional production**. Economic zones in Africa may be attractive to investors as locations from which specialized regional inputs can be tapped and production scaled up. This implies a strategic focus on SEZs as a component of spatial industrial policy rather than simply as trade and investment policy. It also suggests greater emphasis on the role of SEZs in the regional integration agenda; indeed, while SEZs can support integration, they are also often perceived as a risk from a trade policy perspective, as they open up the potential for tariff jumping and leakage of goods across borders.
30. **The development of Chinese-invested SEZs in several African countries presents significant opportunities, but also raises some risks**. The Chinese Economic and Trade Cooperation Zones under development in four countries in the region has the potential to support industrialization and, to demonstrate effective SEZ models, and to transfer knowledge of SEZ program design and implementation to African governments and private sector. But the success of these projects is by no means guaranteed. Meeting the objectives of both China and African countries will require an active partnership and a framework for collaboration that includes engagement from host governments, processes for phasing-in local control, communication and enforcement of standards, and support for integration with local economies.
31. **African governments should take a more serious look at using their SEZs as reform pilots**. Given the competitiveness weaknesses in the region and the political economy factors that slow reform, Africa's economic zones offer a useful vehicle by which to test reforms. To date, none of the African zones programs appears to have taken the approach. But those programs that are held up as real success stories of zones – most notably China but also Mauritius – used their economic zones *expressly* as a vehicle of broader economic reform.

<u>Policy conclusions: planning and implementing effective SEZ programs</u>

32. **SEZs are difficult to get right – there are a number of necessary but not sufficient conditions required for zones to be successful**. Unless a country has a significant comparative advantage in labor costs or a large internal market, a number of factors need to come together for zones to be successful in attracting and retaining investment, including: location, policy, planning, legal framework, infrastructure, and management. In addition, there is often also an element of "good timing" in many successful programs, whereby they offered the right solution at the right time (e.g. as a formerly closed region opened up to trade, as a new trade agreement came into effect, etc.).
33. **Despite the concept of zones as enclaves, in practice their success is almost fully entwined with the national economy, the national investment environment, and the capacity of the government.** Zones can tip the competitiveness balance at the margin, but they will not generally shift the paradigm. Critically, most of the factors that determine success of SEZ programs cannot be confined to the zone program alone but require action at the national level.

34. **One of the main differences between zone programs that have been successful and sustainable and those that have either failed to take off or have become stagnant enclaves is the degree to which they have been integrated in the broader economic policy framework of the country. Successful zones programs do not simply view zones as a static instrument of trade and investment policy**. Zones have generally failed to have a catalytic impact in most countries in part because they have been disconnected from wider economic strategies – often zone programs are put in place and then left to operate on their own, with little effort to support domestic investment into the zones, to promote linkages, training, and upgrading. Unlocking the potential of zones requires clear strategic integration of the program along with government playing a leading, active role in potentiating the impact of the zone.

35. **Most zone programs have been designed as an instrument for trade and investment and continue to be built around low labor costs, trade preferences, and fiscal incentives**. Each of these can play a role in kick-starting a zone program, but they are generally not sustainable. In countries with large pools of unskilled labor, low wages may be a sustainable source of comparative advantage into the medium term and may outweigh the need for preferences and incentives; but this is not the case in Africa, where labor costs are relatively high and scale is lacking. But when wages, preferences, and incentives are the main levers on which competitiveness is based, they create pressure for distortions and "race to the bottom" policies including extending and increasing incentives (rather than addressing more difficult factors of the investment environment) and granting exemptions on minimum wage and labor rights (rather than addressing productivity or labor market rigidities).

36. **High-level, active, and consistent government commitment to zone programs over a long period of time (most zones take 5-10 years to begin bearing fruit) is a significant contributor to success**. Many African countries have shown only a half-hearted commitment to zones, for example passing zone laws but failing to implement regulations and failing to provide adequate resources to program management, infrastructure, and promotion. Many programs have also suffered from poor trade policy coordination and a failure to establish a policy environment that offers investors confidence of transparency and predictability. In successful zones, policymakers often work closely with the private sector to evolve zone policy in the light of changing needs. Indeed, many successful zones did not get their zone policies right from the start, but succeeded only at the second or third try. Securing a senior political champion for the zones program and ensuring broad commitment through, for example, an inter-ministerial committee is a critical success factor.

37. **Greater private sector participation in SEZ programs should be promoted, but ideological prescriptions should be avoided in favor of what is practical in the context**. What seems to matter is not so much who runs the program but how – their objectives, incentives, and capacity. Government-run zone programs in Africa have suffered from problems of both governance and capacity. However, there is no guarantee that the private sector will offer a viable alternative, as the experience of several African countries attests. But given the large investments required to support zones and their uncertain return, private sector participation plays an important role in reducing government's risk in zone programs. For that reason they should be encouraged. Regardless of the role the private sector plays in zone development and management, greater private sector participation in strategic planning and policy decisions affecting zone programs should be

encouraged, and the development public-private institutions promoted.

38. **An effective legal and regulatory framework is a necessary first step to zone program development.** Putting in place a clear and transparent legal and regulatory framework codifies the program strategy, establishes the “rules of the game” for all stakeholders involved in the process. It plays a fundamental role in addressing often-difficult land issues, facilitating the provision of the required infrastructure, and ensuring compliance with labor and environmental standards. While it is no guarantee of success, the absence of a solid legal and regulatory framework will normally condemn an SEZ program to failure.

39. **But *de facto* implementation is of equal importance. In this respect African zone programs need to improve the capacity, budget, and accountability of zone regulatory authorities and improve inter-agency coordination.** Good laws are often applied poorly. In many of the African SEZs, the authority responsible for developing, promoting, and regulating the program lacks resources and capacity to carry out their mandate. Of equal importance, they often lack the institutional authority to do so. By contrast, in successful zone programs, the regulatory authority is often autonomous, but anchored to a central ministry (e.g. President, Prime Minister, or Ministry of Finance), and supported with sustainable budgets. Institutional reforms and capacity building are needed in many zone programs.

40. **Zone location decision-making remains too often determined by political rather than commercial or economic considerations. Despite long-standing evidence to the contrary, governments continue to try (and fail) to use zones as regional development tools**. Almost all the countries under study made decisions to locate at least one zone in a “lagging” or remote region; few have done enough to address the infrastructure connectivity, labor skills, and supply access that these regions tend to lack. Not surprisingly, FDI shuns these locations in favor of agglomerations where they can access quality infrastructure, deep labor markets, and knowledge spillovers.

41. **Infrastructure quality remains a critical gap in many African zones – delivering more effectively on hard and soft infrastructure inside the zones and integrating it more effectively with the domestic market must be a priority for African zones programs**. Most of the African zones offer an infrastructure inside the zones that, while still not world-class, is of significantly higher quality than is typically available in the country. However, in some cases infrastructure inside the zones is a mirror of the worst experiences in the country more widely, including water shortages, electricity failures, and health, safety, and environmental shortfalls. If even the basic internal infrastructure needs cannot be met, zones have little chance of success.

42. **Co-location of SEZs with trade gateway infrastructure or other major industrial projects may offer an efficient solution to the challenge of integration**. A problem common to many zones in low income countries is that quality infrastructure stops at the zone gates. If zones are to be successful it is critical to address the wider trade-related infrastructure – poor road connectivity and serious port-related delays undermine the competitiveness of many zones. One of the most effective and cost efficient ways to ensure integration between zones and trade gateways is to co-locate them. As such, the development of new zones should focus, wherever possible on locations that are within or adjacent to major ports, airports, or other key trade infrastructure.

43. **More broadly, there may be a unique opportunity to use integrated SEZs in conjunction with**

upcoming infrastructure projects (roads, ports, power) to act as a catalyst for regional growth. The combination of core infrastructure and an SEZ environment (which can be used to pilot reforms of difficult policy issues that cannot be addressed quickly at the national level) offers the potential to unblock some of the most binding constraints to competitiveness in the region.

44. **Policies to promote links between SEZs and the domestic economy are the key to realizing the dynamic potential of zones.** Countries that have been successful in deriving long-term economic benefits from their SEZ programs have established the conditions for ongoing exchange between the domestic economy and investors based on the zones. This includes investment by domestic firms into the zones, forward and backward linkages, business support, and the seamless movement of skilled labor and entrepreneurs between the zones and the domestic economy. From a policy perspective, this suggests shifting from the EPZ model to an SEZ model that eliminates legal restrictions on forward and backward linkages and domestic participation. But it will also require implementation of much broader policies beyond the scope of the SEZ program, including: 1)promoting skills development, training, and knowledge sharing; 2) promoting industry clusters and targeting linkages with zone-based firms at the cluster level; 3) supporting the integration of regional value chains; 4) supporting public-private institutions, both industry-specific and transversal; and 5) ensuring labor markets are free to facilitate skilled labor moving across firms.

45. **A second critical aspect of realizing the dynamic potential of SEZs is supporting domestic investment in the zones. Evidence from successful SEZ programs shows a strong role for local investors in the medium term.** The inversion from FDI to local firm dominance in SEZs has been seen in Malaysia, Korea, Mauritius, and more recently in China. The process also appears to be underway in Bangladesh and Vietnam. But in Africa, although the share of locally-owned firms is not exceptionally low, investment levels overall (including FDI) are poor. Promoting local investment in zones may involve eliminating policy restrictions and high investment-level requirements in some zones. But, again, it involves policies that go well beyond the remit of the zones program alone, including access to finance and the culture of entrepreneurship.

46. **Addressing social infrastructure needs is critical to ensuring sustainability and realizing the potential of upgrading**. By attracting large numbers of (usually unskilled) workers from rural areas, many zones place huge burdens on the social infrastructure of the communities in which they are based. Moreover, experience from East Asia shows that providing quality social infrastructure (especially education and healthcare) is critical to attract the skilled workers needed to support upgrading. This is another example where the policy needs of SEZs extend well beyond what is traditionally taken into account in most programs.

47. **Most African economic zones need to improve their approach to social and environmental compliance issues. At a national policy level, economic zones should be seen as an opportunity to experiment with policy innovations***.* Zones have made progress in meeting international norms for labor standards. In almost all the zones studied, wages for unskilled labor were greater inside the zones than outside, and anecdotally at least, working conditions were said to be favorable inside the zones. SEZs also remain an important source of human capital development and basic work skills acquisition in many low income countries. However, there remains a gap between the *de jure* and *de facto* environments in many zones. Monitoring of compliance to labor standards can be improved

in most zones. And despite the large share of female workers in most zone programs there remains a serious lack of effort to address gender-specific issues in the zones under study. Similarly, enforcement of environmental standards in zones is generally weak. Zones offer an ideal environment for policy experimentation – this could offer interesting opportunities for innovations in both social and environmental policy.

48. **Putting in place effective monitoring and evaluation (M&E) will be a critical component to addressing some of the gaps in zone program performance and to more effectively linking policy, strategy, and operations.** In the absence of an effective program to monitor the activities and results of companies operating under the regime, African zones authorities are: 1) unable to enforce regulations effectively, resulting in abuses of the system and negative externalities (e.g. environmental); 2) unable to know if the program has been successful; and therefore, 3) unable to make informed decisions about future investment, to participate effectively in policy dialogue, or to respond appropriately to changing needs of the investors and of government.

What does it mean for support to SEZs going forward?

49. **SEZs are expensive and risky projects – the margin for error is small**. Yet, in some cases zones have played a critical role in catalyzing diversification, upgrading, and economic growth. They have the potential to be *one* useful instrument, if addressed in a comprehensive way.

50. **Despite the weak performance to date, most African countries remain in situations where SEZs can play a valuable role** – put simply: 1) they are in need of diversification and either in early stages of industrialization or have experienced deindustrialization in recent decades; 2) to do so they need to attract greater private investment, particularly FDI; 3) land and infrastructure are major constraints, and the investment climate overall is weak; 4) there is a need to better exploit economic of scale (both internal and external); 5) most countries have access to valuable trade preferences, offering the potential to achieve the goals (#1 and 2 above), while concentrating investment (overcoming #3 and #4), and leveraging a source of comparative advantage (#5).

51. **Thus, there is sufficient reason for continued support of SEZs as a policy instrument – but this should be context-dependent. The environments in which zone programs are developed are complex and heterogeneous, and therefore overly deterministic approaches should be avoided. However, it may be useful to establish a clear framework in terms of the situations in which SEZs are appropriate and the preconditions for their success. Among the proposed elements of such a framework are**:
    a) Ensuring that SEZ programs are focused where they can best complement and support comparative advantage, as validated through a detailed strategic planning, feasibility, and masterplanning process.
    b) Integrating SEZs as part of a broader package of industrial, trade, and economic development policies.
    c) Integrating SEZs with support to existing industry clusters rather than as an alternative or "greenfield" approach to cluster development.
    d) Ensuring high-level political support and broad commitment before launching any program, including the establishment of an inter-ministerial committee to oversee program development.

e) Promoting exchange between zones and the domestic environment through both policy and administrative reforms.
f) Supporting the provision of high-quality (hard and soft) infrastructure encompassing zones, key urban centers, and trade gateways; the Ghana Gateway provides a potential model for this. The focus should be on leveraging SEZs to support existing and planned infrastructure to facilitate the potential for growth catalysts / growth poles.
g) Putting SEZs on the regional integration agenda, with an emphasis on their role in facilitating regional production scale and integrating regional value chains.
h) Ensuring the development of sound legal and regulatory frameworks and cementing it by also addressing the challenges of institutional design and coordination.
i) Promoting private sector participation and public-private partnerships, along with technical assistance with structuring and negotiating PPPs.
j) Taking into greater consideration the capacity of governments to deliver on SEZ programs, particularly given their integrated and long-term nature – this will require focus on institutional development and political economy factors that influence zone policy and implementation.
k) Establishing clear standards with regard to environmental, labor, and social compliance, and identifying clear regulatory responsibilities for their monitoring and enforcement.
l) Developing and implementing a comprehensive monitoring and evaluation (M&E) program from the outset, with safeguards put in place to ensure that SEZ program developments remain aligned with strategic and masterplans.
m) Recognizing the long-term nature of SEZ program development – this means planning beyond short-term project cycles and monitoring progress on an ongoing basis.

52. **Coordination will be important.** In most cases, no single donor or government will be in the position to support comprehensively the financial and technical needs of a country's economic zones program. Coordination of all actors, including the private sector, will help ensure effective delivery, particularly given the limited absorption capacity in many zone authorities.

53. **One of the most important areas for coordinated support from donors, governments, and other actors is in the provision of high-quality data, research, and analysis on SEZs, as well as practical advice for SEZ practitioners**[5]. Chapter 8 of this report provides some suggestions on a future research agenda.

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[5] In this respect, the forthcoming IFC publication – *SEZ Practitioners Guide* – is an example of the type of knowledge products which will play a valuable role in supporting more effective planning and implementation of SEZ programs.

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