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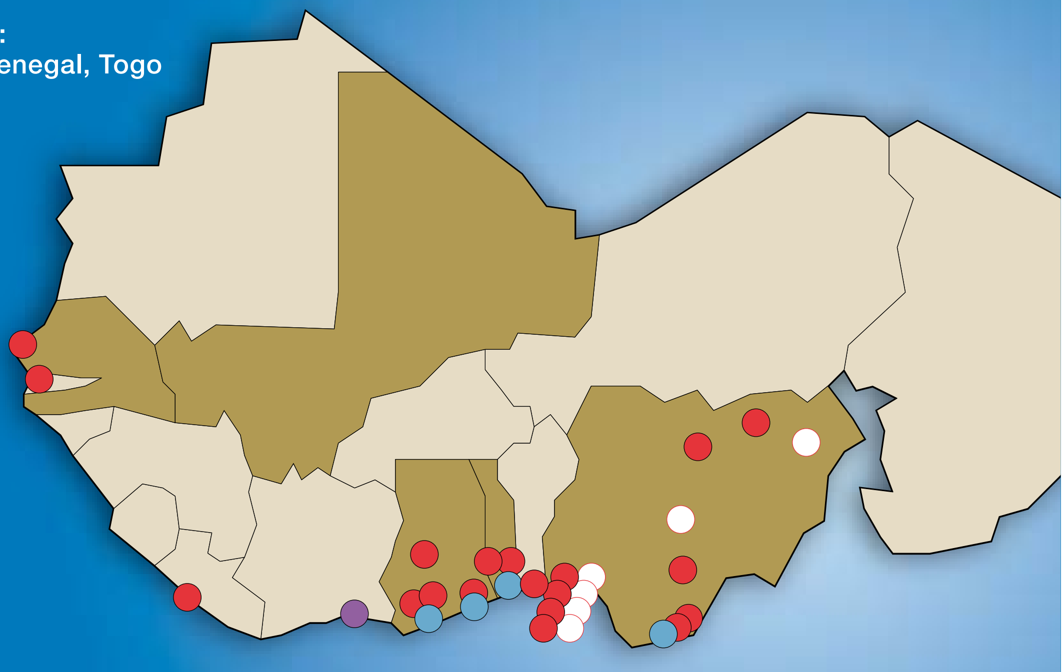
WEST AFRICAN CHALLENGES

ARE ECONOMIC FREE ZONES GOOD FOR DEVELOPMENT?

by **FRANÇOIS BOST,**
Geographer, Senior Lecturer at Université de Paris-Ouest-Nanterre-La Défense Laboratoire de Géographie comparée des Suds et des Nords (GECKO, EA 375)



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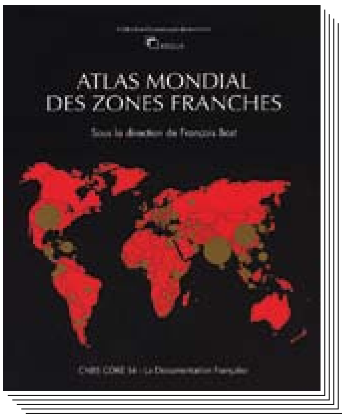
The example of West Africa

Economic free zones – enclaves that combine tax benefits with customs advantages – have multiplied around the world since the 1980s, mainly in response to the wave of off-shoring of industrial production. There are 29 free zones today in 11 West African countries, which can be broken down into free trade zones (6) and export processing zones (23) and to which may be added some 450 "free points".

Overall, the impact of these zones in West Africa, particularly on local economic development, has been ambivalent at best. Geared for the most part towards export manufacturing, free zones have as yet done little to diversify economies or to reinforce the entrepreneurial fabric of host countries. François Bost, Director of the *Atlas mondial des zones franches* ("World Atlas of Free Zones"), observed that "The approach taken with industrial free zones has for the most part been multi-activity oriented and has taken on an opportunistic, 'take-all' logic characteristic of underdeveloped countries. [...] In contrast to the many free zones established in Asian or Latin American countries, there is still virtually no sectoral specialisation such as would allow these zones to achieve economies of scale." Moreover, West African countries that have adopted free zone regimes have not succeeded in attracting more Foreign Direct Investment (FDI) than countries that do not have such regimes. As for their impact on employment, while free zones account for as much as half of secondary-sector employment in some countries (for example Togo), this is in fact a reflection of their lower levels of industrialisation. The workforce is generally unskilled, with few opportunities for training, and working conditions are often insecure.

"Rather than being the driving force for development in West Africa, free zones would therefore seem to be simply one among several components of a more general development strategy that has yet to be precisely defined", concludes François Bost. How, then, can these zones be transformed into effective drivers for development?



Improving the image and attractiveness of West African countries for investors will require targeted strategies, focusing, for example, on the specialisation of a specific sector, which can be pitched to investors through promotion and marketing activities. At the same time, steps must be taken to improve the business climate by addressing the factors that hold back investment, such as excessive red tape, weak infrastructure, political insecurity and instability, a rudimentary financial system, and an under qualified workforce. A smoother-functioning and better-integrated regional market could attract more investors, especially from emerging countries, and access to a market of more than 320 million potential consumers should be an alluring prospect. Better regional transport infrastructure and fewer constraints on free circulation would allow the free zones to play a useful interface role between national, regional and global economies.

WORLD ATLAS OF FREE ZONES

Published in September 2010, the Atlas was produced by a team of 16 researchers and two cartographers and presents a comprehensive picture of free zones throughout the world. It identifies and classifies 1 735 such zones in 133 countries, mainly in the developing world and in Eastern Europe. At a time when the relocation of industrial and service activities is accelerating and the power of emerging countries is rising, this Atlas offers a unique vantage point for understanding and appreciating the globalised economy and its wellsprings.

Bost, François (dir.)
Atlas mondial des zones franches, *La Documentation Française, 2010, 313 pages*
Collection: Dynamiques du territoire
(ISBN: 978-2-11-008258-9)

This note summarises the main findings on West Africa from the World Atlas of Free Zones.

1 A WORLDWIDE PHENOMENON

The term "free zone" can be defined as a perimeter of varying size, in which authorised businesses are exempt from the normal regime applicable in the host country, in particular with respect to the customs and taxation fields (Bost, 2010). In return for this concession, governments expect these businesses to boost national exports, to create jobs, and to help diversify the economy by bringing in new branches of activities.

Having made their first appearance after World War II, free zones then began to multiply in the 1980s, to the point where it is now no longer a question of identifying the countries that have them, but rather of seeking out those that have still not passed legislation in this area.

The World Atlas of Free Zones, published in September 2010, identified 1 735 free zones in 133 countries in 2009. All the emerging countries are included in that list. China alone has 213 free zones, under nine different legal regimes, and in 2008 they accounted for around 47 % of the country's total exports.

Free zones have expanded apace with the trend of trade liberalisation and with the openness of virtually all countries to the market economy. They have also contributed to the surge in international trade and FDI, particularly in the developing world and in Eastern Europe. On this score, free zones are readily claimed as important – indeed decisive – tools and mechanisms for gaining entry to the spiral of development because of the spill-over effect they may have, at different scales, on local and national economies. But the extent of these effects varies greatly, depending on the country and the geographic area in question.

Free zones have began to multiply to the point where it is now no longer a question of identifying the countries that have them, but rather of seeking out those that have still not passed legislation in this area.

Sub-Saharan Africa has by no means been kept to the sidelines in this global movement; indeed, it represents the largest number of countries with free zone regimes (33 out of 48), which can be explained by the high number of sovereign states in the region. In 2009, it was host to 101 different kinds of free zones; Kenya held the lead with 33 free zones, some being very small and confined to only a few firms and only two of which were government-owned. Yet they have not proven the trump card for industrialisation in sub-Saharan Africa, as they still only weakly attract local and foreign investors.

Box 1

THE DIFFERENT TYPES OF FREE ZONES

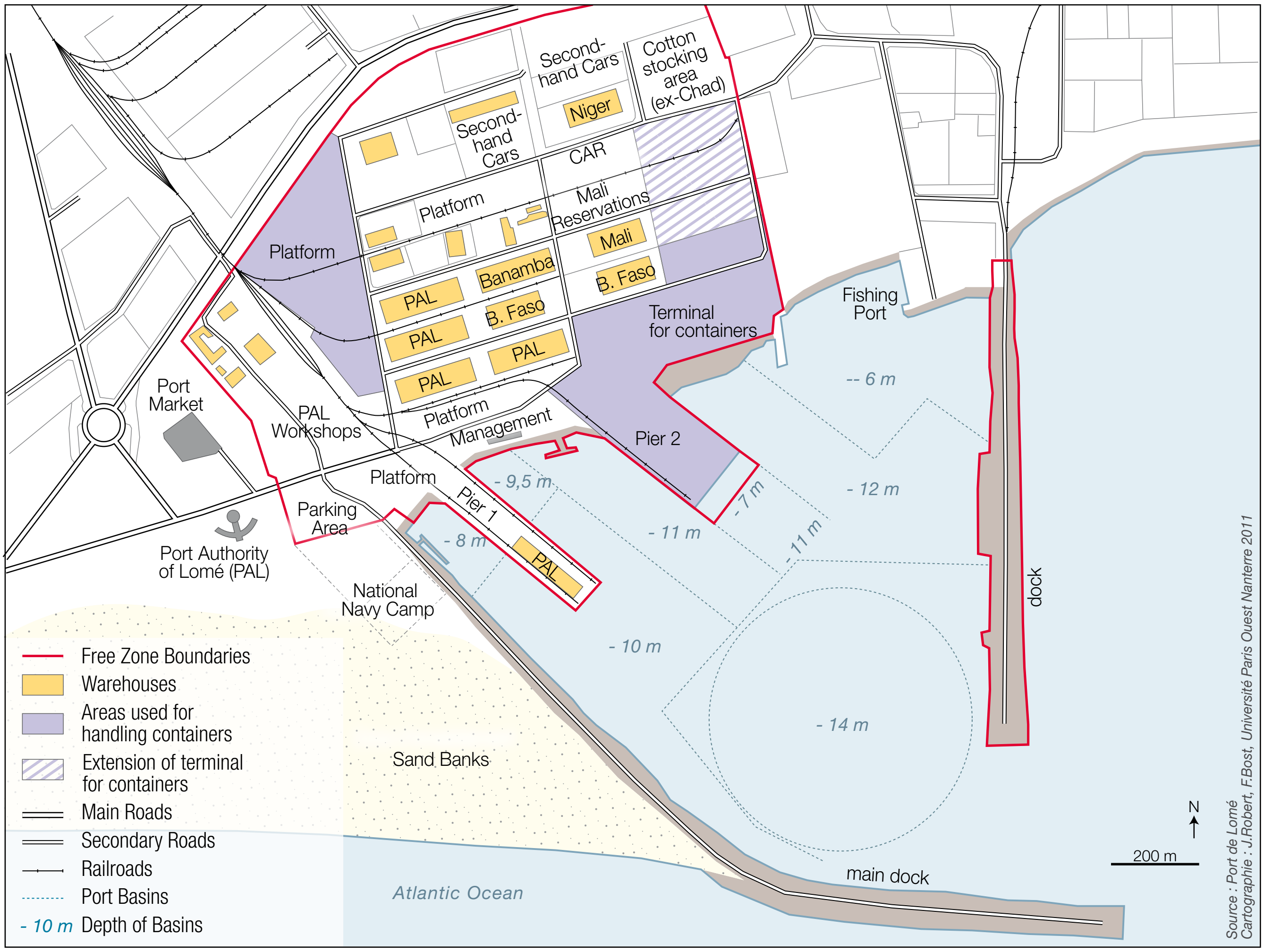
Free Trade Zones (FTZ) are a first and very widespread type of free zone. Hubs of international trade by the very nature of their activities (transshipment, goods distribution, re-export, international business, etc.), these zones are typically located at seaports ("free ports") and airports; – along major communication routes (maritime, rail and road); along development corridors and/or in border regions. Import-export companies and freight forwarders are able to unload imported merchandise of all kinds in those zones without customs duties and taxes and with minimal formalities, pending re-export to a third country (after some period of time in storage) or release for sale onthe domestic market (after payment of customs duties).

Export Processing Zones (EPZ), also known as industrial and service free zones, constitute the second type of free zone. They are specialised in manufacturing production (textiles and clothing, footwear, sporting goods, consumer electronics, industrial components, etc.) and, increasingly, the provision of services that can be delivered remotely through digital networks (capture and processing of digital data, call centres, etc.).

In addition to the physically delimited export processing zones, some countries have developed a second possible mode of operation for businesses: the so-called **Free Points**. These do not refer to any specific physical space, but rather to a legal status that is accorded to businesses using the same criteria as for the free zones (and, therefore, conveying the same advantages). These industrial and service businesses are free to locate wherever they wish within the host country, but they generally position themselves near sources of raw materials, labour supply or specific infrastructure, or in border regions.

Translated from the original French version.
Source: F. Bost (2010). Atlas mondial des zones franches.

Map 1 – **Free port of Lomé**



The free port of Lomé

The centrepiece of Togo's deepwater port (-14m) at Lomé, this free port covers 81 of the port zone's 191 ha. Well protected behind two harbour walls, it functions not only as a distribution port for regional maritime trade, but also serves as a veritable lifeline for the landlocked countries of the Sahel (Burkina Faso, Mali and Niger) for which it is one of the main outlets to the sea. In addition to its two jetties (one for bulk cargo, the other for containers), it has a 100 000 m² container terminal equipped with an automated transshipment platform that has a capacity of 200 TEU per hour, as well as transit warehouses of 7 500 m² each. Several of these are reserved exclusively for storing goods arriving from or en route to interior countries. Safe transit for merchandise to these landlocked countries has been provided since 1993 by a road convoy service under escort by the Togolese security forces from the free port to the border, operating at the rate of four trips per week. Named "Solidarity on the Sea", this service is greatly appreciated by its users, as it eliminates racketeering along the route through Togo while also ensuring the physical safety of the drivers.

2 THE FREE ZONES OF WEST AFRICA

While Liberia was already pioneering the way for free zones in Africa in 1948 with the opening of a free trade zone in the port of Monrovia, it was not until 1974, when Senegal adopted a free zone regime for the manufacturing industry, that the movement was really launched in West Africa. Well positioned on the Atlantic coast and bolstered by its close and long-standing relations with France, Senegal was able to emulate the model of Mauritius (1970) and thereby get a step ahead of its neighbours in welcoming offshoring industries and in taking advantage of its geographic proximity to Western Europe. The euphoria surrounding the launch of the free zone at Mbao,15 km from Dakar, quickly dissipated, however, leaving scant incentive for imitation, except in the case of Liberia, which opened an industrial free zone in Monrovia in 1976.

The lack of interest shown by West African countries at the time concerning the politics of free zones merely reflected the dominant development strategies put in place in the wake of independence in Sub-Saharan Africa. Those strategies favoured raw material exports with little local processing along with import substitution to supply the home market with domestically manufactured goods.

This rent-seeking strategy was prone to severe limitations: the collapse of raw material prices on world markets during the 1980s, the shallowness of local consumer markets, the drying up of foreign investment, rising unemployment and poverty levels. As a result, countries turned to a development model more squarely focused on manufacturing exports (and therefore more favourable to free zones), without necessarily abandoning the previous strategies.

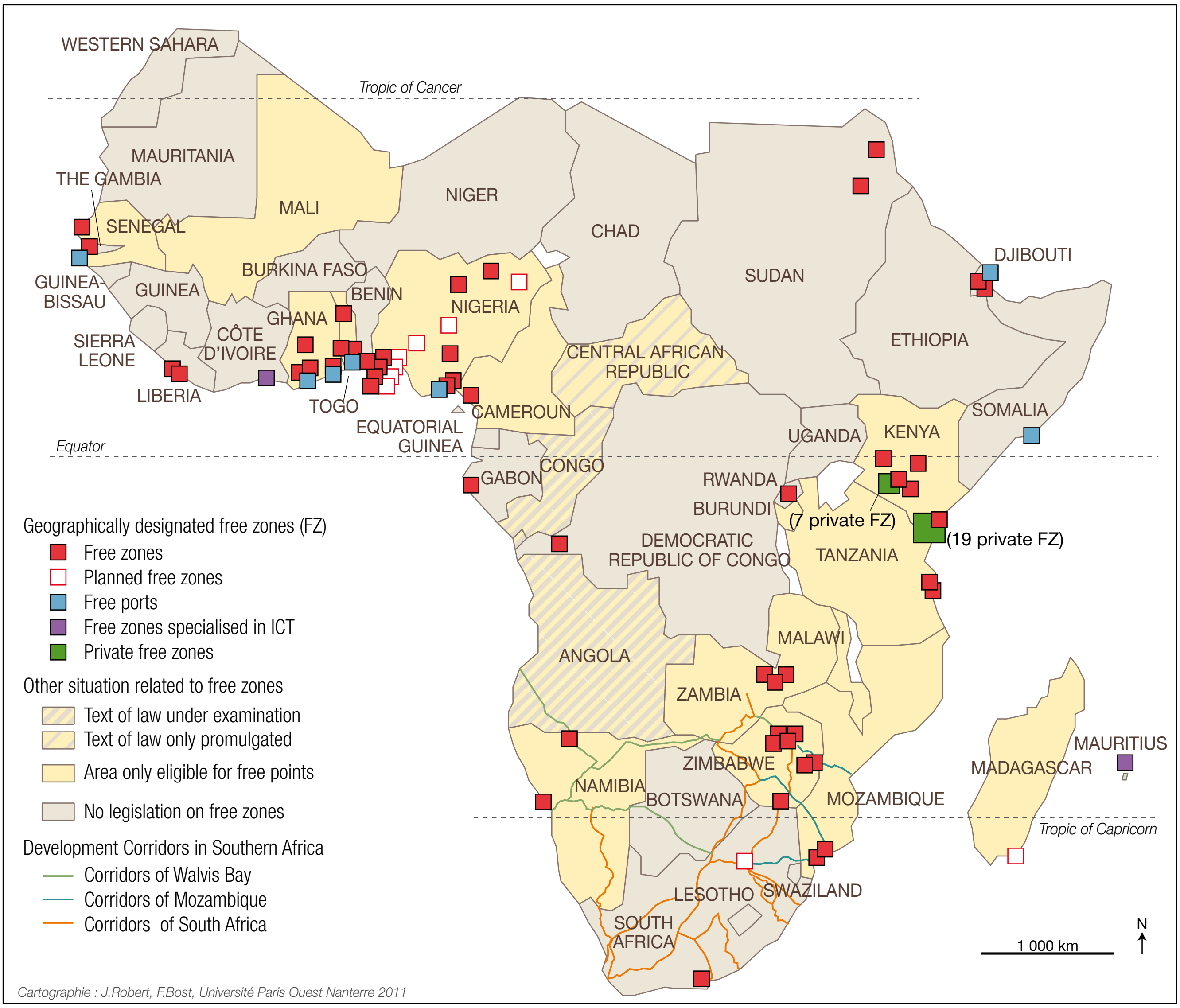
The spectacular success of exports from the Mauritius free zone during the 1980s (with 600 licensed firms and 90 000 jobs in place by 1990) had a deep impact on the region, sparking a veritable frenzy of legislation-creation during the 1990s and 2000s. Countries across the continent, and particularly in West Africa, began to adopt free zone regimes: Togo and Cape Verde in 1989, Mali and Nigeria in 1991, Ghana in 1995, The Gambia and Mauritania in 2002, Côte d'Ivoire in 2004, and Benin in 2005. These moves had the backing of both multilateral partners such as

Table 1 – **Free zones in West Africa and their specific features**

Country	Legislation adopted in:	Free Trade Zones	Export Processing Zones	Free Points
Benin	2005	–	1 Industrial Free Zone	–
Burkina Faso	–	–	–	–
Cape Verde	1989	–	1 Industrial Free Zone	–
Chad	–	–	–	–
Côte d'Ivoire	2004	–	1 Technology Free Zone (village of information, communication and biotechnology	–
The Gambia	2002	1 Free Port	1 Industrial Free Zone	–
Ghana	1995	2 Free Ports (Tema and Takoradi) ; 1 Airport Free Zone (Kotoka)	4 *Export Processing Zones*: Tema, Takoradi (2) and Kumasi	Around 150 *Single Factory Entreprises*
Guinea	–	–	–	–
Guinea-Bissau	–	–	–	–
Liberia	1948	1 Free Port (Monrovia)	1 Industrial Free Zone	–
Mali	1991	–	–	A few Free Points only
Mauritania	2002	–	–	A few Free Points only
Niger	–	–	–	–
Nigeria	1991	–	9 operating *Free Trade Zones*; 10 under construction, 3 planned	*A few Processing Factories* only
Senegal	1974	1 Special Economic Zone (SEZ) under construction	1 Industrial Free Zone (Dakar)	around 10 Free Points, around 180 Free Exporting Firms
Sierra Leone	–	–	–	–
Togo	1989	1 Free Port (Lomé)	4 Export Processing Zones (EPZ) : 3 in Lomé and 1 in Kara	Around 40 Free Points

Source: F. Bost (2010). Atlas mondial des zones franches.

Map 2 – **Free zones in Sub-Saharan Africa**



the United Nations Industrial Development Organisation (UNIDO) and the World Bank, as well as bilateral partners (for example, the Overseas Private Investment Corporation in the United States and the Jebel Ali Free Zone Authority in Dubai). The World Trade Organisation (WTO) also learned to accept these free zones, despite their infringement on the principle of free competition, as it became clear that they constituted one of the rare means available for many of these countries to industrialise and to take part in international trade.

In 2011, there are 11 West African countries with a free zone regime. Burkina Faso, Chad, Guinea, Guinea-Bissau, Niger and Sierra Leone do not, however, have any legislation in this area and do not seem interested in it as a development tool. No doubt this has to do in part with their remoteness from the sea (in fact there are very few landlocked countries around the world that have adopted a free zone regime), as well as with the weakness of their economic fabric compared to middle-income countries such as Ghana or Nigeria, and perhaps with their limited attractiveness for investors (although some coastal countries are not necessarily much more attractive).

In 2011, there were 11 West African countries with a free zone regime.

Having jumped into the "race" for free zones later than other regions of the world, West Africa has now made up

p. 8

most of its lost ground and has applied the concept in all its different forms. In addition to the free ports (Banjul in The Gambia, Tema and Takoradi in Ghana, Monrovia in Liberia, Lomé in Togo), which, while few in number, are certainly essential for the landlocked countries of the Sahel, the most frequent type of free zone is designed and dedicated primarily for export manufacturing. Two countries (Mali and Mauritania), however, have pursued the free zone concept only in the form of free points, which are easier to implement as they do not require the layout and equipment of a costly industrial zone to attract firms. Finally, four countries (Ghana, Nigeria, Senegal and Togo) have chosen to go with both physically delimited free zones and free points, in order not to miss any opportunity for the installation of new firms. These are, in fact, the countries that have derived the greatest benefits from free zones in West Africa.

3 MANY ADVANTAGES FOR FIRMS

The laws governing free zones in West Africa are fairly similar from one country to the next, reflecting the influence of the international consulting firms that have drafted most of them. To be eligible for the advantages offered, industrial and service firms must meet a number of conditions, and in particular they must export virtually all of their output. They must also work in specific sectors of activity intended to diversify the country's economic structure.

Customs advantages are common to both free-trade zones and export processing zones. Goods in transit, as well as those inputs needed for production (raw materials, intermediate goods and capital goods) are exempt from host country customs duties when they enter the free zone. Similarly, goods stored or subjected to minor transformation (known as "inward processing"), as well as products manufactured on site, may leave the zone free of customs duties. Customs duties are payable by importers, however, as soon as the goods cross the border of the destination country, unless that country has eliminated them under preferential bilateral or multilateral agreements.

Customs duties (as well as local taxes, such as VAT, and other import levies provided for under ordinary law) are payable when the products and goods from the free zones are sold in the national territory (as authorised by law and after validation by the oversight agencies). The objective is to avoid the distortion of competition with similar goods imported under the ordinary regime. In some West African countries there is a strong temptation for unscrupulous firms to place imported goods on

Table 2 – **Fiscal and customs arrangements in free zones and ordinary regimes: the case of Togo**

Types of Taxes	Ordinary tax regime	Free zones	
		First 10 years	After 10 years
Taxes on companies	Industrial companies: 37% Other companies: 40%	0 %	15 %
Minimum flat-rate tax	varies depending on profits	0 %	Applied oordinary regime
Taxes on dividends	15 or 25%	0 %	15 ou 25 %
Professional tax	1% of profits, 2% of rent for buildings	0 %	
Income tax	7 %	2 %	
Tax on insurance agreements	25% of value of premiums	0 %	
Value-added Tax (VAT)	18 %	0 %	
Customs fees	between 0 and 20% depending on the type of good	0 %	
Customs stamp	4% of the value of tariffs, statistical taxes and tolls	0 %	
Statistical tax on equipment	3% of the value of cost-insurance-freight	0 %	

Sources: Law n89-14 of 18 September 1989, Agbodji et allii p1, and various

Box 2

SOCIAL ISSUES RELATED TO FREE ZONES

Social issues remain the Achilles' heel for many firms operating in West African free zones. All-out or specific attacks on workers' rights are a matter of course in some countries, particularly when it comes to collective bargaining and freedom of association, as regularly revealed in the International Labour Organization (ILO) surveys. Unpaid overtime, non-remunerated work at night, and a lack of social security and paid holidays are the abuses most frequently cited by polls and union sources. Harsh working conditions are still the common lot of most free-zone workers. But are they really so different from conditions in industries outside free zones? The turnover rate among unskilled workers in the firms concerned is indeed high, despite their being paid comparatively more than their counterparts under the ordinary regime precisely to limit this phenomenon.

Things are beginning to change, however, and progress has been observed in some countries. In Togo, for example, freedom of association has been recognised in its free zones since 2009 (following that country's ratification of ILO Conventions 87 and 98), and this has led to the creation of three separate unions: *Union générale des travailleurs de la zone franche* (Usyntrazofe); *Syndicat national des travailleurs de la zone franche du Togo* (Syntrazoft); and *Syndicat Libre des Travailleurs de la Zone Franche* (Sylitrazof). This development is likely to improve enforcement of the labour code (particularly in the hiring and firing of temporary workers, whose status is very insecure), with which many firms had been playing fast and loose, as well as application of wage increases negotiated with employers.

domestic markets without paying customs duties. While these practices remain the exception, they threaten to discredit the very purpose of the free zones if they are not met with strong opposition.

When it comes to tax advantages, authorised firms in the export processing zones are exempt from corporation tax (also known as corporate income or profit tax) for a length of time that varies by country (10 years in the case of Ghana and Togo, for example). After that time limit, firms fall back under the ordinary regime and become taxable, either at the level stipulated by the ordinary legislation or at a reduced and still-attractive level for a transitional period, so as not to incite a move to another country that offers investment incentives. In any case, West African countries would do well to maintain an attractive tax regime in their free zones for a long time yet. Given their low level of development, they are not affected by WTO demands for revisions to their taxation systems (which are aimed only at emerging countries).

In addition to their exemption from corporation tax, companies also generally enjoy other types of tax exemptions, which vary greatly among countries: exemption from taxes on dividends paid to shareholders, tax exemptions for expatriates, etc. By comparing tax provisions under the ordinary regime and the free zone regime in Togo, the table 2 provides an excellent example.

There are other advantages offered to authorised firms in free zones that, according to investor surveys, are just as important in convincing these firms to settle in a country. These advantages serve to create a more favourable and smoother-functioning business climate (known as the "oasis effect" or the "enclave effect"), especially in countries where activities under the ordinary regime suffer from burdensome red tape. They also vary sharply from country to country, including: simplification of administrative procedures via a "one-stop window" where all formalities can be handled at once; proximity to major infrastructure facilities (international airport, deep water port, etc.); reduced factor costs (water, electricity, telecommunications, etc.); relaxation of foreign exchange regulations, often amounting to total freedom for movement of funds; free repatriation of earnings in foreign currency; preferential interest rates offered by local banks; preferential freight rates; etc.

West African countries are likely to maintain an attractive tax regime in their free zones for a long time yet.

4 AN UNFORTUNATE LACK OF SECTOR SPECIALISATION

In West Africa, industrial free zones are usually multi-activity oriented, governed by a highly opportunistic "take all" approach typical of poorer countries. In contrast to many of the free zones installed in Asian or Latin American emerging countries, sectoral specialisation around a few targeted activities is virtually nonexistent, making it impossible for them to achieve economies of scale (for example, by pooling certain services or by placing group orders with local suppliers) as a way of reducing costs. Moreover, this sectoral dispersal is harmful for purposes of complementarity, capitalisation and transmission of experience among firms. This situation is reflected spatially within the West African free zones, where firms operating side-by-side pay no heed to each other, especially when they are of different nationalities.

Another weak point lies in the fact that free zone activities fall for the most part within low value-added sectors with a high coefficient of unskilled labour. They differ little in this respect, then, from activities outside the free zone, except for their orientation towards exports. Nor is there any apparent strategy to boost the range of products toward middle and high-end technologies.

Consumer markets are targeted for export, which are for the most part restricted to the West African region. Few firms gear their products to the more demanding markets of Europe or North America, where health, technical and quality standards are higher.

Lastly, it is rare for foreign firms to set up in these West African free zones in the course of offshoring a manufacturing activity from an industrialised country, as they have done so often in North Africa (Tunisia, Morocco or Egypt), in East Asia or in Eastern Europe. The international subcontracting sector (final assembly, subassembly, manufacture of components and subcomponents), in particular, is notable by its absence, although it would allow the countries of the region to join the "international division of production processes". This finding testifies to their weak integration into the globalisation of trade, to the considerable lag that separates them from, for example, the Asian free zones, and to the efforts they will need to make in terms of changing the business climate, mastering technologies, and training their workforce. For the time being, only the services sector has managed to produce some interesting results in the area of offshoring, thanks to the laying of the SAT 3/WASC/SAFE submarine cable that links Europe and nine countries in Africa and Asia (with a capacity of 60 Gb per second, or 720 000 simultaneous telephone communications). Senegal is one of its beneficiaries, and the several telemarketing call centres that have been opened in the past decade enjoyed a degree of success (the employees are French-speaking and have received a certain level of education). Other applications of new information and communication technologies could also prove interesting over time: digital archiving, digital data capture, offshore software development, etc.

Free zone activities fall for the most part within low value-added sectors with a high coefficient of unskilled labour.

It is, however, not impossible that some West African free zones may over the longer term take the form of technology parks, as has been observed in East Asia since the early 1980s. Côte d'Ivoire may prove to offer a foretelling example. Although that country did not yet have a general free zone regime, it passed a law in 2004 creating a specific free zone devoted to technological activities. This free zone is located east of Abidjan at Grand-Bassam and has been named the "*Village des Technologies de l'Information, de la Communication et des Biotechnologies*" (VITIB). Interestingly, the term "free zone" has

Table 3 – **Foreign Direct Investment in West Africa (USD million)**

Country	2005	2006	2007	2008	2009
Benin	53.43	54.93	261.34	173.83	92.55
Burkina Faso	34.15	33.59	343.54	137.09	171.41
Cape Verde	81.55	130.65	190.02	211.67	119.59
Chad	(99.34)	(279.22)	(69.48)	233.58	461.81
Côte d'Ivoire	311.92	318.86	426.78	482.13	408.95
The Gambia	44.69	71.22	76.46	70.10	47.35
Ghana	144.97	636.01	855.38	1 220.41	1 684.74
Guinea	105.00	125.00	385.90	381.88	140.85
Guinea-Bissau	8.00	17.33	18.58	5.97	13.96
Liberia	82.81	107.85	131.60	200.00	378.00
Mali	224.74	82.15	65.48	179.68	109.10
Mauritania	814.10	105.50	138.30	338.40	(38.30)
Niger	30.29	50.54	129.04	565.87	738.90
Nigeria	4 978.26	13 956.49	6 086.73	6 814.40	5 850.73
Senegal	52.31	210.43	272.72	272.44	207.55
Sierra Leone	83.18	58.77	96.60	53.00	33.40
Togo	76.99	77.34	49.16	23.88	50.13

Source: UNCTAD online database. http://unctadstat.unctad.org been deliberately excluded, no doubt for marketing purposes. The initial plan was to assemble IT products at VITIB, but the civil war brought development to a halt as potential investors were frightened off by the climate of uncertainty and the complete lack of transparency. With the overthrow of Laurent Gbagbo on 12 April 2011 and the assumption of power by President Alassane Ouattara, together with the lifting of international economic sanctions, the pace of activity at the site is likely to recover in the long run.

At the present time, the only tangible example of a sector-specialised free zone in the region is the Onne Oil & Gas Free Zone that has been operating in Nigeria since 1997 on the Bonny River in the State of Cross River, 21 km from Port Harcourt (the country's petroleum centre) and 315 km from Lagos. Covering 220 ha, this free zone is the only one in the world dedicated solely to the oil and gas industry, including the construction of pipelines, drilling and exploration equipment. It hosted a total of 125 companies in 2009. A second phase would bring in 730 additional hectares for the establishment of light manufacturing associated with the oil industry, while a planned third phase would incorporate 800 ha on Ikpokiri Island for heavy industry specialised in gas and oil processing.

5 FOUR CASE STUDIES: GHANA, NIGERIA, SENEGAL AND TOGO

The comparative analysis of economic benefits contained in the World Atlas of Free Zones shows that these benefits are most significant for emerging Asian countries, Eastern Europe and to a lesser extent for Latin America, where free zones have played the role of a development driver, particularly in terms of employment and exports. Conversely, the least conclusive results worldwide are seen in the least-developed countries (LDCs, - with the exception of Madagascar and Bangladesh), - thus in most West African countries. The lack of medium and long-term predictability and the complicated political and geopolitical situations of these countries and their region do little to favour the success of free zones, which suffer as well from their host country's relatively non-industrial image, their geographical remoteness from the main consumer markets, and the poor state of such local factors as transport and telecommunications infrastructure, public services, and workforce skills.

Accordingly, rather than being the driving force for development in West Africa, free zones would seem to be simply one among several components of a more general development strategy that has yet to be precisely defined.

The comparative analysis of economic benefits shows that these benefits are most significant for emerging Asian countries, Eastern Europe and to a lesser extent for Latin America.

Yet the results recorded by West African free zones are not insignificant. Togo, for example, a country that for many years had not received any assistance from the international community, has managed to expand its free zone regime quite successfully. In the June-July 2010 issue of the Foreign Direct Investment (fDi) Magazine, published by the Financial Times devoted to "Global Free Zones of the Future", this small country was placed among the world's most promising free zones, ranking 18th out of the 700 economic zones investigated. There are now more industrial jobs within the free zone (over 8 000 in 2010) than outside it.

GHANA

see map 3, page 17

Although it was later than other West African countries in adopting free-zone legislation (Free Zone Act 504/31 August 1995), Ghana has amply made up for its late start since. The focus was initially on the country's two main ports, which were converted into free ports - Tema (located 28.5 km to the east of Accra) and Takoradi (228 km west of the capital), and to which may be added the free trade zone at the Kotoka airport. These ports not only succeeded in capturing a portion of the maritime traffic that abandoned Abidjan in the wake of the civil war that broke out in Côte d'Ivoire in 2002, but they have also established themselves as outlets for raw material exports from the landlocked countries of Burkina Faso, Mali and Niger. They are, therefore, in direct competition with the free port of Lomé in Togo.

As of 2011, the country has had four Export Processing Zones (EPZ) in operation since 1999 that are run by private companies under the supervision of the Ghana Free Zone Board (GFZB). One of them is located in Tema (480 ha) and two near Takoradi (in Segondi and Shama), while the fourth has been established in Ashanti country near Kumasi and close to the Kwame Nkrumah University of Science and Technology. The 1995 law also makes provision for the creation of free points (Single Factory Enterprises), which from the outset evoked considerable interest (there are now about 150 such enterprises) as the EPZ were not yet up and running.

The advantages granted by the GFZB to authorised enterprises are fairly conventional and include full exemption from customs duties on imports and exports, exemption from the VAT, and a corporate tax holiday for 10 years (with an 8% rate thereafter). The legislation, however, makes no provision for preferential rates for water, electricity, telecommunications and other services.

Although the country enjoys a solid reputation in West Africa and among international donors as a result of its renewed political stability (having experienced its first regular political succession in 2000) and its prudent and effective management, the EPZ have still achieved only modest success thus far. Around 130 enterprises were registered in the EPZ in 2010. In 2005, the last year for which official employment data was reported, they employed 6 227 workers (down from 9 857 in 2004), and their exports amounted to USD 457 million. Most of these exports and jobs, however, are accounted for by a few large firms, mainly in the food processing business (tuna and fruit packing, cocoa liqueur and powder, etc.) and manufacturing (foil wrapping, furniture, drugs, etc.).

Although the country enjoys a solid reputation in West Africa, the export processing zones have achieved modest success thus far.

GHANA

Population	*24,3 million*
Land area	*239 533 km²*
World Bank income category	*lower middle-income (2011)*
GDP (2010, PPP)	*USD 37 135 million*
GDP per capita (PPP)	*USD 1 526*
Annual growth (2009)	*4,7 %*
Average growth (2002 – 2010)	*5,9 %*
FDI inflows (2009)	*USD 1 685 million*
ODA received (all donors, 2009)	*USD 1 583 million = 4,26 % of GDP = USD 64,89 per capita*
Remittances (2009)	*USD 114 millions = 0,7 % of GDP = USD 4,7 per capita*
World Bank Doing Business Index	*63 out of 183 countries (2011)*
Corruption Perceptions Index	*62 out of 178 countries (2010)*
Ibrahim African Governance Index	*7 out of 53 countries (2011)*
Human Development Index	*135 out ot 187 countries (2011)*

NIGERIA

▷ *see map 4, page 17*

Nigeria's agricultural and export economy was profoundly transformed in the late 1950s, following the discovery of immense petroleum reserves (which by 2010 had made it the world's 13th oil producer). Since then, Nigeria has had to struggle with a very unbalanced economic structure that is completely dominated by the hydrocarbons sector, which accounts for 95% of its exports. By contrast, its manufacturing industry is focused on import substitution activities, produces only 3% of GDP, and exports very little of its output. FDI steers clear of the productive sector, mainly because of institutionalised corruption, chronic insecurity, and dilapidated infrastructure. It was precisely to diversify the country's export activity that the 1991 law instituting free zones was promulgated. Nine such zones are operational in 2011, including the Onne Oil & Gas Free Zone described above; 10 free zones are under construction; and three are in the planning stage.

The federal government has instituted three publicly owned free trade zones. The first was established in 1992 in the port of Calabar in the eastern section of the country (State of Cross River) and is to date one of the country's largest. It covers 152 ha and appears to be well equipped in terms of infrastructure, including premises available for lease, yet it has had difficulty in attracting occupants. The 22 firms registered in 2011 are engaged in textiles, wood working, food processing (cocoa, palm oil, etc.), medical materials, and plastics. The Kano Free Trade Zone was recently opened in the north of the country.

Some states of the federation have also taken advantage of the free zone legislation to develop their own programmes. Thus, the Maigatari FTZ in the northern state of Jigawa is already operational. Other free zones are under construction; these include the Olokola FTZ, a joint venture between the states of Ondo and Ogun in the southwest; the Livingspring FTZ in Osongbo; and the Lekki FTZ (16 500 ha). 65 km from Lagos, the Lekki FTZ is an ambitious undertaking that involves the federal government, the state of Lagos and Chinese partners and it is ultimately expected to create 300 000 jobs (see West African Challenges no. 5: China and Nigeria, a powerful South-South alliance). In addition, Nigerian law has authorised the establishment of free points (Export Processing Factories) throughout the national territory since 1996, but this provision has to date met with little success.

Some Federal States of the federation have developed their own free zones.

NIGERIA	
Population	*158,3million*
Land area	*924 768 km²*
World Bank income category	*lower middle-income (2011)*
GDP (2010, PPP)	*USD 384 084 million*
GDP per capita (PPP)	*USD 2 427*
Annual growth (2009)	*7 %*
Average growth (2002–2010)	*9,1 %*
FDI inflows (2009)	*USD 5 851 million*
ODA received (all donors, 2009)	*USD 1 659 million = 0,43 % of GDP = USD 10,47 per capita*
Remittances (2009)	*USD 9 585 million = 5,6 % of GDP = USD 60,5 per capita*
World Bank Doing Business Index	*133 out of 183 countries (2011)*
Corruption Perceptions Index (2010)	*134 out of 178 countries (2010)*
Ibrahim African Governance Index	*41 out of 52 countries (2011)*
Human Development Index	*156 out of 187 countries (2011)*

SENEGAL

▷ *see map 5, page 17*

Senegal was one of the first sub-Saharan African countries to adopt a free zone regime (law 74-06 of 22 April 1974), but it missed out on the wave of industrial relocations from Western Europe in the 1970s and 1980s. Its only free zone, established on 650 ha in Mbao (15 km from Dakar), must be regarded as an utter failure, especially in light of initial ambitions and prior investments and promotional efforts. It has thus far succeeded in attracting only about 15 firms (and just one of these, in the footwear industry, represented a relocation) that employ at most 900 permanent workers. Moreover, the activities in the zone represented very little value added: footwear, synthetic hair, sugar packaging, leather, dry batteries, bicycle tires, etc. As a case study, it highlights the difficulty of taking a development tool that has proved its worth in one context and transposing it to an entirely different socioeconomic setting.

The Industrial Free Zone of Dakar (ZFID) suffered from over-administration, excessive red tape (customs formalities, in particular), an overly cautious approach on the part of the authorities with respect to their special status, inordinate delays in issuing licenses, rigid labour legislation, as well as other problems. In the end, the facility's bad reputation reflected the fact that it was simply uncompetitive: its labour costs were relatively high in comparison to other destinations, the port was inefficient, factor costs (electricity, water, transportation etc.) were high, and its work force was not considered to have much industrial aptitude.

In 1986, the government responded by establishing free points with the same tax and customs advantages. That provision benefited a dozen or so fishing and canning firms that had previously been ineligible for the free zone because of their portside location, as well as a few other industries (textiles, phosphates, plywood) that employed up to 3 813 permanent workers in 1998 (around 1 400 today, plus 2 500 day labourers). But instead of attracting new entrants, these free points have essentially benefited already established firms that sought to avoid taxation by merely changing their status.

Given these disappointing results, the Senegalese authorities looked for a convenient way out when the ZFID regime came up for review. Since 1995, no new free point has been authorised, and since 1996 no firm has been able to set up in the ZFID. The 14 firms already established at Mbao have, however, had their privileges extended to 2016. Since 1996 (decree 96-869), export firms that export at least 80% of their output can benefit from the status of "Free Export Enterprise" (EFE), which entitles them to a lower corporate tax rate (15% versus 25% under the ordinary regime) for 25 years, renewable, as well as exemption from customs import and export duties. Some 180 firms were in this category in 2008 (including about 30 call centres), employing around 8,000 people.

With support from the United Arab Emirates, Senegal still entertains ambitions of creating a major free zone of international scale. In 2007, a law was adopted to create a 10 000 ha Special Economic Zone (Zone économique spéciale, ZES). The project, for which the Jebel Ali Free Zone Authority of Dubai did the engineering, was to represent an investment of USD 800 million. As both a trade and an industrial free zone, this ZES was to employ 40 000 people as of its fifth year of operation (with 100 000 indirect jobs) and was projected to generate100 000 direct jobs in 1 000 firms after 20 years. The project was, however, considerably delayed by the global crisis of 2008-2009, and the international call for tenders (for connectivity and cleanup of lands located next to the new international airport near Diass, 45 km from Dakar) did not go out until June 2011. Chinese investors have been contacted for the commercial portion. Overblown in its concept and still vague in its objectives, this project already betrays many of the features of a "white elephant".

The Togolese authorities adopted the free zone concept in all its possible forms in order to maximise the country's attractiveness.

TOGO

see map 3, page 17

Since the promulgation of Law 89-14 of 18 September 1989, Togo's free zone regime has inspired great hopes (the Head of State, General Gnassingbé Eyadema, went so far as to announce publicly in 1990 an eventual target of 100,000 jobs), nourished by the confident support of several multilateral (UNIDO and the World Bank) and bilateral partners (OPIC and USAID). Implementation of this free zone regime, however, coincided with serious political troubles (October 1990/March 1991) that quickly led potential foreign investors to turn their attention elsewhere. The subsequent economic and financial crisis dealt a severe – although not fatal – blow to its start-up. Despite this unfavourable environment, a number of local and foreign firms have established activities in the zone.

The Togolese authorities adopted the free zone concept in all its possible forms in order to maximise the country's attractiveness. Firms in effect have the choice of locating in free trade zones at the port or airport, in the export processing zones (ZFTE), or at free points.

In 2011, Togo has 4 ZFTEs: three at Lomé (two of them in the port and industrial zone and one of them, covering 107 ha, at the international airport) and one (35 ha) in the northern city of Kara on the major communication route linking Lomé to Burkina Faso. The port ZFTEs cover, respectively, 35 ha (four parking areas totalling 128 287 m² for storing vehicles arriving from Europe and awaiting re-export) and 72 ha (of which 21 ha are still vacant).

The range of sectors represented is broad, characteristic of small developing countries eager to diversify their economy: artificial hair (two Korean companies that export

SENEGAL	
Population	*12,9 million*
Land area	*197 530 km²*
World Bank income category	*lower middle-income (2011)*
GDP (2010, PPP)	*USD 22 009 million*
GDP per capita (PPP)	*USD 1 711*
Annual growth (2009)	*2,2 %*
Average growth (2002–2010)	*3,9 %*
FDI inflows (2009)	*USD 208 million*
ODA received (all donors, 2009)	*USD 1 018 million = 4,62 % of GDP = USD 81,87 per capita*
Remittances (2009)	*USD 1 191 million = 9,1 % of GDP = USD 95,78 per capita*
World Bank Doing Business Index	*154 out of 183 countries (2011)*
Corruption Perceptions Index	*105 out of 178 countries (2010)*
Ibrahim African Governance Index	*15 out of 53 countries (2011)*
Human Development Index	*155 out of 187 countries (2011)*

TOGO	
Population	*6,8 million*
Land area	*57 385 km²*
World Bank income category	*low income (2011)*
GDP (2010, PPP)	*USD 6 289 million*
GDP per capita (PPP)	*USD 928*
Annual growth (2009)	*3,2 %*
Average growth (2002–2010)	*2,5 %*
FDI inflows (2009)	*USD 50 million*
ODA received (all donors, 2009)	*USD 499 million = 7,93 % of GDP = USD 82,78 per capita*
Remittances (2009)	*USD 307 million = 10,3 % of GDP = USD 50,92 per capita*
World Bank Doing Business Index	*162 out of 183 countries (2011)*
Corruption Perceptions Index	*134 out of 178 countries (2010)*
Ibrahim African Governance Index	*35 out of 53 countries (2011)*
Human Development Index	*162 out of 187 countries (2011)*

p. 16

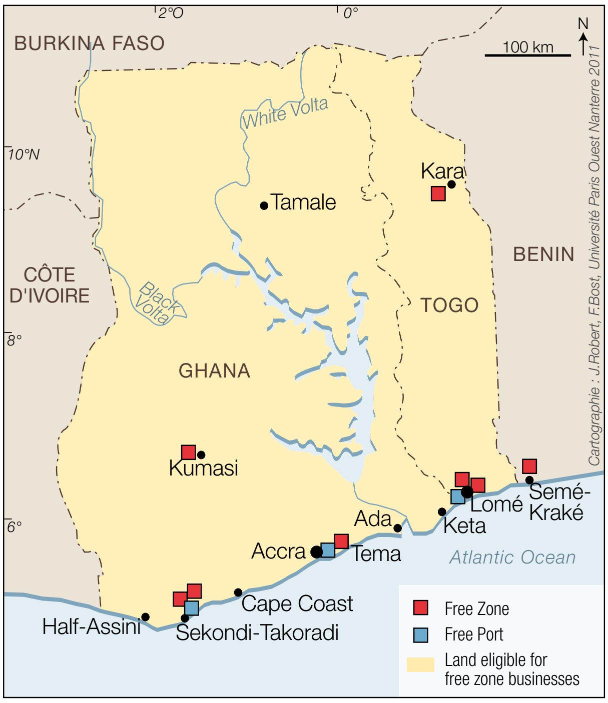
throughout West Africa), motorcycle assembly (based on parts imported from China), spices and herbs (for the European market), exotic fruit processing, ornamental plant growing, and cement, among others. Licensed firms are exempt from corporate tax for their first 10 years in the country, after which the rate is capped at 15% (versus 37% under the ordinary regime for industrial companies and 40% for other types of activity). The attractiveness of this provision is illustrated by the fact that none of those firms having already passed the ten-year threshold have chosen to leave Togo to relocate elsewhere.

The Togolese authorities adopted the free zone concept in all its possible forms in order to maximise the country's attractiveness.

In 2011, there were 57 operating free zone companies (28% of them Togolese-owned and 20% French-owned) and 30 more were in the course of establishing themselves in areas as varied as lubricants, ethanol production (50 000 ha of sugarcane and 2 400 anticipated jobs) for the Swedish market, perfumes, building materials, and plastics. Yet 60% of active firms have chosen to establish themselves under the free point formula (locating primarily in greater Lomé). By contrast, the airport free zone and the Kara free zone are still home to only one firm each.

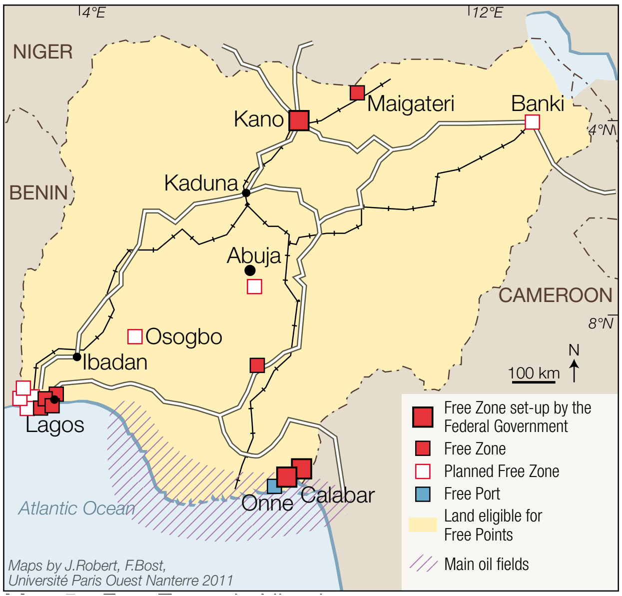
Despite the mediocre macroeconomic context, job creation has been fairly steady (particularly since 2004), and at the end of 2010 there were around 8 000 persons permanently employed (representing half of secondary sector employment in Togo), mostly males. Further employment growth over the medium term, however, is possible for two main reasons: Togo has been eligible for the African Growth and Opportunity Act (AGOA) since 2008, giving it access to the United States market, and the concomitant resumption of IMF disbursements should help revive the Togolese economy and restore confidence among potential investors (representatives of the Free Zones Administration Corporation [SAZOF] anticipate 12 000 zobs by the end of 2012).

As not much can be expected in this regard from companies based in industrialised countries, for which emerging countries are the main attraction, the Togolese authorities will likely target the bulk of their prospecting efforts at firms based in emerging countries, which will be attracted by the consumer markets of the poorest countries where technology transfers are much easier.



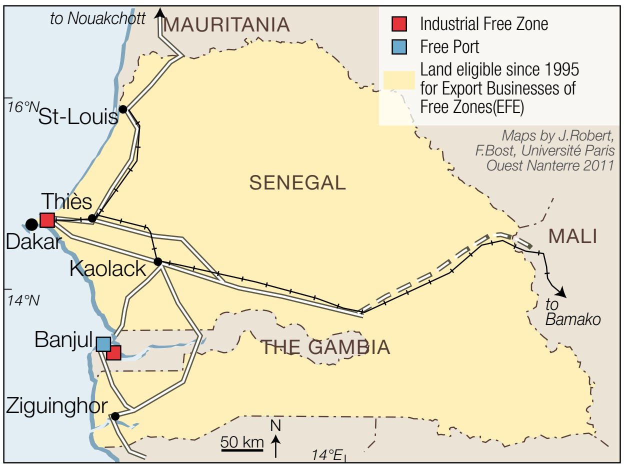
Map 3

Free zones in Ghana and Togo



Map 4

Free zones in Nigeria



Map 5

Free zones in The Gambia and Senegal

The outlook

While the free zones of West Africa have for the time being only shown modest results, they cannot be dismissed out of hand. The jobs created in those zones would not have come to be without those zones. They do, however, have two major weak points. First of all, they have not succeeded in attracting activities relocating from developed countries because of the weak competitiveness of their economies. And secondly (with the sole exception of Mauritius in Sub-Saharan Africa), they have as yet failed to persuade local investors and entrepreneurs to make up for this deficiency and build up a favourable momentum. Those players, indeed, seem more interested in conventional rent-seeking activities geared towards import-export and raw materials and where profitability and return on investment are more immediate.

While the free zones of West Africa have for the time being only shown modest results, they cannot be dismissed out of hand.

It would be wrong to compare these West African free zones with their Asian counterparts. The free zones of Asia were created in an entirely different context, and they have enjoyed a setting that was exceptionally favourable to their growth, which can in part be attributed to the role of the Chinese diaspora, the support of the United States and Japan in opening their consumer markets to products from Asian free zones during the Cold War; heavy specialisation in electronics; a highly trained workforce; a very efficient regional division of labour; development policies that were oriented early on towards the export of manufactured goods; and the exceptional activism of governments, investors and local entrepreneurs.

There is no reason, however, to think that the present situation in West Africa is cast in stone. Given the swiftly rising trend in wage levels in East Asia and in all emerging countries, the question of worldwide relocation of low-value-added activities is bound to arise. Some Sub-Saharan African countries (and those of West Africa in particular) could very likely position themselves as host countries, provided that they can improve their business climate, they can firm up their commitment to sector specialisation, and most importantly, that these activities can enjoy the minimum level of customs protection needed to develop. As things stand, it is quite impossible for them to try to compete with Asia (and especially with China), which has already created serious problems for manufacturing firms in Africa through exports that benefit from considerable economies of scale and a vast reservoir of low-cost labour.

With their relatively modest ambitions, the free zones of West Africa are not going to become hubs of the world economy. They could, nevertheless, play a significant role over the longer term in supplying the huge regional market (as demonstrated very clearly by the ZES project in Senegal or the Lekki FTZ in Nigeria). As of now, that market is still characterised by the weakness of regionally-sourced trade flows (averaging 10%). The recent "rediscovery" by business circles in Western and emerging countries (reported by the specialised media) of the potential of these African regional markets (with 320 million potential consumers in West Africa) augurs well for sustained and healthy levels of growth. This can, however, only be true if West African countries return to development policies focused on industrialisation and create an import substitution strategy at the regional level.

LEARN MORE

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CONTACTS AND USEFUL LINKS

- Ghana Free Zones Board, E-Mail: freezone@africaonline.com.gh,
  www.ghanaclassifieds.com/gfzb
- Nigerian Export Processing Authority Zones, Email: info@nepza.org,
  www.nepza.org
  www.okftz.net
  www.onnefreezone.com
- Société d'Administration des Zones Franches (SAZOF),
  Email: sazof@zonefranchetogo.tg

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SAHEL AND WEST AFRICA Club Secretariat

OECD

Contact: ***bost.francois@wanadoo.fr***
julia.wanjiru@oecd.org

Your comments are welcome!

Mailing Address SWAC/OECD
2, rue André Pascal
F–75775 Paris, Cedex 16

Office Le Seine Saint-Germain
12, bd des Iles, building B
F–92130 Issy-les-Moulineaux

Tel +33 (0)1 45 24 92 42
Fax +33 (0)1 45 24 90 31
E-mail swac.contact@oecd.org

www.oecd.org/swac