AID-FOR-TRADE: CASE STORY

WORLD BANK

Trade Zones

Ghana

World Bank changes to a Ghanaian trade-zone effort, including institution of a multipurpose zone aimed at attracting smaller firms, appear to have rescued a failing economic zone near the country's port of Tema.

A Bank specialist says that indications so far are promising.

The Tema zone started in the 1990s, but it seemed to be on the brink of disaster in 2005, as problems with developers prevented the program from succeeding. At that point, the Bank stepped in with modifications.

"Certainly much work remains to be done," the Bank specialist said, "but in recent years, investment, employment, and exports have taken a sharp upward trajectory and the capacity of the Ghana Free Zones Board is moving forward well."

Ghana's free-zone program started when the country's government decided to focus on export-oriented manufacturing, as had the Asian Tigers. The program, begun in 1995, was a major part of attracting foreign direct investment through infrastructure improvements and liberal incentives. It was part of a wider "Gateway Project," which included regulatory, infrastructure and other types of improvements aimed at making the country an export platform for West Africa, as well as the United States and European Union.

The project was different from many others in Africa because, like Kenya's, it was led by the private sector, and because it allowed companies to be established either within the Tema zone or as single-factory zones. This latter category represents the vast majority of companies, exports and employment in the system.

The program was also different from many other programs because, as a true free zone instead of an export-processing zone program, it was designed for the promotion of services of all kinds, not just for the processing of goods.

Although the single-factory component of the program proceeded slowly but steadily during the early years, the Tema zone's development was to be critical to the expansion of the zone program. Ghana made a deal with Business Focus Ghana, a Malaysian company that had other investments at the port and elsewhere in the country, and which was seen as a potential magnet for other Asian tenants. The firm was allowed to develop 80 percent of the land in the Tema enclave, while a Ghanaian company, International Land Development Corp., leased the rest. Tema free-zone companies are virtually all located on the ILDC development.

There were problems, though, over infrastructure and service delivery, and Business Focus essentially halted investment in the zone, and further development of the zone was almost completely blocked until 2005. Meanwhile, International Land Development was also reluctant to invest in infrastructure in its area, so firms that wanted to locate in the Tema enclave faced increased expenses.

There were also other factors working against the free-zone program, including an Economic Community of West African States ruling effectively treating export-zone products as imports. Moreover, Business Focus was hit by the Asian financial crisis and new Malaysian capital controls, as well as high Ghanaian inflation – which affected the company's liquidity.

Ultimately, Business Focus essentially pulled out of the Tema enclave, with most of its holdings later leased to E-Process International (SA) – a Ghanaian, Nigerian and Beninois financial data processing and outsourcing company – and Octoglow Ghana Ltd. – a Ghanaian and Malaysian property developer.

At this point the zone program was effectively dead; heavy investments had been made and expectations set that were not being met because of the problems with the private developers.

In 2005, the Ghana Free Zones Board and World Bank took a new approach to the Tema zone based on development of a cluster-based approach to the zone – aggregating firms in the same industry, along with infrastructure, suppliers and other support services – and on providing a minimum level of infrastructure and services for the export sector

A multipurpose industrial park was established within the enclave, changing Tema into a "hybrid" zone combining free-zone and other investors. This multipurpose zone focuses on smaller, Ghanaian firms and is officially outside the free-zone territory, meaning these firms are not restricted in making local sales.

As part of its effort to support hard and soft infrastructure, the new arrangement includes support for customs, immigration, and environment agencies, the Port Authority and the Export Promotion Council.

The park contains a Communications Ministry site for a technology incubator and a site for the development of a garment village.

The establishment of the multipurpose park, according to the Bank specialist, "with its openness to local investors and investment in cluster-based 'public' infrastructure and services, should offer a significant opportunity for local firms to become integrated into the supply networks of exporters in Tema."

"To date," he said, "I'm not sure if there is enough evidence whether this is happening or not, but the structure bodes well."

According to the Bank assessment, the results of the shift have been dramatic.

"From a program that was essentially moribund following its failed initial stages with Business Focus, investment, employment, and exports have taken a sharp upward trajectory," it says.

The enclave still has relatively few investors, but "the pace of development following these changes to the program is promising," the assessment says. At the same time, the single-factory zone program is growing at a strong rate.

According to the World Bank assessment, from June 2008 to June 2009, the free-zone companies in the Tema zone accounted for 2,085 jobs and $281 million in exports, including $181 million in cocoa processing – Ghana is the world's second-largest cocoa exporter.

All but one of the existing Tema zone companies are foreign-owned, with companies including Swiss cocoa and chocolate company Barry Callebaut, U.S. multinational Cargill and the Saudi modular building firm Red Sea Housing.

The program has contributed substantially to agribusiness, especially cocoa, which accounted for almost one-third of Ghana's 2008 exports. Free-zone exports have grown rapidly in recent years, probably because of the growth in commodity prices since 2006, with 2008 exports – including those from both Tema park companies and single-factory zones – exceeding $1,300 million. That is more than double the export level in 2006.

The exports include substantial levels of re-exports of cocoa, and some free-zone companies are moving beyond merely exporting cocoa beans into cocoa butter, cocoa powder and chocolate.

The Ghana zone also includes one of West Africa's major fish-processing firms, which processes 170 tons of seafood daily.

Overall, free-zone exports account for almost 45 percent of Ghana's exports, with 80 percent of that coming from the single-factory zones.

As a consequence, Ghana is among Africa's leaders in the share of its exports coming from free zones.

According to the Bank assessment, although one company interviewed within the zone complained about poor infrastructure, this company – like another single-factory unit just outside Accra – praised the free-zone regime's advantages.

The assessment says the revised approach to the zone, including the multipurpose park, "shows the potential to use free zones as tools to facilitate competitiveness through the development of industry clusters."

An important part of this has been the willingness to provide collective infrastructure and services. Although it is not yet clear how successful the approach will be, "it certainly represents an innovation that can help move forward the approach to free zones beyond the traditional 'export processing' models."

Improvement in Ghana's free-zone program, according to the Bank expert, "puts Ghana in a position to reap the catalytic advantages from the zone program that they originally intended."

He described the Bank's effort with Ghana's zones program as "one of the most innovative that I have seen – certainly in Africa, but also more widely around the world."