RESEARCH BRIEF

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SA-TIED

Southern Africa – Towards Inclusive Economic Development

Special economic zones in Zambia and South Africa

– blueprint, experiences and outcomes

East Asia's successful experience in accelerating the process of industrial development with SEZs paved way for the use of SEZs as policy instruments in Africa. In southern Africa, Zambia and South Africa instituted SEZs in legal and institutional frameworks in the 2000s as mechanisms for catalysing industrialization and employment creation through foreign and domestic investments.

Are SEZs white elephants, or justified investments?

The notion of a SEZ refers to a geographically designated area where business rules and regulations are more liberal than in the rest of the country, to attract investment and spur economic growth.

Despite the clear evidence on the poor performance of SEZs in Africa, their development has continued to expand in both South Africa and Zambia. This begs the following question: are SEZs just white elephants, or justified investments whose potential can still be unlocked?

Comparing four case studies helps to analyse the extent to which SEZs in Zambia and South Africa have contributed to growth, employment, and yielded positive agglomeration effects.

Many similarities and differences emerge in the experience of these two countries with SEZs. In South Africa the development of SEZs has taken on a more structured and inclusive approach supported by clear deliberate policy frameworks and financing provisions. Zambia, on the other hand, is largely missing a predictable and transparent financing mechanism to secure resources for the successful implementation of SEZs.

The SEZs in both countries are of varying hectare size and designed for various common uses encompassing industrial, commercial, residential, recreation and R&D activities. Typically, zones in South Africa are anchored on key industries such as automotive, mining, oil and gas, precious metals, renewable energy, and light and medium manufacturing. This approach helps to attract suppliers of components and other goods and services. In contrast, those

FINDINGS

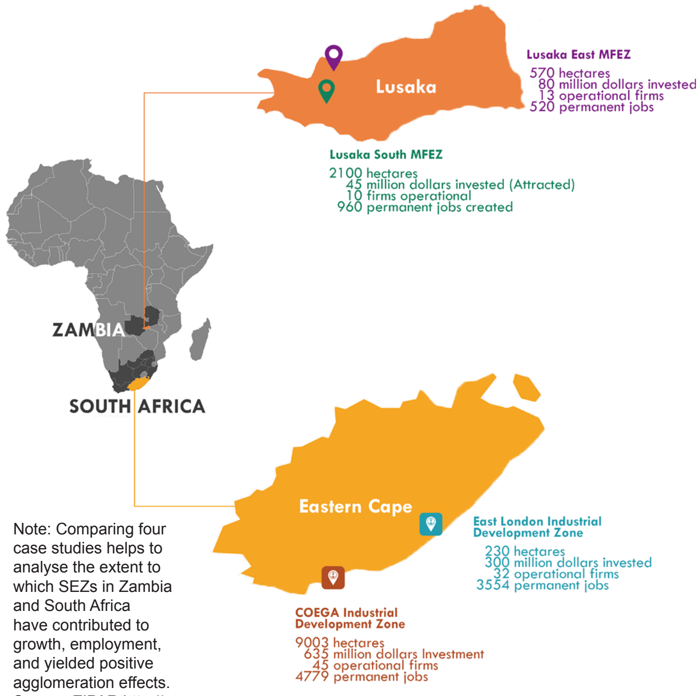
The outcomes of special economic zones (SEZs) in Zambia and South Africa have been varying

In the Eastern Cape in South Africa, SEZs are largely latent drivers of growth. Their functionality is hampered by inadequate infrastructure financing and weak capabilities or resources of local suppliers

In Lusaka, Zambia, SEZs have attracted fewer investors and local suppliers. These zones face inadequate infrastructure financing, weak local supplier capabilities and linkages, inadequate business support services, institutional co-ordination failures, a fragmented incentive framework, and a weak design that does not make use of strategic anchor industries

However, when it comes to per capita performance, the SEZs in both countries are almost at par

Figure 1: The four special economic zones (SEZs) analysed in this brief



Note: Comparing four case studies helps to analyse the extent to which SEZs in Zambia and South Africa have contributed to growth, employment, and yielded positive agglomeration effects. Source: ZIPAR http://zipar.org.zm/

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in Zambia are not anchored on strategic industries thus limiting agglomeration economies.

The development and management approaches in the two countries are similar and yet differentiated. Both countries allow for government- and private sector-developed and operated SEZs. However, South Africa restricts private ownership thereby limiting firms' use of zone assets as collateral for financing. Zambia has taken a minimalist financing approach for the one public SEZ where serviced land is leased out to investors. Conversely, public-developed zones in South Africa lease fully developed buildings constructed using funds from a separate SEZ fund. Both countries engage in own revenue-generating activities, but the SEZ developers in South Africa are a step ahead in diversifying their income streams.

Adequate infrastructure and fiscal incentives are essential

On paper, the zones in both countries boast of offering a range of world-class infrastructure. But with unreliable electricity supply, lack of a quick turnaround time in providing utility services, lack of a one-stop shop to streamline business processes, lack of a connection to sewer lines or support services such as an ambulance, fire brigade, waste collection or market research, SEZs in Zambia fall short of being world-class. South Africa has succeeded better in the provision of infrastructure and business support services.

Financial incentives are present in both countries. However, in Zambia what is now pertaining for firms in SEZs — 0% import duty and accelerated depreciation on capital equipment and machinery — is also on offer to non-SEZ-based firms. In contrast, South Africa is offering a suite of fiscal incentives — namely VAT and customs relief, employment tax incentives, accelerated depreciation allowance on capital structures and reduced corporate tax rate to qualifying SEZ-based companies.

Comparing performance and challenges

At face value, the outcomes of the SEZs seem more promising in South Africa on account of the level of investment and the number of jobs created (see Table 1 below). However, a closer per firm analysis shows that with the exception of employment, the countries are almost at par in terms of their performance. On average, the level of investment by each investor was highest in the Lusaka South Multi-Facility Economic Zone. Employment per firm is highest in the two South African SEZs. Lusaka East Multi-Facility Economic Zone emerges as the most efficient zone in creating jobs.

Agglomeration economies emanating from labour pooling, convergence of specialized suppliers and technology and skills spillovers are evident across both countries, albeit in varying degrees. Notably, the latter largely stems from the training of workers and less from the flow of knowledge and ideas from SEZ investors to local suppliers and firms and between workers.

In both countries the state-owned SEZs suffer from the lack of adequate financing. Another key challenge for both countries is how to maximise the multiplier effects of SEZs through the effective integration of local suppliers in SEZ value chains.

Zambia's challenges are further compounded by absence of strategic anchor industries. In South Africa, restrictions on private ownership of SEZs is a key country-specific constraint.

Table 1: Summary of outcomes for the financial year 2018/19

Zone	Actualised investment by firms operating in the SEZ	Actualized employment by firms operating in the SEZ	Number of operational investors in the SEZ	Investment per firm	Employment per firm	Investment per employee
Lusaka South	US$245 million	960	10	US$24.5 million	96	US$255 thousand
Lusaka East	US$44.4 million	529	13	US$3.4 million	41	US$84 thousand
Coega	US$678.7 million	4,779	45	US$15.1 million	106	US$142 thousand
East London	US$313.4 million	3,554*	32	US$9.8 million	111	US$88 thousand

Notes: *This is a lower bound estimate of the total jobs created by investors in the zone which does not include jobs created in the energy and aquaculture sectors.
Source: Authors' calculations based on data from interviews and online reports.

This Research Brief is based on the WIDER Working Paper 160/2020 '**Special economic zones in Southern Africa: white elephants or latent drivers of growth and employment. The case of Zambia and South Africa**', by Mwanda Phiri and Shimukunku Manchishi

IMPLICATIONS

There are several possibilities for unlocking the potential of SEZs in Zambia and South Africa

For Zambia, there is need for a well-thought out financing model via a dedicated SEZ fund, for comprehensive monitoring and evaluation mechanisms, for an improved infrastructure and business support services provision, for identifying anchor industries to draw investors and suppliers, and for re-structuring financial incentives

In South Africa, private ownership, development and management of SEZs, or public listing on the stock exchange market, should be considered for establishing a sustainable financing model

Both countries should build strong local capabilities to foster greater domestic linkages between SEZs and local suppliers

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