



Promoting Productive Transformation through **Special Economic Zones (SEZs)** in **Sierra Leone 2023**



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Foreword

At a time when Sierra Leone is recovering from the impact of COVID-19 amidst the Ukraine-Russia war-induced food and energy crisis, special economic zones (SEZs) present a unique opportunity for investment in order to foster inclusive and sustainable growth and development. Sierra Leone faces many constraints to economic development but the country as a whole and some localities in particular, offer huge potential and many comparative advantages that can be leveraged to increase competitiveness, achieve productive transformation, and promote a balanced territorialization of development through SEZs.

This report comprehensively assesses Sierra Leone's experiences and perspectives with SEZs, drawing lessons from in-depth consultations with different stakeholders and providing compelling evidence on the factors that determine success in SEZ programmes and in line with the Sierra Leone SEZs policy, which covers free trade zones, export processing zones, comprehensive special economic zones and enterprise-specific single factory zones.

SEZs are known to actively facilitate national, regional and global economic development through trade. In this regard, the African Continental Free Trade Area presents an opportunity to extend special economic zone activities and promote intra-African trade by removing non-tariff barriers, promoting legal framework harmonization, and facilitating compliance with international standards.

As there is a consensus that Sierra Leone has resources that need to be developed, SEZs can act as tools to overcome some of the existing constraints to attract investment and grow the country's export capacities. It also represents an opportunity for the transfer of knowledge (technology) from high-tech foreign investment to domestic firms, including small businesses, within the SEZs which can benefit from spillover effects to scale up and increase their productivity and competitiveness.

This report will also provide insights on the policies and interventions that can help firms operating in local markets to fully reap the benefits of future special economic zones in Sierra Leone.

SEZs are expected to contribute to the broader Integrated National Financing Framework initiative that aims to use innovative financial mechanisms to unlock private sector investment sufficiently, increase domestic revenue mobilization in the context of implementing the Sustainable Development Goals (SDGs), and enhance economic growth and development in Sierra Leone.

At this time when the risk of debt distress is high, SEZs are crucial instruments for attracting investment in the country in order to mobilize resources, achieve productive transformation, and finance the SDGs.

We are aware that policymakers face not only the traditional challenges of making SEZs succeed but also other challenges, including the need for an adequate regulatory framework and coordination to ensure optimal returns.

This report serves as a guide in this regard as it provides an overview of the SEZ landscape and offers advice on how to respond to fundamental challenges for zones posed by the sustainable development requirements and changing patterns of international production and consumption.

Dr Edward Hinga Sandy,
Ministry of Trade and Industry

Dr Pa Lamin Beyai,
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Makiatu A. Kamara, Chairlady for the Yaray-Yaray women's development organisation smiles with a bowl of gari (processed cassava) in Kambia district. Credit: UNDP/Mohamed Kanu

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Acronyms

AfCFTA	African Continental Free Trade Area	MRU	Mano River Union
AfDB	Africa Development Bank	MSME	Micro Small and Medium Enterprises
APC	All People's Congress	MTI	Ministry of Trade and Industry
ACC	Anti-Corruption Commission	MTNDP	Medium Term National Development Plan
A4C	Agenda for Change	ILO	International Labour Organization
A4P	Agenda for Prosperity	PRSP	Poverty Reduction Strategy Paper
COVID-19	Corona Virus Disease	PFM	Public Financial Management
EPZ	Export Processing Zone	SLEDP	Sierra Leone Economic Diversification Project
ECOWAS	Economic Community of West African States	SEZ	Special Economic Zone
EDP	Economic Diversification Projects	SSEZA	Sierra Leone Special Economic Zones Authority
EPZ	Export Processing Zone	SF	Single Factories
EZ	Enterprise Zones	SDGs	Sustainable Development Goals
FSZ	Freeport and Specialized Zones	SLIEPA	Sierra Leone Investment and Export Promotion Agency
FSF	Fragile State Facility	SMEDA	Small and Medium Enterprises Development Agency
FTZ	Free Trade Zone	SME	Small and Medium Scale Enterprises
FDI	Foreign Direct Investment	UNCTAD	United Nations Conference on Trade and Development
HDI	Human Development Index	UNECA	United Nations Economic Commission for Africa
GDP	Gross Domestic Product	WTO	World Trade Organization
GST	Goods and Services Tax	ZL	Zone Locations
IFZ	Industrial Free Zones		
IMF	International Monetary Fund		
GPI	Global Peace Index		
ISID	Inclusive and Sustainable Industrial Development		
MDA	Ministries, Department and Agencies		



Executive Summary

Sierra Leone continues to struggle to compete in industrial sectors and to integrate into the global value chains that generate the goods and services that are demanded by consumers around the globe. SEZs offer a potentially valuable tool to overcome some of the existing constraints to attracting investment and growing exports.

This report provides a situational analysis of the current trend of the economy, the status of productive transformation and special economic zones (SEZs) in Sierra Leone. The economy is driven by primary commodities, mainly agriculture and mineral production, with fluctuating macroeconomic fundamentals. The country's business environment is relatively unstable with low domestic and foreign direct investments. These are major hindering factors in attracting investment in the country. SEZs represent a potential opportunity to accelerate early-stage industrialization and economic transformation in Sierra Leone, including through employment-intensive sectors. Seeking innovation and policy support is important to assist in achieving the SEZs' policy goal. Overall, SEZ successes are dependent on the country's context and predominantly on non-financial factors.

Sierra Leone continues to struggle to compete in industrial sectors and to integrate into the global value chains that generate the goods and services that are demanded by consumers around the globe. SEZs offer a potentially valuable tool to overcome some of the existing constraints to attracting investment and growing exports. Indeed, the country's experience with SEZs has not been as successful as policymakers hoped it would be. What explains this? And to what degree might SEZs help contribute to improved competitiveness in Sierra Leone? This report provides a comprehensive assessment of Sierra Leone's experience with SEZs, drawing lessons from in-depth survey and case study research. It provides compelling evidence on the factors that determine success in SEZ programs and charts the performance of a representative sample of African SEZs against regional and global standards. There has been a long-running debate over the value of economic zones as a policy instrument. Many economists view zones as a second-best policy, preferring economy-wide liberalization of trade and investment. But some researchers and policymakers point to the potential of SEZs in overcoming market and coordination failures, and to act as catalysts of both market forces and political-economic reforms.

Based on the Sierra Leone SEZ policy, SEZs, such as free trade zones, export processing zones, comprehensive special economic zones and enterprise specific-single factories are the type of SEZs seen fit to establish in Sierra Leone. These types of zones effectively utilize the strength and resources of Sierra Leone to leverage on the comparative advantage of the country and promote productive transformation. International bodies such as United Nations Development Programme (UNDP), African Continental Free Trade Area (AfCFTA) secretariat, United Nations Economic Commission for Africa, Economic Community of West African States (ECOWAS), United Nations Conference on Trade and Development (UNCTAD), and World Trade Organization (WTO) among others will serve as a strong corresponding path to open the country to foreign

direct investment (FDI), while local producers will want to produce in the SEZ to meet international standards. This represents an opportunity for the transfer of knowledge (technology) from high-tech foreign investment to domestic firms within the SEZs.

After conducting thorough environmental scanning and engaging in extensive consultations with stakeholders, it has been duly noted by these stakeholders that the present moment is opportune for the implementation of the following strategic thrusts: the provision of sufficient serviced land for the establishment of sustainable SEZs; the reinforcement of financial resources mobilization and management capability; the enhancement of legal and regulatory frameworks; the improvement of institutional and human capacity development; and the promotion of investment opportunities in SEZs. It is through these areas of focus that the government should deliver an enabling investment climate and a conducive working environment to ultimately transform the country's economy into middle-income status by 2030 through nurturing industrialization for economic transformation and human development. Furthermore, the government should consider its strength and global investment trends and identify the opportunities that will steer its commitment to the next level of excellence to attain the national industrialization agenda through the development of SEZs.

Special Economic Zones (SEZs) require financing for on-site infrastructure, including power and other utilities, internal roads, common facilities and buildings, and for off-site infrastructure, including access roads and utility connections. They also require financing for private firms investing in the SEZ and for management and operations. Infrastructure is typically financed either entirely from public sources or through public–private partnerships. This generates the long-term, substantial and concessional financing needed but can increase the public debt burden and requires public sector competency in constructing and managing infrastructure. There are several sources of public financing for SEZs. Multilateral development banks have provided technical advice and financing for SEZs of up to US\$100 million. Development finance institutions have financed early-stage projects. China has established SEZs with finance from Chinese state-owned banks for infrastructure and with private Chinese firms managing and establishing operations in the SEZs. The latter have been successful, but in some SEZs, disputes have resulted in host countries transferring assets to Chinese ownership or granting long leaseholds. Private investors also can finance SEZs.

An analysis of stakeholder opinions ascertains that SEZ location selection using multiple and robust criteria such as economic, environmental, financial, social, sustainability, multiplier effect, infrastructure, capabilities required, investment climate, market size, geography and other factors are needed for the successful establishment of SEZs in Sierra Leone. The survey further establishes that physical structures, such as residential buildings, office spaces, hotels, shopping malls, roads, etc. are the most important structures needed for the establishment of SEZs in Sierra Leone, followed by non-physical governance structures, operational, and management structures.

The summary chapter offers key recommendations that the government, policy makers, researchers, and development partners should leverage in the promotion and establishment of SEZs. In summary, the government should eliminate policy biases against local companies and encourage domestic investors to locate in the selected zones by eliminating policy restrictions and investment-level requirements (or, if necessary, developing alternatives for smaller local firms) to encourage local competitiveness. SEZs should also be focused on where they can best complement and support based on the available resources in the country, as validated through a detailed strategic planning, feasibility, and master planning process. The government should leverage on multilateral development banks and development finance institutions, Chinese-led partnerships, public–private partnerships, and private-sector-led SEZs. Both funding models would enable the expansion of private financing of SEZs and enable demonstration projects and innovation led by DFIs. In conclusion, there should be proper coordination and the provision of enough information to the public, for establishing SEZs in Sierra Leone.

The commencement of this research was initiated by UNDP-SL and the Ministry of Trade and Industry as a way of complementing the Government of Sierra Leone to deliver on the development strides of its SEZs.

At a Glance

Chapter 1



Monetary policy has been struggling to focus on a clear objective of targeting single-digit inflation by clearing up excess liquidity and maintaining price stability that is consistent with the country's macroeconomic fundamentals.

Real GDP Growth, at Constant Factor Prices



Agriculture



Industry



Services





*Emmah Y. Sumah, a member of the Tamemsu Village Savings and Loans Association, Conakrīdee, Lokko District.
Credit: Geoffrey Buta*



Introduction and Approach of the Study

1.1 Background of the Sierra Leone Economy

Sierra Leone's economy is complex, fragile and relatively undiversified with few dominant sectors matching up to global competitiveness. The primary sector (agriculture, including forestry, fishing and hunting) remains the backbone of the economy, accounting for 52.85 percent of gross domestic product (GDP) in 2010. However, this dropped to 39.26 percent during the Ebola virus disease crisis in 2014 but climbed to 49.94 percent in 2016 and is estimated at 49.45 percent for 2017.¹ This sector remains the biggest, contributing 55-60 percent of the country's annual GDP. Even though the agriculture sector has a significant influence on poverty-reduction and counter-inflation effects, it is currently consisting of largely smallholders, who mainly engage in subsistence farming with very limited value addition. The services sector is the second largest, contributing 36.2 percent of GDP and has taken up an increasing share of the economy. However, this was driven more by the migration from rural to urban areas and the predominance of informal trade while high-productivity sectors struggled to grow and productivity in trade services was limited. The mining sector, which provided rapid economic growth between 2012 to 2013 until Ebola disrupted this in 2014, accounted for 10.2 percent of GDP in 2016 after hitting a low of 6.7 pulled down by mining and quarrying which was at a low of 3.1 in 2015 from a high of 26.3 in 2014 indicating that the mining sub-sector has been severely constrained by the drop in international prices of minerals and materials.

Manufacturing was the fastest-growing sector, expanding by 12.3 percent in 2021 after contracting by 6.7 percent in the previous year. The sector benefited from government support to small and medium-sized enterprises (SMEs) through the MUNAFA Fund and Bank of Sierra Leone's SLL500 billion special credit facility, as well as from increased agribusiness investments, due to the recovery in agriculture. However, SMEs continue to bear the brunt of the economic shock from the coronavirus disease (COVID-19) pandemic. The World Bank's Business Pulse Survey reported that around 88 percent of SMEs reported a decline in sales during the pandemic, often


closing operations and laying off staff—which aggravated their pre-existing constraints of access to finance, land, and infrastructure. Overall economic growth is expected to strengthen further but remains moderate, averaging 4.4 percent over 2022–2024.

The role of Sierra Leone's export in Africa remains relatively minor as only 2.75 percent of the exports are in the ECOWAS region and only 3.22 percent on the continent while exports to China and Europe, for example, account for 19.66 percent and about 36 percent, respectively, of the total exports in 2019. The Herfindahl concentration index shows that Sierra Leone has a concentrated export basket like many countries in West Africa, where the average concentration index (0.28) is higher than in East Africa (0.03). The exports basket contains only a few goods, six of one type and 15 of another, which account for 75 and 90 percent, respectively, of all exports.² This export structure makes the country's external balance highly dependent on the economic dynamics outside of Africa, especially in Europe.


¹ AfDB report, 2017-2019

² African Development Dynamics (AfDD) database 2019


55-60%
of the annual GDP
The backbone of the economy includes agriculture, forestry, fishing and hunting




36.2%
The services sector is the second largest contributor to the GDP



10.2%
The mining sector has been severely constrained by the drop in international prices



12.3%
Manufacturing was the fastest growing sector



The fiscal policy space has been fluctuating for the past five years, and the tax reforms are significantly working to improve domestic revenue performance, despite there having been a significant gain from ongoing tax reforms. The rate of expenditure expansion in the past two years has increased; capital expenditure has been on a steady increase due to the government's road rehabilitation and reconstruction programs, from 20.8 percent in 2021 to 21.1 percent in 2022. For the past five years, the government has been working on a deficit primary fiscal balance of -3.4 percent in 2021 and -2.1 in 2022.³

Monetary policy has been struggling to focus on a clear objective of targeting single-digit inflation by clearing up excess liquidity and maintaining price stability that is consistent with the country's macroeconomic fundamentals.

At a time when the economy was slowly recovering, the ongoing global energy, finance and food crisis has set back progress toward the Sustainable Development Goals (SDGs), negatively affecting businesses and individuals' earnings. In 2022, the surge in the prices of petroleum products intensified the energy shortage in Sierra Leone and created more hardship for local businesses and consumers, particularly for the poorest and the most vulnerable. The annual national consumer price inflation figure for May 2023 stood at 44.43 percent –one of the highest in Africa.

³ World Bank report, 2014

Table 1.1: Selected Macroeconomic Indicators (annual percent change unless indicated otherwise)

	2019	2020	2021 e	2022 f	2023 f	2024 f
Real GDP growth, at constant market prices	5.3	-2.0	3.1	3.9	4.4	4.8
Private Consumption	4.3	4.3	4.2	6.2	4.9	5.9
Government Consumption	5.1	2.7	0.1	0.0	15.7	0.9
Gross Fixed Capital Investment	-34.2	-4.1	7.6	9.8	13.5	12.1
Exports, Goods and Services	-1.6	-9.8	40.5	18.0	9.5	10.1
Imports, Goods and Services	-7.0	7.5	18.4	12.4	13.1	7.8
Real GDP growth, at constant factor prices	5.3	-2.0	3.1	3.9	4.4	4.8
Agriculture	5.4	1.6	3.7	3.5	3.6	3.6
Industry	10.9	-7.1	3.8	9.4	4.7	4.7
Services	3.8	-5.9	2.0	2.9	5.7	6.7
Inflation (Consumer Price Index)	14.8	13.5	11.9	14.2	12.1	10.9
Current Account Balance (% of GDP)	-15.3	-7.0	-13.7	-15.9	-14.2	-13.1
Net Foreign Direct Investment (% of GDP)	12.2	5.1	14.4	10.1	7.4	6.7
Fiscal Balance (% of GDP)	-3.1	-5.8	-5.9	-5.0	-4.2	-2.9
Debt (% of GDP)	70.9	76.3	76.9	76.8	76.7	75.1
Primary Balance (% of GDP)	-0.4	-2.7	-2.8	-2.0	-1.4	-0.1
GHG Emissions Growth (mtCO₂e)	3.1	1.4	3.0	3.0	2.7	2.8
Energy Related GHG Emissions (% of total)	3,816	3,957	4,106	4,467	4,919	5,397

Source: World Bank, *Poverty & Equity and Macroeconomics, Trade & Investment Global Practices*. Emissions data sourced from CAIT and OECD
 Note: e = estimate, f = forecast

Sierra Leone is generally enjoying relative peace and security and increases in its Corruption Perception Index score and ranking. For the third time in three years, the country moved upward in Transparency International's Global Corruption Country Rankings, from 117 in 2020 to 115 out of 180 countries surveyed in 2021. This is a small but welcome development for a country where this indicator has been low for many years. Sierra Leone was ranked 50th out of 163 countries in the Global Peace Index report, taking third in the West African sub-region and ranked first as the most peaceful country in the Mano River basin (Global Peace Index, 2022).

However, the economic situation could present risks to political and social stability in the country, ahead of planned elections in 2023. A continuous increase in fuel prices and rising inflation triggered social unrest and anti-government protests. In early August 2022, angry youths from various localities demonstrated against the worsening economic hardship. The protests led to the killing of six police officers and about 21 civilians. In a bid to stem riots, a nationwide curfew was imposed but is not without associated socio-economic costs.

Despite the progress recorded in a few economic areas, the underlying drivers of fragility continue to pose significant risks for economic growth and development. High rates of youth unemployment, at 70 percent, gender inequality, high levels of perceived and real corruption, weak human and institutional capacities, and poor economic governance systems, especially public financial management and revenue management systems, constrain the government's capacity to implement its development agenda.

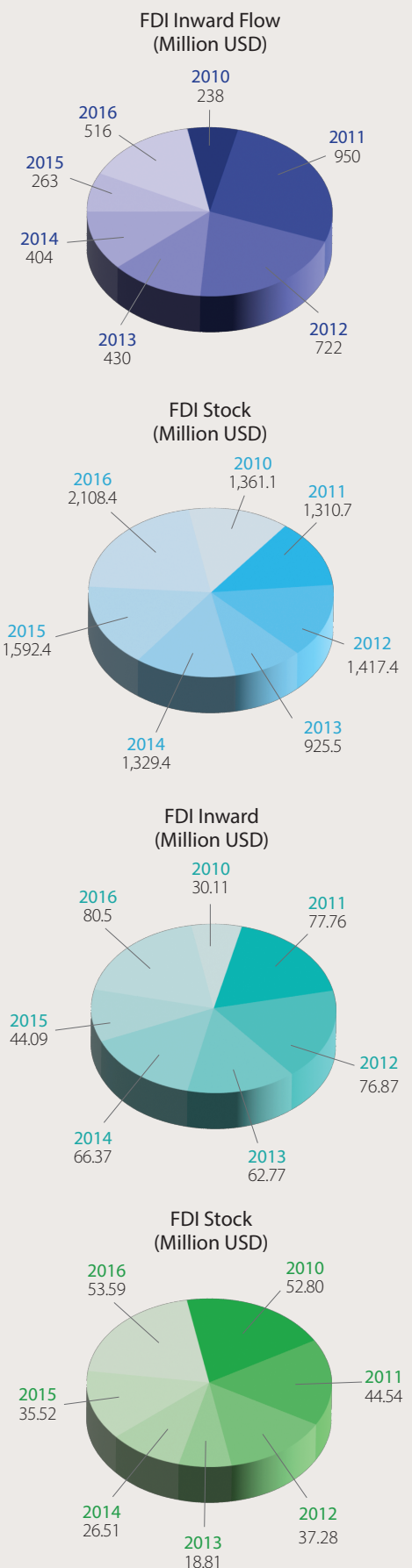
Although a country rich in mineral resources such as gold, diamond, bauxite and iron ore, Sierra Leone has attracted little FDI since gaining independence due to political instability such as the civil war in the 1990s and multiple socio-economic problems. Sierra Leone has little or no outward FDI but has been able to attract investors from around the globe.

After the war, the country attracted investment in mining, agriculture and infrastructure which saw a rapid increase in FDI net inflow from around \$39 million in 2000 to \$238 million (9.11 percent of GDP) by 2010 (Table 1.1). During this same period, FDI inward (stock) increased from \$1,361 billion in 2010 to \$2,108.4 billion in 2016.

Economic growth and FDI inflow were severely affected by the Ebola epidemic outbreak in 2014, and during this period the country experienced its lowest FDI inward (stock) and net inflows since 2010. After the country was declared Ebola-free, the country's Minister of Foreign Affairs went to various conferences around the world including London (Attracting investment back to post-Ebola Sierra Leone) to attract investors.

The country's substantial mineral deposits and absence of any outright discrimination against foreign investors, companies and regulations on repatriation of profit and sales of assets also guaranteed in the new investment code could make the country very attractive for FDI. The slow legal system in establishing a business, high level of corruption, lack of infrastructure, political violence and social unrest due to socio-economic disturbances, and lack of skilled labour are some of the major hindrances to maintaining foreign investment in the country.

Figure 1.1: Foreign Direct Investment 2010-2016



Source: unctadstat (2017)

Sierra Leone has shown a minor improvement in the latest UNDP Human Development Index (HDI) with an increase of 0.025. Sierra Leone's HDI value for 2021 is 0.477, which puts the country in the low human development category and keeps it at 181 out of 195 countries. Multidimensional poverty measures 64.8 percent nationally, with an even higher rate of 86.3 percent for rural areas. Female multidimensional poverty stands at 65.9 percent, compared to the multidimensional male poverty rate of 64.2 percent.

1.2 Background and Rationale for SEZs in Sierra Leone

The historical background of SEZs in Sierra Leone is an important aspect as it sets a platform for understanding the past, which in turn allows one to understand the present. With such an understanding, one can better plan for the future.

The first attempt of Sierra Leone to industrialize was between 1978 and the 1980s. In this phase, Sierra Leone pursued the strategy of industrialization for import substitution ostensibly as a strategy to save foreign exchange. The outcome of adopting such a strategy was the establishment of an industrial sector that was oriented toward production for the domestic market that was inherently weak in terms of effective demand and that depended on foreign exchange generated by other sectors to finance its inputs.

In May 2011, Sierra Leone opened West Africa's first tax-exempt SEZ as part of government commitment to attract foreign investment. A 54-acre site after the capital city of Freetown was identified as a public-private partnership (PPP) that is 75 percent owned by a US-based Non-Governmental Organization, World Hope. This led to the creation of a new governmental agency called the Sierra Leone Investment and Export Promotion Agency as a new means to promote foreign investment. Since then, the Government of Sierra Leone through the Ministry of Trade and Industry and key aligned agencies, have shown commitment by establishing various programs, policies and laws that will attract FDI which can lead to economic growth.

Under the Sierra Leone National Development Plan 2019-2023, the government has geared itself toward the promotion of export-led industrialization with the support of enabling public policy measures together with incentives and a facilitative legal regulatory framework.⁴ In March 2011, the Parliament of Sierra Leone enacted both an industrial policy and an act that empowers the ministry responsible for trade and industry to take the

lead in executing the government's decision to develop its industrial sector by building its capacity for international competitiveness. This was the reason behind establishing the SEZs programme, and the responsibility to supervise and coordinate this programme was placed under the Ministry of Trade and Industry to set up an authority that will manage it day to day.

In order to enhance the effectiveness and efficiency of a new industry structure for international competitiveness, in June 2022, the government, through the Ministry of Trade and Industry revised a new industrial policy and SEZs policy in cooperation with development partners to coordinate an SEZs programme that will lead to productive transformation.

In light of the prevailing economic conditions and the perceived significance of SEZs in fostering economic diversification, productive transformation, and competitiveness within the nation, the undertaking of this research was duly authorized. The research is in line with what the Ministry of Trade and Industry has formulated, which is the industrial policy, SEZs policy and action plan that will meet not only the specific needs of the country but will also be in line with the Economic Commission of West African States (ECOWAS) vision and the African Continental Free Trade Area (AfCFTA).

1.3 Objectives of the Study

The overall objective of this research is to examine patterns and drivers of economic diversification and sophistication in Sierra Leone, the prospects for industrialization, and the crucial role that SEZs can play in this regard. With an aim to propose actionable policy recommendations for the government to unlock productive transformation and contribute to unleashing the full potential of AfCFTA for Sierra Leone's productive transformation. The study will provide evidence-based analysis to ascertain SEZ location selection using multiple and robust criteria.

1.4 Methodology and Approach

The method and approach used to deliver the study objectives and deliverables were to thematically work on an evidence-based assessment of productive transformation through SEZs.

⁴ *Sierra Leone National Development Plan, 2019-2023*

Desk Review

The study conducted a review of secondary data collection sources, including ministries, departments, agencies (MDAs) and international organizations. The policy and other documents reviewed included the Sierra Leone Industrial Policy, Sierra Leone Investment Policy, Sierra Leone Special Economic Zone Policy, Sierra Leone Local Content Policy, National Land Policy, and other pertinent policy documents. Additionally, relevant research materials such as journal articles, research or technical reports, and other resources, have been diligently sought and utilized.

Primary Data

The research targeted key government ministries involved in developing and implementing the country's SEZ policy. These include the Ministry of Trade and Industry, Ministry of Finance, Ministry of Agriculture, Ministry of Mineral Resources, Ministry of Energy, Ministry of Land, Ministry of Planning and Economic Development, Ministry of Transportation, and Ministry of Foreign Affairs, among others.

Key MDAs as well as private institutions were specifically identified for the purpose of conducting quantitative interviews given their role in SEZ policy formulation. These interviews aimed to assess the various factors that play a role in the establishment of successful SEZs in Sierra Leone. These include Invest Salone, Sierra Leone Investment & Export Promotion Agency, National Insurance Company, Sierra Leone Association of Commercial Banks, Chamber of Commerce, local content agency, Shakadas, Kissy Industry, and Kings Production etc. Fifteen key stakeholders from various ministries participated in the informant (qualitative) interviews, while 35 questionnaires were administered for the quantitative interviews. This combination of methods was employed to ensure a comprehensive and desired outcome. Valuable insights and perceptions regarding the SEZ location choices, opportunities, constraints, and other characteristics were collected from stakeholders. The full list of all targeted stakeholders is attached in the annex.

To produce quality results, the enumerators were well-trained and all ethical considerations were explained to them before the start of the data collection process. All information was collected purposely for the purposes of this study and procedures were followed to maintain data integrity, quality and reliability at every stage of the project.

1.5 Value Addition of the Study

This study will reduce subjective prioritization in the establishment of SEZs in Sierra Leone while providing empirical evidence to assess the status of productive transformation and guide investments, unlike many past studies. The analytical findings and recommendations will be discussed with policymakers and technical offices from the Ministry of Trade and Industry (MTI) and across other relevant government MDAs. The report will be presented to and endorsed by MTI, and a task force will be put in place to monitor the implementation of the recommendations.

The outcome of the study will provide businesses, policymakers and users with an alternative reference of information that includes comprehensive details on spatial distribution, the range of possible economic activities, and potential investment opportunity areas for SEZs in order to make informed decisions. The challenge is not only to have an SEZ but to have one that increases productive capabilities, strengthens the linkage between local and foreign firms, fosters complementarities and integration into regional value chains, and contributes substantially to economic growth.

1.6 Limitations of the Study

Accessibility, political and other type of bias, and data collection method were limitations in the study.

- **Accessibility:** Getting access to respondents—especially top officials such as directors and managers—for the key informant interviews in all the selected institutions was a great challenge in this study.
- **Availability of domestic policies:** Getting all the relevant domestic policies from various MDAs was a great challenge. Most of these policies are not available on the internet, and sometimes public officials are constrained from providing these documents.
- **Language barrier:** Limitations were also faced due to language; however, this challenge was overcome by translating the research tools and responses to Krio, the local language.
- **Questionnaire administration:** Sharing of questionnaires and interviews seems like an easy method of collecting data, but in practice, it is challenging.

At a Glance

Chapter 2



SEZs have been in existence since the beginning of the 18th century and are widespread in both developed and developing countries. Initially, SEZs were mainly government owned. However, from 1980 private sector SEZs emerged, and have grown astronomically, reaching 1,200 by 2005. By 2020 Africa had established 237 SEZs and Kenya had the highest number, at 57. SEZs have increased from 80 projects in 30 countries (1970s) to over 2,000 projects in 120 countries in 2003.



Kenya



Nigeria



Ethiopia



Egypt

237 Established SEZs in Africa in 38 of 54 African Countries



2

Roles of SEZs in the Least Developed Countries in Africa

This chapter provides a contextual analysis of SEZs, their productive transformation, and importance in propelling economic growth in fragile economies; and outlines the role of SEZs in Africa and West Africa. It summarizes how other countries have approached the establishment of their SEZs, with a special focus on their policies, strategies and plans, selection of SEZs locations, and criteria applied. It further elaborates on what structure, facilities and features exist around their SEZs and how Sierra Leone can reflect on and benefit from these.

It analyzes the parameters within the SEZ policy framework influenced by policies and strategies affecting investments. It explores challenges faced during SEZ implementation and discusses their resolutions.

2.1 Concept of Special Economic Zones

Special economic zones (SEZs) can be defined as demarcated geographical areas within a country's national boundaries where the rules of business are generally more liberal compared with those that prevail in the national territory. Specifically, most economic zones create a special regime that confers four main advantages to investors relative to what they could normally receive in the domestic environment:⁵

- Infrastructure (including serviced land, factory shells, and utilities) that is easier to access and more reliable than is normally available domestically.
- An improved regulatory and administrative regime, including streamlined procedures for company set-up, licensing, and operations.
- A special customs regime, including efficient customs administration and access to imported inputs free of tariffs and duties.
- An attractive fiscal regime, including reduction or elimination of corporate taxes, VAT, other taxes, labor contributions (e.g., pension, social security), and sometimes training or other subsidies.

SEZs have been in existence since the beginning of the 18th century and are widespread in both developed

The concept, if properly implemented, will lead to accelerated new technology and skills transfer, improve industrial productivity and competitiveness, and open up the country to international trade, hence improving economic growth, creating job opportunities, enhancing market access, providing better services, and overcoming balance of payments problems.

and developing countries. Initially, SEZs were mainly government owned. However, from 1980 private sector SEZs emerged, and have grown astronomically, reaching 1,200 by 2005. By 2020 Africa had established 237 SEZs and Kenya had the highest number, at 57. SEZs have increased from 80 projects in 30 countries (1970s) to over 2,000 projects in 120 countries in 2003.⁶ Corresponding figures for the value of exports are an increase from \$6 billion in the 1970s to \$600 billion in 2003. Employment figures increased from 1 million in the 1970s to over 50 million for China alone and 30 million for the rest of the world by 2003. These figures explain why SEZs are widespread and have continued to grow in numbers in spite of increased liberalization of trade in recent years.

The SEZ concept may be considered as a composite export incentive under which artificial enabling conditions are created within geographical enclaves to attract companies to establish export-oriented factories and other industrial facilities. This approach has increasingly become a policy tool of choice for governments seeking to attract foreign investment, promote export-oriented growth, and generate employment.

⁵ *Special Economic Zones In Fragile Situations: A Useful Policy Tool*

⁶ *UNCTD SEZs*

The SEZ concept may be considered as a composite export incentive under which artificial enabling conditions are created within geographical enclaves to attract companies to establish export-oriented factories and other industrial facilities. This approach has increasingly become a policy tool of choice for governments seeking to attract foreign investment, promote export-oriented growth, and generate employment.

Many countries employ their own variations of these special enclaves, and in doing so use their own terminology such as free trade zone, enterprise zone, export processing zone, industrial free zone, single factories, and freeport and specialized zones, to describe them. The concept, if properly implemented, will lead to accelerated new technology and skills transfer, improve industrial productivity and competitiveness, and open up the country to international trade, hence improving

economic growth, creating job opportunities, enhancing market access, providing better services, and overcoming balance of payments problems. Besides, SEZs allow governments to quickly build infrastructure such as roads, a reliable power supply, and proper sewage and water treatment systems in one small, delineated area.

2.2 Major Trends in Zone Development

The concept of SEZs is generic and covers both traditional and modern free zones. The traditional SEZs are characterized by government ownership, development and operation; ring-fenced enclave development; requirement to export 70-80 percent of manufactured products, promotion of FDI, lack of provision of services in SEZs areas; and restrictions on unionization of labor. In contrast, modern SEZs are characterized by firm competition that is based on customized infrastructure, facilities and services that are tailor-made for the specific needs of firms and less on financial and fiscal incentives.⁷ Further, firms that are located inside the SEZs are integrated into both the domestic economy and the global economy. The modern SEZs emphasize the adoption of economic incentives that are WTO compatible as well as

⁵ Thomas Farole, *Special Economic Zones in Africa Comparing Performance and Learning from Global Experience*

⁶ Albert, T. (2019). *The African Continental Free Trade Agreement: Opportunities and Challenges*. Geneva: CUTS International, Geneva

⁹ IAS World Bank, 2008

Table 2.1: Traditional vs. Modern Economic Zones

Characteristics	Traditional	Modern
Physical	Isolated ring-fenced enclaves; restricted or relatively remote areas or near transport hubs	Larger size; country-wide zone development; customized infrastructure that meets the needs of firms and allows greater flexibility in terms of plant location
Incentives / Privileges	Emphasis on financial and fiscal incentives and privileges to firms	Inclusion of non-financial and non-fiscal incentives that differentiate the country or zone. Enterprises can freely import any merchandise in any quantity and are not restricted to direct inputs for manufacturing (as is the case with EPZs). Duty- and tax-free merchandise can be sold at the retail or wholesale level and some-times consumed within the zone area
Market Access	Export requirements for manufactured goods (usually 70-80%)	Allows unrestricted sale to the local market or to consumers as long as all applicable import duties, taxes, and other charges are fully paid
Firm Requirements	80-100% export oriented; foreign ownership	Strategic sectors; minimum investment threshold; technology transfer; environmental standards/sensitivity
Sectors / Activities	Re-exports, specific types of manufacturing	Broader range of permissible activities: commercial and professional services; all types of manufacturing and processing
Policy Direction	Often viewed as "growth poles" for national and regional development; emphasis on export promotion, job creation and technology transfer	Mechanism to promote two-way trade and facilitate liberalization and modernization of host economy; firms are integrated into the domestic economy
Administration	Government-owned, - developed, and -operated	Financial incentives and labour standards that are compatible with the World Trade Organization and International Labour Organization respectively

Source: IAS, World Bank, 2008⁹

adherence to International Labour Organization core labor standards. While successful government-owned and operated SEZs still exist in many countries—and there is still merit in developing such, depending on prevailing economic conditions in the country—there is currently a strong emphasis on developing private sector and public-private sector partnership SEZs. Therefore, the SEZ policy for Sierra Leone reflects these new developments and configurations.⁸

2.3 SEZs in Africa

While SEZs have experienced notable growth in Africa lately, they have only recently emerged as a significant driver of economic expansion. Mauritius pioneered this trend by establishing an EPZ in 1970, becoming the first African nation to do so. Subsequently, other African countries like Ghana, Liberia, and Senegal also adopted this approach in the early 1970s. However, SEZs were recognized and adopted more widely in the 1990s, as African governments sought to imitate the rapid economic transformation of East Asian economies. As of recent times, there are an estimated 237 established SEZs in Africa, and a number are still under construction. SEZs are currently in 38 of 54 African countries, with Kenya having the most zones at 61, followed by Nigeria (38), Ethiopia (18), and Egypt (10). Clusters such as Tangier-Med in Morocco, Eastern Industry Zone and the Hawassa Industrial Park in Ethiopia, and the Kigali Special Economic Zone in Rwanda have attracted world-class multinationals in sectors ranging from automotive and aeronautics manufacturing to textile, garments and shoe production (AUC/OECD, 2019). For example, firms moving into the Kigali SEZ are associated with a 206 percent increase in sales, a 201 percent increase in value added, and a further 18 percent increase in the number of permanent employees compared to similar firms that did not move there (Steenbergen and Javorcik, 2017). Ghana, Kenya and Senegal were also highlighted by the World Investment Report as three countries where SEZs have also been successfully implemented (UNCTAD, 2014).

SEZs have helped Mauritius transition away from concentrations in sugar into higher value-added manufacturing. The Suez Economic Zone, which was established by China, has allowed Egypt to move up the value chain in the oil industry (drills and components). Similar SEZs have been established in Mauritania (mining), Morocco and Tunisia (manufacturing), and Algeria and Libya (oil). In West Africa, Burkina Faso, Côte d'Ivoire and Mali established the first cross-border SEZs located across the regions of Bobo Dioulasso, Korhogo and Sikasso to attract private sector investment in agro-industry, agribusiness and the mining sector.

There is currently no “one size fits all” model of success and that the likelihood of success of any SEZ strategy in Africa depends not only on learning from best practices, but also on adapting those practices to the specific characteristics of the territory and country where the zone will be located. Across the continent, SEZs have been found to underperform even in terms of their more static contributions, such as FDI attraction and job creation (World Bank, 2011).¹⁰ A considerable share of SEZs in Africa remain largely underdeveloped, the UNCTAD handbook report notes.

2.4 Considerations in Selecting SEZ Locations

In the context of enhancing the competitive advantage of SEZs, it is crucial to meticulously analyze the sources of comparative advantage, pinpoint vulnerabilities, and identify the most promising sectors and opportunities for development. It is worth emphasizing that choosing the SEZ location is not solely determined by the availability of natural resources; it should also encompass other unique context-specific comparative advantages. Factors such as stakeholders’ willingness, size of the proposed zone, set-up cost, availability of land, and ease of acquisition of land in the development of zones must be considered. The infrastructural capacity of the location is

Accessibility Considerations



¹⁰ World Bank 2011. *Special economic zones in Africa: comparing performance and learning from global experience*. Thomas Farole, 2011

also a key factor to consider. In the development of the zones, other considerations include accessibility of road network, electricity, water, airway, seaway, educational institutions, and health and waste disposal facilities.

An efficient SEZ should also have high spillover effects on the whole economy, especially through the development of industrial clusters and the promotion of products with strong backward and forward linkages. The government should negotiate with businesses that wish to settle in future SEZs based on performance contracts with clear objectives, such as local content requirements, exports, jobs and added value creation targets.

2.5 The Benefits and Costs of SEZ Development

Countries develop SEZs for a variety of reasons, including key benefits such as:

- Attraction of both domestic and foreign direct investment through the provision of a variety of economic incentive packages and world class infrastructure, facilities and services
- Job creation, income generation and poverty reduction
- Promotion and development of a diversity of exports into regional and world markets
- Generation of both government revenue and required foreign exchange earnings, more especially in developing countries.

In addition, SEZs are also created with a view to gaining dynamic benefits which include:

- Demonstration effects, whereby SEZs act as catalysts for policy reform and application of best practices in the production of goods and services;
- SEZ development may also be used as an “economic laboratory” wherein it provides opportunities to experiment on best practice economic policies that have not been tried in a particular country;
- Development of backward and forward linkages especially with local firms for raw materials, intermediate inputs and capital equipment;
- Growth poles for industry development and/or revitalization in underdeveloped or depressed areas;
- Technology transfer, skills upgrading, and indirect employment creation;

Special economic zones can be defined as demarcated geographical areas within a country's national boundaries where the rules of business are generally more liberal compared with those that prevail in the national territory. Specifically, most economic zones create a special regime that confers four main advantages to investors relative to what they could normally receive in the domestic environment.

- Development of modern business management skills, more especially such skills learned from foreign investors;
- Economic diversification in resource-based economies.

Along with the benefits discussed above, SEZs may have significant challenges for the host country, which include the potential danger of the “Race to the Bottom,” which occurs when regional trading partners do not harmonize policies and regulations and out-compete each other by offering more generous incentive packages in an attempt to attract more foreign investment into their countries. The ensuing incentive war drains the government budget and encourages rent-seeking behavior among firms, with little benefits going to the host country.

Countries may also fall victim to “fly-by-night firms,” footloose companies which invest in SEZs with a rent-seeking motive. These usually move from one country to another in search of more generous economic incentives to exploit. This type of rent-seeking behavior may exacerbate the incentive war, resulting in very little benefits for the host countries.

For SEZs that include tax exemptions and tax holidays, the government may lose significant income in the form of forgone tax revenues. This loss may be inflated by the cost of other incentives that SEZs firms would receive.

Finally, in an effort to attract foreign investors into SEZs, some countries often ignore internationally accepted environmental, labor and health standards, which often prove to be costly for the country in the long run.

At a Glance

Chapter 3

Policy Environment for SEZ Promotion

The domestic policy environment has a significant role to play in prompting SEZ growth in Sierra Leone. The domestic policies, strategies, initiatives, laws and regulations that define the parameters for SEZs to thrive in Sierra Leone



*Sierra Leone's
Medium-term National
Development Plan*



*Sierra Leone's Special
Economic Zones Policy*



*Small And Medium
Enterprises Development
Agency Act*



*Investment
and Export
Promotion Act*



*Sierra Leone's
Industrial Policy*



*The Sierra Leone
Economic
Diversification
Project*



*National Land
Policy*



*The Integrated
National Financing
Framework*



Yata Jagwa is a fishmonger from Sulima Township, Pujehun District who shares a beam of smile over UNDP's support to revive her fish business from the shocks of Covid-19. Credit: UNDP/Mohamed Kanu



Policy Environment for SEZ Promotion in Sierra Leone

3.1 Internal Policy Environment for SEZ Promotion in Sierra Leone

The domestic policy environment has a significant role to play in prompting SEZ growth in Sierra Leone. The domestic policies, strategies, initiatives, laws and regulations that define the parameters for SEZs to thrive in Sierra Leone include the NDP2019, National Industrial Policy, National Land Policy, revised policy on SEZs, SMMEs Policy, Strategy for Economic Diversification and Sustainable Growth, the National Export Strategy, the Investment Strategy for Sierra Leone, the Private Sector Development Strategy, the Labour Policy, the Finance Act, the Integrated National Financing Framework, and Environmental Protection Act, among others. These policies, strategies, laws and regulations seek to create a conducive business environment for all investors. The following is a synopsis of the domestic policies, strategies and legislation that have a significant impact in promoting SEZs in Sierra Leone.

- a. **Sierra Leone Medium-term National Development Plan (2019-2023):** Cluster 2 and 3 of this plan mentions diversification of the economy and promotion of growth, infrastructure and economic competitiveness, respectively. These define Sierra Leone's broad parameters for a conducive business environment that may be utilized by the private sector and public-private sector partnerships to achieve the country's national objectives of economic diversification, employment creation, poverty eradication and prosperity for all by 2023.¹¹
- b. **Sierra Leone's Special Economic Zones Policy (2011 and 2022):** This policy aims to serve as a catalyst for creating employment, diversifying output and export, and accelerating industrial and economic growth in Sierra Leone. SEZs hope to ensure effective and efficient utilization of Sierra Leone's natural resource endowments based on comparative advantage and create a conducive business and economic environment that effectively nurtures international repute. This policy will provide a road map for the development and management of all SEZs in Sierra Leone with guidelines, procedures and other operational details for their effective operation and management.¹²

These policies, strategies, laws and regulations seek to create a conducive business environment for all investors.

- c. **Sierra Leone's Industrial Policy (2011 and 2022):** The policy intends to develop a solid industrial structure which is regionally and globally competitive, environment friendly and capable of significantly improving the living standards of Sierra Leoneans by 2030. The overall objective of the policy is to accelerate industrialization through the promotion of employment-oriented industrial transformation of local raw materials into finished commodities, the development and diversification of industrial base and productive capacity, and the strengthening of regional and multilateral cooperation to facilitate the export of manufactured goods. The government recognizes the complementarity this policy in promoting SEZs in Sierra Leone and will ensure that the benefit is maximized.¹³
- d. **Small And Medium Enterprises Development Agency Act:** The agency was established to promote a conducive business environment including the creation of an efficient and effective service delivery network in order to empower and develop small and medium scale enterprises (SMEs) for growth, productivity and competitiveness. The agency is also given the mandate to organize programmes and schemes for SMEs; and to facilitate, assist and provide market access and business linkage opportunities to enable them to compete successfully in national and international markets. This act will serve as a strong corresponding path for the promotion of SEZs in the country.

¹¹ Sierra Leone National Development Plan (2019-2023)

¹² Sierra Leone's Special Economic Zones Policy (SEZs)

¹³ Sierra Leone National Land Policy, 2022

e. **Investment and Export Promotion Act:** The overall objective for which the agency is established is to promote investments in Sierra Leone and to encourage and promote the development of agricultural products for export by facilitating the export-oriented operations of small-scale producers and manufacturers. The agency also aims to serve as the focal point for raising awareness on the importance of exports and developing appropriate export strategies and providing marketing advisory services to assist companies in developing marketing plans for entering or expanding their businesses into foreign markets.

f. **National Land Policy 2022:** Government has completed the process of drafting a comprehensive land policy that covers different aspects of land management, including land allocation and rights, land use and physical planning, land servicing and development, and land information. The land policy is important for the success of the SEZs because these need land to be reserved in the country's strategic areas for their development.

g. **The Sierra Leone Economic Diversification Project:** This will help strengthen the enabling environment for business by promoting reforms to facilitate business entry and operation, encourage strategic public investments to improve competitiveness and spur private investments, support SMEs and entrepreneurs, and build the capacity of public institutions and private sector operators. The development of SEZs is one of the strategies that has the potential to accelerate economic growth.

h. **The Integrated National Financing Framework:** A development finance assessment (DFA) was conducted in 2018 to better align the budget with the national development plan and identify opportunities to mobilize funds for it. The DFA analyzed financing trends and opportunities in Sierra Leone and looked at the potential for various forms of public and private financing to contribute to closing the gap to meet the objectives of the Medium Term National Development Plan (MTNDP). The DFA produced 18 recommendations that were adopted in the implementation chapter of the MTNDP, including the establishment of an Integrated National Financing Framework (INFF). INFFs are an architecture used within a government to bring together a coherent approach to financing national sustainable development strategies that incorporates public and private forms of financing. The concept was established by the Addis Ababa Action Agenda 2015, which calls for countries to use INFFs to support cohesive, nationally owned, sustainable development strategies.

The DFA recommended the establishment of a platform for private-public dialogue and this report and the development of a SEZ could showcase investment opportunities across the country and attract capital toward productive transformation and sustainable and inclusive development.

3.2 The External Policy Environment for Promotion of SEZs in Sierra Leone

Sierra Leone has made various trade agreements and arrangement with multilateral, regional and bilateral trading partners which define the external policy space for Special Economic Zones in the country. These include Africa Continental Free Trade Area (AfCFTA), World Trade Organization, ECOWAS, MRU etc.

a. Sierra Leone and the World Trade Organization:

Sierra Leone has been a member of WTO since 23 July 1995 and a member of General Agreement on Tariffs and Trade since 19 May 1961. The country thus must comply with all the WTO disciplines and provisions that affect the establishment and operation of SEZs. These include the Most Favored Nation principle which requires equitable treatment of all WTO member states in matters of trade; the National Treatment principle which requires equitable treatment of investors and their investments in WTO member states; and the WTO Agreement on Subsidies and Countervailing Measures which categorizes subsidies into prohibited subsidies, actionable subsidies and non-actionable subsidies. These principles define the parameters for the special incentives and privileges that Sierra Leone may offer to firms which will locate and invest in the country. The other special and differential treatment provisions relevant for SEZ development in Sierra Leone are provisions aimed at increasing trade opportunities for developing countries, provisions under which WTO members should safeguard the interests of developing countries, flexibility of commitments, the use of policy instruments, and transitional time periods. Therefore, government will innovatively exploit these provisions to support SEZ development in the country.¹⁴

b. African Continental Free Trade Area (AfCFTA)

Agreement: On 7 November 2018, the Parliament of Sierra Leone ratified with unanimity the AfCFTA agreement for promoting trade liberalization across the continent. The overarching aim of the AfCFTA is to raise the living conditions of the people of Africa.

¹⁴ World Trade Organization, <https://www.wto.org>

The AfCFTA is therefore mandated to harmonize trade rules and empower African countries to trade easily by providing a platform for negotiating trade agreements and addressing matters of concern to each member state. AfCFTA also intends to create a single market for goods and services, facilitated by the movement of persons to deepen the economic integration of the African continent. In this regard, AfCFTA has put in place mechanisms such as adjustment funds, which will cushion shocks to state parties as they navigate the complexity of opening up their markets. AfCFTA further lays a strong foundation for improving Africa's trade competitiveness in the global market by promoting industrial development through diversification and regional value chain development.

c. Economic Community of West African States (ECOWAS): Sierra Leone is a founding member of ECOWAS. The focus of the community is to promote cooperation and development in all fields of economic activity, especially in the fields of industry, transport, telecommunications, energy, agriculture, natural resources, commerce, and monetary and fiscal policy, as well as social and cultural matters for the purpose of raising the standard of living of its

peoples, increasing and maintaining economic stability, fostering closer relations among its members, and contributing to the progress and development of the African continent as a whole.

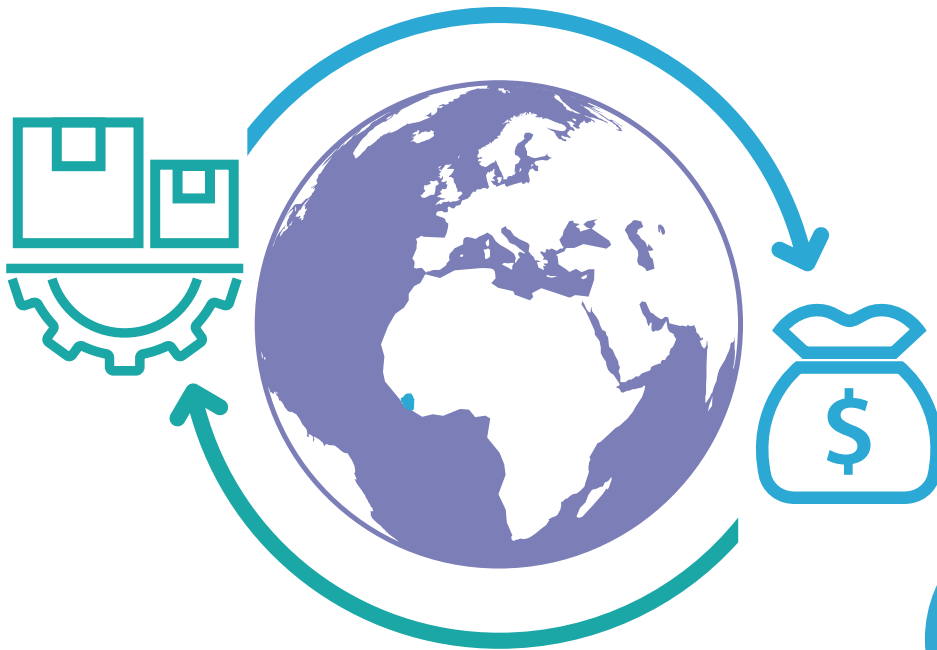
d. Mano River Union (MRU): Sierra Leone signed an agreement with states to improve customs relations on trade, revenue, and border security. The trilateral agreement emphasizes the need for mutual administrative assistance among the state signatories as the appropriate way to address revenue fraud, facilitate cross-border trade, and engendering regional security.

Sierra Leone is also part of several regional and inter-regional trade arrangements. Generally, the aim of these agreements is to achieve free trade, liberalizing intra-regional trade in goods and services; promoting integration of member states into the global economy and enhancing economic development, diversification and industrialization of the regions. Therefore, the government will, within the parameters set by these trade arrangements, create a conducive environment for the growth and development of SEZs in Sierra Leone.

¹⁵ African Continental Free Trade Area (AfCFTA) Agreement, <https://au-afcfta.org>



*Moyamba District Forestry Officer at a UNDP/GEF-supported nursery site in Moyamba District.
Credit: UNDP/Mohamed Kanu*



Physical
Governance
Operational
Management
Technological

Structures

Building Successful SEZs in Sierra Leone

Structural and institutional framework that will ensure the successful implementation of SEZs set up in Sierra Leone.



Importing
Exporting
Proceeding
Packaging
Warehousing/storing

Features



Road network
Electricity facility
Water facility
Health facility
Education facility

Facilities

4

Features Needed to Build Successful SEZs in Sierra Leone

This chapter will provide the structural and institutional framework that will ensure the successful implementation of SEZs set up in Sierra Leone. Based on the policies reviewed, the government recognizes that, in connection with international best practices, Sierra Leone’s SEZs will have to be administered by a SEZ Authority which is autonomous, most importantly in terms of budget, staffing, spending and policymaking.

Also, the SEZ Authority will be vested with the responsibility for the establishment of SEZs in designated locations of the country in accordance with the general charter given to it by the board of directors. The general charter will spell out the location, the nature of the businesses, and business activities that may be operated or carried out within designated SEZs areas. The SEZ Authority will be mandated to operate each SEZ as a profit-making enterprise; in accordance with international best practices, the SEZ Authority will have a board of directors to oversee the strategic direction and operation of all the SEZs in the country. The board will be comprised of representatives from the public sector, private sector and non-state actors, who will be appointed by the Minister of Trade and Industry. While the SEZ Authority will oversee the development and strategic direction of all the SEZs in the country, each SEZ will have an administrative committee that will run its day-to-day affairs in accordance with the laws, regulations and guidelines provided by the SEZs Authority.¹⁶

4.1 Structures Required for Establishing SEZs in Sierra Leone

Based on the survey done on the structures required for the establishment of SEZs in Sierra Leone, among the 35 respondents interviewed to rate these structures in order of importance, from most important to least important, the survey establishes physical structures, such as residential buildings, office spaces, hotels, shopping malls, roads, etc. as the most important structures needed for the establishment of SEZs in Sierra Leone, followed by governance structure, operational, and management structures. Technological structure and others are the least important as seen in Figure 4.1.

The structural and institutional set-up of SEZs is complex and interconnected. It requires various actors both public and private, with different responsibilities to effectively run the SEZ.

Figure 4.1: Structures required for establishing SEZs
(Number of respondents out of total of 35)



¹⁶ S/L SEZs policy, 2022

4.2 Features Required for Establishing SEZs in Sierra Leone

Based on the survey responses regarding essential attributes for establishing SEZs in Sierra Leone, it is notable that exportation and processing stand out as the most crucial features. Following closely in importance are warehousing, importing, and packaging, as depicted in Figure 4.2

4.3 Facilities Required for Establishing SEZs in Sierra Leone

A total number of 37 respondents were given the questionnaires and asked to list and rate the facilities from most important to least important. Road networks were the most important facility to be considered when establishing SEZs in Sierra Leone, followed by electricity, water and health (See Figure 4.3).

4.4 Key Stakeholders and their Functions (Regulators, Implementers and Developers of the SEZs)

The structural and institutional set-up of SEZs is complex and interconnected. It requires various actors both public and private, with differing responsibilities to effectively run the SEZ. Moreover, it is highly dependent on country-specific political, economic, regulatory and administrative systems. Hence, there is no specific or uniform institutional model for SEZs. However, existing SEZ scholars share some key commonalities concerning the main stakeholders involved. These are as follows.

a. Government

The government plays a key role in the SEZ. It plans, organizes and sets the overall economic development goals, adopts key trade and industrial policies and implements them as required for the establishment of SEZs. The government also coordinates and monitors its SEZ policies alongside other relevant policy areas and its international obligations and allocates necessary resources – budgetary, personnel etc.

In order for there to be a successful implementation of SEZs in Sierra Leone, the government needs to set up the structural, legal, administrative and institutional frameworks in line with international best practices. Based on the review of the National SEZs Policy, there is a proposed authority called the Sierra Leone Special Economic Zones Authority which will be given the mandate to oversee the administration, development and strategic direction in the zones as do most other countries, which normally establish a separate SEZ authority to support their government's policymaking functions.

b. SEZ Authority

The SEZ authority is established to bolster the government's policymaking endeavours. It takes the form of a specialized agency or a state-owned enterprise, overseen by top-level government figures like the president, vice president, minister, or a distinct unit, often under the purview of the economics, trade, or finance ministry. These authorities synchronize zone policies, launch associated initiatives, and hold the mandate to designate SEZs. They streamline government services, oversee adherence to regulations, and monitor strategic and operational planning. This involves conducting feasibility studies for planned zones and evaluating applications for zone development.

Figure 4.2: Features required for establishing SEZs
(Number of respondents out of total of 37)



Figure 4.3: Facilities required for establishing SEZs
(Number of respondents out of total of 37)



c. Zone Developers

SEZ developers are accountable for creating and setting up designated zones. They supply land and necessary infrastructure in partnership with the relevant authorities. Essentially, they drive and engage in zoning and land use procedures aligned with their zone's master plan. These developers also construct on-site networks and utilities, integrating them with current systems. To ensure a prosperous and efficient SEZ implementation in Sierra Leone, the government should enlist technically proficient zone developers to oversee zone development and establishment.

d. Zone Operators and Users

Zone Operators also play a key role in the development and running of SEZs, they attract investors to the zone, in cooperation with investment promotion agencies. Also, they are responsible for the smooth operation of zone stakeholders. They adopt SEZ-relevant policies and supervise implementation, conduct strategic planning and assessment, and license private sector stakeholders. Zone developers provide essential infrastructure, invest and undertake business activities. While zone users are the buyers and sellers who bring in their goods and services to invest, they also play a key role in the proper functioning of SEZs.

4.5 Lines Ministries, MDAs and their Roles in Promoting the SEZs in Sierra Leone

SEZ stakeholders are entities or individuals who directly interact or collaborate with the authority in executing their mandate. These are MDAs, the private sector, development partners, staff, academic and research institutions, primary producers, trade unions, media, Parliament and the general public. The relationship that exists between SEZs and its various stakeholders is described in Table 4.2.

4.6 Incentive Framework to Attract Domestic and Foreign Direct Investment

According to the Sierra Leone SEZ policy, the following incentive framework was considered to attract domestic and foreign investors into Sierra Leone.

- Corporate tax reductions or exemptions;
- No restrictions or taxes on capital and profit repatriation;
- Exemption from foreign exchange controls;
- No charges on exports;

In order for there to be a successful implementation of SEZs in Sierra Leone, the government needs to set up the structural, legal, administrative and institutional frameworks in line with international best practices.

Table 4.1: Main Stakeholders in promoting SEZs

<p>Government</p> <p>Main Functions:</p> <ul style="list-style-type: none"> • Adopts SEZ-relevant policies and supervises its implementation • Establishes specific SEZs through decrees 	
<p>SEZ Authority</p> <p>Main Functions:</p> <ul style="list-style-type: none"> • Conducts strategic planning and assessment • Licenses private sector stakeholder 	
<p>Zone Developer</p> <p>Main Functions:</p> <ul style="list-style-type: none"> • Provides essential infrastructure • Makes land arrangements 	
<p>Zone Operator</p> <p>Main Functions:</p> <ul style="list-style-type: none"> • Manages and administers a zone • Promotes a zone and selects 	
<p>Zone Users</p> <p>Main Functions:</p> <ul style="list-style-type: none"> • Invests and undertakes business activities in a zone 	

Source: UNCTAD¹⁸

¹⁸ UNCTAD, 2017

Table 4.2: Stakeholder Analysis

S/No	Stakeholder	Roles
1	Ministry of Trade and Industry (MIT)	<ul style="list-style-type: none"> Participation in preparing different policies to support trade and investment Provision of quarterly and annual reports that support and Investment facilitation Partners with various stakeholders, both public and private sector for the establishment of SEZ Sets up the SEZ coordinating committee and Authority
2	Ministry of Energy	<ul style="list-style-type: none"> Provides adequate and sustainable electricity and other source of energy supply as an alternative
3	Ministry of Finance	<ul style="list-style-type: none"> Designs, coordinates and regulates (via taxes) in collaboration with National Revenue Authority and other MDAs Reviews and approves waivers and incentives as presented by the MITI Coordinates and regulates the financial and banking sector for access to credit facilities for firms within the SEZs
4	Ministry of Labour and Social Security	<ul style="list-style-type: none"> Enforces labour laws Trains and supports the recruitment of workers for the SEZ locations
5	Ministry of Land	<ul style="list-style-type: none"> Works on a comprehensive land policy that covers different aspects of land management, including land allocation and rights, land use and physical planning, land servicing and development, and land information
6	Ministry of Mines and Resources	<ul style="list-style-type: none"> Collaborates with Ministry of Trade and private sector and foreign investors to add value to the natural resources along the mine and mineral exploitation and manufacturing value chain
7	Ministry of Agriculture	<ul style="list-style-type: none"> Collaborates with Ministry of Trade to identify agro-processors, cooperatives, and exporters to make agriculture a competitive sector for economic growth
8	Ministry of Water Resource	<ul style="list-style-type: none"> Provides adequate and sustainable water supply and other source of water supply as an alternative
9	Ministry of Planning and Economic Development	<ul style="list-style-type: none"> Supports the integration of SEZ policies into MTDP and national development plan Provides technical support for the effective implementation of SEZ policies
10	Ministry of Internal Affairs	<ul style="list-style-type: none"> Provides security services for SEZ zones Maintains the peace and stability of the SEZ locations
11	Ministry of Justice	<ul style="list-style-type: none"> Provides effective and efficient mechanisms for the enforcement of property rights and contracts
12	MDAs	<ul style="list-style-type: none"> Participates in preparing different policies to support investment Provides quarterly and annual reports Supports investment facilitation
13	Investors	<ul style="list-style-type: none"> Issue SEZ License Regulate operations within SEZs Support and facilitate investment within SEZs Provide serviced land Provide investment opportunities
14	Development Partners	<ul style="list-style-type: none"> Provide opportunities to participate in SEZ activities and collaborate with the SEZ actors for the effective and efficient running of SEZs
15	Academic and Research Institutions	<ul style="list-style-type: none"> Provide updates and feedback on matters related to industrial, investment and trade activities Do research and provide updated data on investment
16	Private Sector	<ul style="list-style-type: none"> Supports the implementation of SEZs
17	Trade Unions	<ul style="list-style-type: none"> Provide human resource support for increased productivity Facilitate investors, traders, and cooperatives within the SEZs locations
18	Parliament	<ul style="list-style-type: none"> Provides effective laws and policies and demand Periodic performance report Renders advisory support on matters related to SEZ
19	Media	<ul style="list-style-type: none"> Provides information about investment opportunities available within SEZ Gives regular updates and feedback on matters related to industrial, investment and trade activities to the public
20	General Public	<ul style="list-style-type: none"> Provides employment opportunities Disseminates information on SEZ

Source: Stakeholder's survey, National SEZ policy, Tanzania SEZ report¹⁹

¹⁹ Special Economic Zone Policy, SEZs 2014 and Current reviewed, 2022

- Duty-free importation of raw materials, capital and intermediate goods;
- Exemption from local and indirect taxes.

However, there are others worthy to take into consideration in connection with the type of SEZs earmarked and their specific locations.

- Exemption from sales tax for a specific period;
- Exemption on real estate taxes on land and commercial/industrial improvements, as well as from the tax on the transfer of immovable goods;

Non-financial Incentives

- Employee training assistance in conjunction with quality management;
- Assistance with employee hiring, determining employee housing and educational needs, and legal requirements for SEZ companies.

It is recommended therefore, that the incentive framework of each SEZ be time bound, tied to the type and levels of investments and the size of the firms, as well as varied to include both financial and non-financial incentives. A revised incentive regime would not only attract targeted, dynamic firms, but also incentivize increased research, innovation, productivity and efficiency of existing SEZ firms.

4.7 Funding Models for Various SEZs

SEZs require financing for on-site infrastructure, including power and other utilities, internal roads, common facilities and buildings, and for off-site infrastructure, including access roads and utility connections. They also require financing for private firms investing in the SEZ and for management and operations. There are different models for SEZs. The government sets the broad framework, including legislation, regulation and taxation, with individual private firms operating in the SEZ. Where the models differ is in the responsibility—public or private—for financing infrastructure for the SEZ and for its operation and management.

Financing of external off-site infrastructure is a major investment and also involves alignment with public policy and broad national infrastructure planning. Because of this, it is typically financed either entirely by public sources or through public–private partnerships (PPPs). By contrast, financing of on-site infrastructure and the ongoing management and operation within the SEZ has more mixed financing models. These include the full range of entirely public financing, PPPs of various types, and purely private financing. A common model of financing PPPs is through separate companies being formed, with both the public and the private partners being shareholders and board members. The division of shareholdings and board members typically reflects the balance of assets being put into a joint venture (such as equity, debt and non-financial assets such as land), the risk each party is taking in relation to the business operations, and the division of rewards, including the receipt of dividends or other income streams from the SEZ.

4.8 Public Funding Models for SEZs

a. Multilateral development banks and development finance institutions have provided significant support for SEZs, including technical advice and financing. The World Bank financed \$2.4 billion for 35 SEZ projects globally between 1973 and 2015. These include export processing zones (EPZs), industrial estates/parks/free zones, commercial free zones, enterprise zones, agricultural zones and investment zones. SEZ financing has been found to be correlated with effective results in SEZs (CIIP, 2017). Financing has covered a broad range of needs, including land acquisition and site development, infrastructure, factory shells and technical assistance. The financing provided has varied widely but has included projects over \$100 million and financing with long tenure (CIIP, 2017). In Africa specifically, the World Bank has financed several “start-up” SEZs, including in Ghana, Madagascar, The Gambia and Uganda. The bank’s financing here has been predominantly for infrastructure and land, as well as broader technical support

Table 4.3: Summaries of different funding models for different stages and components of SEZs

Requirement	Public or Private	Common Structures	Example Financier
External off-site infrastructures	Public or private Ownership; PPPs	International Development Association	African Development Bank; Chinese government, Sierra Leone government; commercial banks
SEZ on-site infrastructure	Public ownership; PPPs; private companies with public and/or private	Public or private outright shareholders	International finance Corporation; venture capital; Sierra Leone government, Chinese government etc.
SEZ management	Private companies with public and/or private shareholders	Public or private	International Finance Corporation; venture capital; Chinese government
Firms operating in SEZs	Private	Private corporations	Self-financing including foreign direct investment and venture capital

Source: Author

(Xubei et al., 2013). The African Development Bank (AfDB) has also provided significant finance and technical advice for SEZs in Africa (although a consolidated figure of total financing for the sector is not available). Its focus has been on providing financing for infrastructure, including supportive infrastructure external to the zone. Sierra Leone can leverage on this as a funding model to establish its SEZs.

- b. Chinese-led partnerships:** China has been a leader in the development of SEZs. In recent years, it has sought to build on its expertise to establish its own SEZs—known as economic and trade cooperation zones—in Asia and Africa, in partnership with Chinese public finance and Chinese private investors. The partnerships typically involve finance from Chinese state-owned banks for infrastructure and private Chinese firms managing and establishing operations in the SEZs. Zones are developed through specially created companies. These can be subsidiaries of Chinese firms or co-owned with host governments as minority partners (although not typically domestic private investors). The private Chinese firms also receive support from the Chinese government, including subsidies, long-term loans and grants and guarantees from various Chinese state-led banks. They have lent expertise and important political and economic relationships in relation to SEZs, as well as provided financing and leverage over private firms to operate in SEZs. Take the case of Ethiopia, which has partnered with the Chinese government and Chinese private firms successfully to develop SEZs. Sierra Leone can also consider this as a funding model to establish its SEZs.
- c. Public–private partnerships:** Prior to the 2000s, the majority of SEZs were publicly financed, with less than 25 percent privately owned. However, in the past two decades, there has been a notable trend toward private financing of SEZs. This is because it alleviates the burden on the public sector. There is some evidence that private SEZs can be more effective in relation to their performance and competitiveness (FCIA, 2008; Farole and Akinci, 2011). PPPs have been the most common form of private financing for infrastructure and facilities within SEZs, which is then combined with public financing for off-site infrastructure such as utilities and transport connections. This is sometimes accompanied by land ownership or concessions to secure development rights, or by either “build-operate-transfer” or other management agreements. Partnerships with the private sector can add dynamism to zone development and be an important source of expertise. They also transfer risk from the public to the private sector. However, PPPs

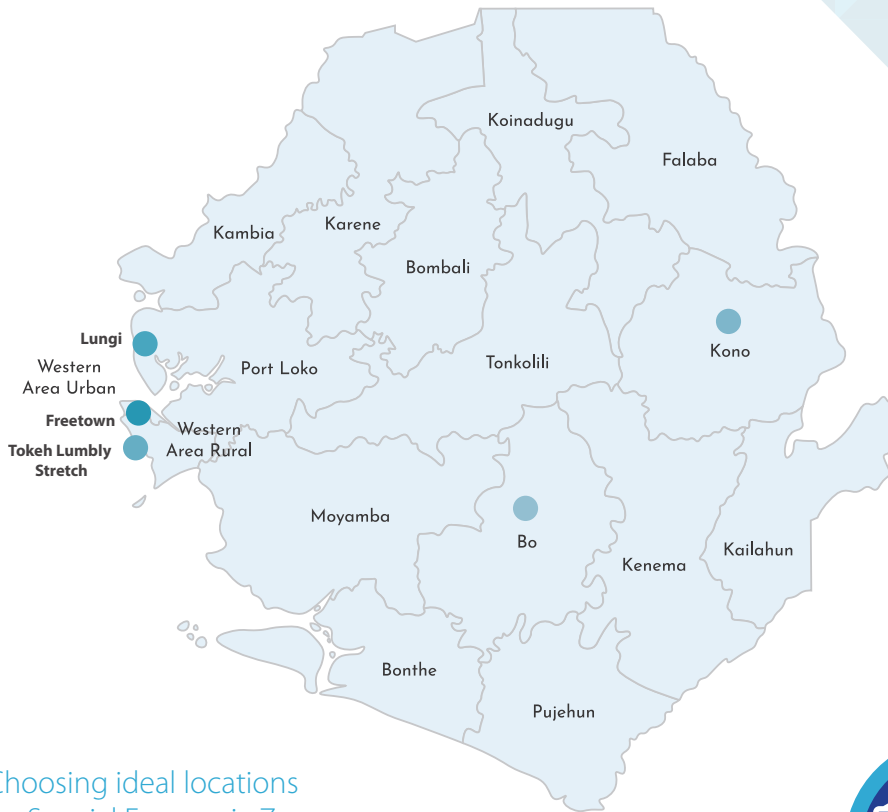
require the host government to develop an appropriate legal, regulatory and institutional framework, and achieving this can be difficult in countries with weak public institutional capacity.

4.9 Private Funding Model for SEZs

- a. Private sector-led SEZs:** Aside from public finance, private sources can finance SEZs. Such private finance offers the key advantage that the private investor is taking the risk—as well as the return—without any effect on public debt levels. Key sources of private finance include domestic and international commercial banks and capital markets and venture capital (including FDI). Instruments include loans and equity, including project financing. Each offers different advantages and disadvantages. The key sources of private finance are domestic and foreign direct investment. This includes investment from commercial firms and from venture capital funds. Such sources have the key advantages of combining liquidity and risk appetite as well as significant expertise. However, they are often relatively high cost. Commercial banks are active in project financing and are potentially important sources of infrastructure in SEZs. Financing from such commercial banks is typically provided as loans. They have the advantage of having lower conditionality than public finance and can also be accompanied by specialist advice on key issues such as structuring and yield.
- b. Attracting private investment:** When seeking to attract private investors, it is important to understand their concerns and requirements. Some of these relate to the commercial considerations of the project. Others relate to the investment mandates, regulatory requirements or fiduciary responsibilities of different types of investor classes. In developed countries, one of the fundamental requirements for investors is a credible government commitment to respect investors’ fundamental property rights (McMillan et al., 2017). For SEZs, such credible commitments include honouring ownership or leaseholds in relation to land and buildings and allowing businesses to operate within legal and regulatory requirements on an unfettered basis. Whether involving SEZ investment in infrastructure or through PPPs it is also important that agreements with the public sector are honoured, including in relation to issues such as ‘take-off’ agreements and taxation (Tyson, 2018). Private investors are also attracted by stable macroeconomic and political environments. An absence of such stability discourages investors because risks are difficult to hedge or otherwise manage (McMillan et al., 2017; Tyson, 2018).

At a Glance

Chapter 5



Choosing ideal locations for Special Economic Zones (SEZs) in Sierra Leone, suggest that a range of robust criteria is required to be met. The capabilities required cover economic, environmental, financial, social, sustainability, multiplier effect, infrastructure, investment climate, market size, geography, and other pertinent factors crucial for successful SEZ establishment.

Factors to Consider in the Choice of Locations for SEZs



Infrastructure

- Access to energy
- Road network
- Water
- ICT



Multiplier effect

- Backward and forward linkage enhancement



Social factors

- Housing for workers
- Health care
- Recreational center's
- Education
- Resettlement



Financial factors

- Access to credit facilities
- Interest rate
- Financial incentives
- Banking insurance
- Shipping



Economic factors

- Proximity to market
- Access to reliable energy
- Market size
- Nearness to raw materials
- Labour cost



*Soap making – A beneficiary of UNDP Livelihood Support Intervention in Sierra Leone.
Credit: UNDP/Mohamed Kanu*

5

An Analysis on the Choice of SEZ Locations

This chapter will provide a comprehensive analysis on the choice of locations for SEZs in Sierra Leone and further elaborate on the factors considered to choose these locations based on results gathered from the field, as corroborated by the literature relating to SEZ locational analysis. Furthermore, it will probe into the comparative advantage of each SEZ location selected as highlighted by the Sierra Leone Special Economic Zones Policy 2022 and provide findings and policy implications surrounding the choice of location of SEZ.

5.1 Analysis of Location Factors to Consider in Promoting SEZs

Using a stakeholder engagement strategy to conduct an evidence-based analysis to determine the ideal location for Special Economic Zones (SEZs) in Sierra Leone, suggest that a range of robust criteria is required to be met. The capabilities required cover economic, environmental, financial, social, sustainability, multiplier effect, infrastructure, investment climate, market size, geography, and other pertinent factors crucial for successful SEZ establishment.

In the survey, 35 respondents were interviewed to rank these factors by their level of importance, ranging from highly important to least important. Economic and infrastructural factors emerged as the most critical for SEZ location selection and establishment, according to the respondents' ratings. Financial and social factors followed closely behind in terms of significance. The importance of these factors was further analyzed and categorized, as presented in the figures to follow.

a. Economic considerations: Proximity to raw material, to market and infrastructure; access to reliable energy; market size; labour cost; local business climate and attractiveness, capability required, comparative advantages and new opportunities, capacity to enhance the trade potential with neighbouring countries, potential value chain development (agri-business, energy etc.) are all economic sub-factors to be considered when locating in an SEZ. Based on the survey conducted, among the 35 respondents interviewed to rate these economic considerations in order of importance, from most important to least important, the survey established proximity to market, access to reliable energy and labour cost as the most important factors needed for the establishment of SEZs in Sierra Leone, followed by local business climate, as seen in Figure 5.1.

The structural and institutional set-up of SEZs is complex and interconnected. It requires various actors both public and private, with different responsibilities to effectively run the SEZ.

Figure 5.1: Economic factors to consider for establishing SEZs
(Number of respondents out of total of 35)



b. Financial factors: Factors such as access to credit facilities, interest rate, banking, insurance and shipping were rated by the respondents in order of importance.

c. Social factors: Resettlement considerations, housing for workers, health care, education facilities, and recreational centers are all social factors considered by the respondents, as rated on its level of importance in figure 5.3.

d. Multiplier effect: Backward and forward linkage enhancement (e.g., bringing farmers into production and supply chains, promotion of retail and wholesale commerce, promotion of SMEs, spillover effects on the rest of the economy, general employment opportunity etc.)

e. Infrastructure factors: Access to energy, road network, water, ICT etc. is a key infrastructural factor to consider for the establishment of SEZs.

5.2 Analysis of Choice of SEZ Locations

The choice of potential locations of SEZs in Sierra Leone is tied to various factors. The modern model is used to determine the locational factors in the potential establishment of SEZs in Sierra Leone. Based on the data of the variables gathered from the survey and other sources, the result shows that urbanization, distance from raw material, and community stakeholders' willingness, have a significant impact on the selection of the location of SEZs. The concentration of SEZ locations is mainly due to favourable market and infrastructural conditions. As established by the stakeholder engagement survey, factors such as economic, social, infrastructure, political, environmental, and financial are key in the consideration process when selecting a location for SEZs. The modern model of SEZs relies mainly on the infrastructural capacity of each SEZ location, such as access to the road network, water, electricity, airway, seaway, health, ICT and education.

Additionally, it is important to highlight that Sierra Leone is grappling with significant infrastructural obstacles. The primary mode of transportation remains by road, and in certain potential SEZ locations, the road network continues to be in a dire state of disrepair. The existence of modern infrastructural capacity and the provision of reliable utility services such as health, electricity and water are of key importance for the successful operation of SEZs. Based on the stakeholder engagement survey and the review of the Sierra Leone SEZ policy, the following are the potential SEZs locations selected (See figure 5.4).

Figure 5.2: Financial factors to consider for establishing SEZs
(Number of respondents out of total of 35)



Figure 5.3: Social factors required for establishing SEZs
(Number of respondents out of total of 37)



Figure 5.4: Locations for establishing SEZs
(Number of respondents out of total of 37)

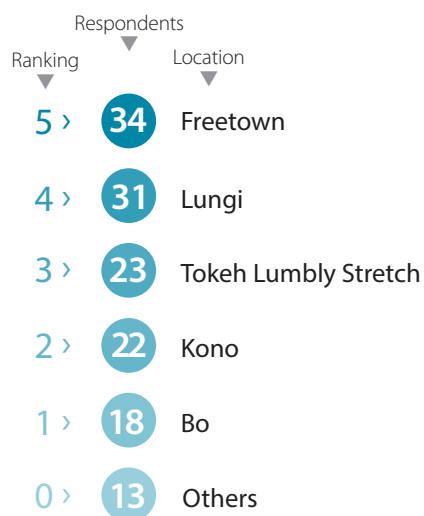


Table 5.1: Analysis on potential SEZ location selections

City/Town	Locational Analysis
Freetown	Freetown Port was selected as a potential special economic zone due to the competitive advantage it has in the country when comes to importation and exportation of goods. Freetown is the capital city of Sierra Leone, hosts the major logistics hub for Sierra Leone's imports and exports and is therefore close to neighboring regional and international markets, and represents a large market size compared to other selected locations, with a population of 1.3 million people (2015 Census). The major economic, financial, social, and political activities are in Freetown and has the highest infrastructural capacity among the locations selected. This location will attract investors due to its competitive advantage.
The Tokeh-Lumley Stretch	The route from Tokeh to Lumley is a major location for tourist attraction and economic activities. It is estimated that over 7,000 tourists arrive in Sierra Leone every year (World Tourism Forum, 2021), and the route from Tokeh to Lumley is a major tourist center due to the many beaches surrounding it. The number of international arrivals in Sierra Leone has increased by 23% annually between 2015 and 2019 to reach 71,000 in 2019. ²⁰ International tourism is rather low in the country compared to neighboring countries and the sector offers great opportunities and can play a key role in the country's development. This location will attract investors, create employment opportunities, and boost economic activities that will lead to productive transformation. Hence it is a strategic location for the establishment of SEZ if there is an agenda for infrastructural advancement in that location, especially from Tombo to the Number 2 route.
Lungi	Lungi is located in Port Loko district, the western province of Sierra Leone. Lungi town in particular has the only operational international airport in Sierra Leone with diverse economic activities. Lungi as well has great infrastructural capacity as compared to other selected locations for SEZs.
Port Loko	Port Loko district has various economic activities, and it has most of the modern elements generally considered when selecting a special economic zone. The Port Loko town has a 3-megawatt hydropower plant and key mining activities taking place.
Bo	Bo is considered the second largest city in Sierra Leone. It is a strategic location for the establishment of SEZ in Sierra Leone due to its main channel that connects the country's Mano River Union (MRU) member states and the Economic Community of West African States (ECOWAS).
Bumbuna	The Bumbuna hydropower plant, and many economic activities.
Matotoka	The town is a major link to the port of Nitti which supports mining and related activities. The Matotoka-Sefadu road in the Northern Province is significant to the government because it connects Sierra Leone to Guinea, Liberia, the Ivory Coast, and Mali via Koidu town. Furthermore, the road connects to Kono in the eastern province of Sierra Leone, which is a mineral-rich and important agricultural area in the country.
Dodo	The Chiefdom has the upgraded 6-megawatt Dodo mini-hydro dam in the Eastern part of the country.
Kailahun and Kono	Kailahun and Kono are rich in mineral deposits, especially diamonds. It has diverse agricultural activities as well. However, Kailahun and Kono are constrained in key infrastructural capacity which may hinder the establishment of SEZ

Sources: Stakeholder's engagement survey, Sierra Leone SEZs Policy, 2022

²⁰ <https://www.sljepa.gov.sl/industries/tourism>

At a Glance

Chapter 6

Operational Environment Regarding SEZs

Key factors such as economic, environmental, financial, social, political, human capital, multiplier effect, infrastructure, capabilities required, investment climate, market size, geography and other factors that directly influence the establishment of SEZs in Sierra Leone.



Establishing sustainable SEZs



Socio-economic



Productive capabilities



Financial resource & Management



Political



Environmental

6

Opportunities and Constraints in Promoting SEZs

This chapter identifies and assesses the key factors such as economic, environmental, financial, social, political, human capital, multiplier effect, infrastructure, capabilities required, investment climate, market size, geography and other factors that directly influence the establishment of SEZs in Sierra Leone. A stakeholder engagement survey was conducted on these key

factors to objectively assess them. The assessment process was based on the four major categories of SWOT; strengths, weaknesses, opportunities and threats. These are elaborated in Table 6.1

6.1 SWOT Analysis of the Operational Environment Regarding SEZs in Sierra Leone

Table 6.1: SEZs SWOT Analysis

Areas	Strengths	Weaknesses	Opportunities	Threats
Establishment of sustainable SEZs in Sierra Leone	<ul style="list-style-type: none"> • Availability of land and natural resources • Favourable SEZ and investment policies and laws • Presence of a strong and sound institutional set-up 	<ul style="list-style-type: none"> • Lack of sector- specific guidelines on environmental management matters 	<ul style="list-style-type: none"> • Availability of an international policy and guidelines for the development of sustainable SEZs • Partnership with development partners • Promotion of AfCFTA vision and the private sector Participation 	<ul style="list-style-type: none"> • Implementation of multiple capital-intensive projects at national level • Increased competition of SEZ development projects in neighboring countries, especially if no cooperation on SEZ policies, customs procedures, regulations etc. • Misalignment of priorities among government entities in the development of infrastructure in SEZ
Socio-economic context	<ul style="list-style-type: none"> • Availability of natural resources for GDP growth • Improved service sector 	<ul style="list-style-type: none"> • Fiscal and monetary policy remains weak and challenging • Fragile economy due internal and external shocks • High inflation rate • Gender inequality and Inequality between urban and rural areas, with rural showing poorer overall development²¹ • Weak manufacturing sector and industrial sector not well developed in general 	<ul style="list-style-type: none"> • Availability natural resources for potential economic growth • The government intensifies efforts to enhance human capital • Investment readiness and private sector development • Rapid urbanization at 3%, which creates new market opportunities but contributes to increase in slums 	<ul style="list-style-type: none"> • Continued external shocks due to COVID-19 and Russia-Ukraine war and its impact on businesses and households • High inflation rate has the potential to disrupt economic growth and contribute to instability
Productive capabilities	<ul style="list-style-type: none"> • Availability of competent employees • Increase number of training centers • A youth populated country • Availability of a scheme of service 	<ul style="list-style-type: none"> • Shortage of staff • Absence of a sound policy for development of skills • Inadequate financial resources. • Poor human capital development 	<ul style="list-style-type: none"> • Availability of training opportunities • Existence of enough training institutions for career development • Presence of relatively lower industrial labour cost • Availability of skills and technology transfer 	<ul style="list-style-type: none"> • Over-dependence on foreign expertise • Dependence on other MDAs for recruitment approval • Budget constraint

²¹ Multidimensional poverty measures 64.8% nationally, with an even higher rate of 86.3% for rural areas. Female multidimensional poverty stands at 65.9%, compared to the multidimensional male poverty rate of 64.2% (MPI, 2019)

Areas	Strengths	Weaknesses	Opportunities	Threats
Financial resource mobilization and Management capability	<ul style="list-style-type: none"> • Availability of feasibility studies for SEZs establishment • Strong political will to promote SEZs • Existence of structures and systems to facilitate better management of resources 	<ul style="list-style-type: none"> • High capital intensity nature of SEZs establishment will lead to difficulties in success • Absence of favourable policies to facilitate resource mobilization • Takes a long time to register property, access to credit and trading across borders • Lack of access to finance is the primary obstacle to growth for 40% of firms, notably for small firms²² 	<ul style="list-style-type: none"> • Availability of national industrialization policies that support investments • private sector participation in SEZs establishment • Presence of infrastructure development financing institutions 	<ul style="list-style-type: none"> • Longer repayment period for SEZs projects • Absence of sector- specific development banks • Borrowing to effect SEZs projects is subject to approval by other government entities
Political context	<ul style="list-style-type: none"> • Great political willingness for SEZs development • Availability of political tolerance in selected SEZ locations • Great experience of peace and stability 	<ul style="list-style-type: none"> • Increase political threats due to the general elections • Poor stakeholder's participations for the development of SEZs policies 	<ul style="list-style-type: none"> • Continued political peace and stability • Continued government willingness to promote SEZ development • Possible SEZ agenda continuity if there is a change of government 	<ul style="list-style-type: none"> • Lack of common ground for full political participation on investment policies and policies and laws related to SEZs • Threat to political instability due to the 2023 general elections • Concern about instability and democratic erosion in West Africa, violence in the Sahel region with potential spillover effects
Environmental context	<ul style="list-style-type: none"> • Early preparedness for emergency responses • Sound environmental policies • Many Environmental institutional setups 	<ul style="list-style-type: none"> • Lack of sector specific guidelines on environmental management matters • Sierra Leone ranks 26th amongst African countries and 140 out of 180 countries in the 2022 in terms of Environmental Performance²³ 	<ul style="list-style-type: none"> • Great awareness on environmental issues 	

Source: Stakeholder's survey, UNCTAD 2019, Tanzania SEZ report 2020.

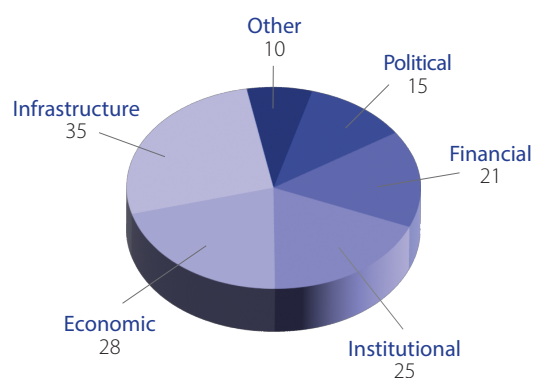
²² GoSL and UNDP. 2019. Sierra Leone Development Finance Assessment (DFA)

²³ <https://epi.yale.edu>

6.2 Capacity Challenges

SEZ establishment in Sierra Leone faces infrastructural, institutional, financial, economic and social challenges. These weaknesses are widely recognized as major factors hampering SEZs development in Africa. Based on the stakeholder survey, the respondents highlighted that insufficient services, poor location of zones/ limited access to domestic markets, excessive requirements to enter the zones, insufficient incentives packages, low capacity of local suppliers, and insufficient infrastructure are challenges the country might face in its efforts in establishing SEZs. According to the stakeholder assessment, infrastructural and economic challenges appears to be the highest-rated challenges the country might face in establishing SEZs, followed by institutional and financial ones.

Figure 6.1: Capacity challenges faced in SEZs establishment



Source: Stakeholder survey



Investing in Key Areas

Based on the findings, the agriculture and agribusiness sectors followed by the mining sector are key areas the government should leverage on to attract foreign direct investment for economic diversification and productive transformation. In addition, new sets of skills need to be developed to meet the needs of the private sector and maximize the contribution of SEZs to inclusive and sustainable development.



Agricultural & Agribusiness sectors



Mining sector



Foreign Investment



Trainees enrolled in UNDP's funded skills training program (gara-tie-dyeing department) at Ernest Bai Koroma University in Northern Sierra Leone. Credit: UNDP/Mohamed Kanu



7

Findings and Recommendations

As the country gears itself toward its vision of building a solid and transformative industrial structure that is globally competitive and will lead to productive and economic transformation of becoming a middle-income economy by 2030, the Sierra Leone National Five-Year Development Plan 2019-2023 identifies industrialization as the main policy objective and key driver of economic transformation.²⁴

The outcome of this research is to produce a report on productive transformation through SEZs and provide policy recommendations that support the establishment of SEZs in line with the global trend.²⁵

7.1 Implication of Research Findings for Policy Actions

Special economic zones are expensive and risky projects to undertake and it takes time for a zone to be successfully developed. They rely primarily on state coordination and have proven to be a powerful instrument that attracts domestic and foreign direct investment, promotes exports, and propels the process of productive transformation and economic diversification for sustainable development when well implemented. The environments in which zone projects are developed are complex and interconnected; therefore, an overly deterministic approach should be avoided.

Sierra Leone has the potential to derive great benefits from the establishment of SEZs, since the nation is in dire need of economic diversification and at the early stage of industrialization. Based on the stakeholder survey, facilitating infrastructure construction and production economies of scale are the key constraints that will be faced by the government. By overcoming these challenges, SEZs have the potential to attract foreign direct investment and economic growth. The establishment of SEZs in Sierra Leone will provide an ideal opportunity for SEZ policy experimentation, especially in the areas of building compliance mechanisms that will not exist outside the zones, such as the authority to issue and revoke licenses, monitor firms, terminate or negotiate leases, etc. which will offer opportunities to test innovations and revised key policies in the country.

The agriculture and agribusiness industry is already perceived currently by most respondents as the most important industry to leverage on for exports and is expected to become even more important for exports, followed by the mining industry.

This study has culminated in an extensive research on the relationship between the investment climate of the country and productive transformation through firm participation which will translate to great trade outcomes. The investment climate describes the risks, opportunities and cost associated in investing and operating a business, also the laws, policies and their implementation can influence how much to invest. The business environment presents a great challenge for Sierra Leone due to the fact that it is a low-income country and the investment climate is typically poor, with limited resources, small market size and capacity to implement major investment reforms, which is a strong determinant for foreign investors to enter the market. Based on the findings, there is no proper coordination of stakeholders to contribute on key investment policies such as the SEZ policy, and industrial policy which leads to a lack of involvement in formulating these policies and low public awareness of these policies.

7.2 Conclusion and Recommendations

To achieve the establishment and implementation of special economic zones and the productive transformation of the economy, the government needs to explore and adopt aggressive policies to support the competitiveness and growth of firms. Critically,

²⁴ Sierra Leone National Development Plan, 2019-2023

²⁵ *Ibid*

high-level political commitment goes beyond words, but with strategies and planning to ensure the successful implementation of the SEZs strategy. For there to be stability in the policy process, the government of the day does not need to remain in power but rather must rely on effectively functioning institutions, a high-quality civil service, and a political process that favours evolutionary change. Therefore, the policy framework of the zones should be flexible, so that they can attract various types and mixes of sectors, firms, and investment sources as they evolve. Policies that impose restrictions—such as allowing only processing or manufacturing activity, restricting domestic investors, or limiting local sales—threaten the long-term competitiveness of zone programs.

Several findings emerge from the stakeholder survey and from the policies reviewed. First, on most of the criteria assessed, the establishment of SEZs offers an improved business environment compared with what is available outside the zones; however, they do not seem to go far enough. The investment environment based on the survey is particularly poor at the national level, and the scale of the incentives offered in establishing SEZs is not enough to make the zones competitive on a global or even a regional basis. Secondly, stakeholders raise issues surrounding the factors to consider in establishing SEZs and the finding emerges that factors like economic, financial, infrastructure, environmental, and social stability are the most important factors to consider in selecting and establishing SEZs in Sierra Leone.

The agriculture and agribusiness industry is already perceived currently by most respondents as the most important industry to leverage on for exports and is expected to become even more important for exports, followed by the mining industry.

Based on the policies reviewed and the stakeholder's engagement findings, the following are some policy recommendations made for action:

1. The government should develop a clear and competitive position based on sustainable resources of comparative advantage. Based on the findings, the agriculture and agribusiness sectors followed by the mining sector are key areas the government should leverage on to attract foreign direct investment for economic diversification and productive transformation. In addition, new sets of skills need to be developed to meet the needs of the private sector and maximize the contribution of SEZs to inclusive and sustainable development.

To achieve the establishment and implementation of special economic zones and the productive transformation of the economy, the government needs to explore and adopt aggressive policies to support the competitiveness and growth of firms.

2. The SEZ Policy for Sierra Leone has been designed to attract domestic and foreign investors into the country through the provision of economic incentives and privileges that government will give to enterprises that locate within the zones. These include corporate tax reductions or exemptions, no restrictions or taxes on capital and profit repatriation, exemption from foreign exchange controls, no charges on exports, duty-free importation of raw materials, capital and intermediate goods, and exemption from local and indirect taxes. However, the policy has not considered non-financial incentives such as labour force development, priority access to land, infrastructure facilities, skills enhancement etc., which are also important in sustaining SEZs not only in Sierra Leone, but across the globe. It is recommended, therefore, that the government should revise the incentive framework of the SEZs and make these time-bound, tied to the type and levels of investments and the size of the firms, as well as varied to include both financial and non-financial incentives.²⁶
3. The government should eliminate policy biases against local companies and encourage domestic investors to locate in the selected zones by eliminating policy restrictions and investment-level requirements (or, if necessary, developing alternatives for smaller local firms) to encourage local competitiveness.²⁷ Business clusters with local concentrations of horizontally or vertically linked enterprises (both leading firms and local businesses) and strong production networks increasing local content and building on productive capabilities at the local level should be promoted to create opportunities for micro, small and medium enterprises in regional and international value chains and markets.

²⁶ Thomas Farole, *Special Economic Zones in Africa Comparing Performance and Learning from Global Experience*

²⁷ *ibid*

4. The government should ensure that the SEZ program is focused where it can best complement and support comparative advantage, based on the available resources in the country, as validated through a detailed strategic planning, feasibility, and master planning process.
5. Based on the stakeholder survey, it clearly shows that, there is no proper coordination and key stakeholders' participation in the formulation of both SEZ and industrial policies. In order to ensure high-level political support and broad commitment before launching any program, including the establishment of an inter-ministerial committee to oversee SEZs projects, it is recommended therefore that the government ensure proper coordination and provide enough information to the public for establishing SEZs in Sierra Leone.
6. The government should ensure the development of sound legal and regulatory frameworks and cement them by addressing the challenges of institutional design and coordination that will establish clear standards with regard to environmental, labour, and social compliance by identifying regulatory responsibilities for monitoring and enforcement. Government should also promote exchange between the zones and the domestic environment through both policy and administrative reforms.²⁸
7. It is also recommended that the government takes proper consideration of its capacity to deliver on the SEZ program, particularly in light of the integrated and long-term nature of SEZs. This will require a thorough analysis of institutional development, financial capacity, infrastructural capacity and economic factors that influence zone policy and implementation.
8. In relation to funding model policy recommendations, there is a need to expand DFI financing and blended finance for the private sector development of SEZs. The government should leverage on multilateral development banks and development finance institutions, Chinese-led partnerships, PPPs, and private-sector led SEZs. Both funding models would enable the expansion of private financing of SEZs and enable demonstration projects and innovation led by DFIs. Further, there is a need for an expansion of technical support from international financial institutions to assist the host government in partnering with private finance to develop SEZs. In particular, there is a need for early-stage financing and technical support to develop methodologies and expertise in project assessment and contracting.
9. The government, in collaboration with partners, should develop and regularly update comprehensive investor maps²⁹ as a lack of data on the local context can delay decision making and stymie investment and make SEZs less attractive for investors.
10. The government should explore establishing venues for collaborative learning, partnerships, and the sharing of best practices in SEZs. This is particularly important for amplifying innovative business concepts and enhancing the competitive edge of local enterprises. By forming strategic alliances with nations that have well-established SEZs, which have developed over years, greater policy consistency and economic transformation can be achieved. This will also enhance the country's contribution to the global co-operation architecture, including through multidimensional country reviews and thematic policy dialogue networks and working to promote more and better quality development cooperation and finance. Through mutual learning and knowledge-sharing exercises, the government will understand challenges of interest to several member states and associated countries and draw on a hands-on project-based exchange of good practice, identify potential threats, lessons learned, and success factors based on robust evidence. This will help Sierra Leone to gain a strategic advantage in the international environment by building robust and long-term knowledge and policy dialogues that support reform agendas to avoid failure.

²⁸ UNECA (2007). *Accelerating Africa's Development through Diversification. Economic Report on Africa 2007*, United Nations Economic Commission for Africa, Addis Ababa, Ethiopia

²⁹ <https://sdginvestorplatform.undp.org/>



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*Traditional Leaders – A paramount Chief at a #PEACECLOTHE signing event at during the June 2023 elections campaigns.
Credit: Geoffrey Buta*

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Annex 1

Table 1.1: Interview Guide Questions (Qualitative)

S/No	Stakeholder / Sector	Key Informant Interview (No)	Questions
1	Ministry of Trade and Industry (MIT)	3	1. Please tell me about the role you are playing
2	Ministry of Finance	2	2. What do you understand by Special Economic Zone (SEZ)?
3	Ministry of Tourism and Culture	1	3. What do you think your ministry/sector/ Government has done so far with regards to SEZ?
4	Ministry of Planning and Economic Development	2	4. What policy has been developed so far on SEZ in Sierra Leone?
5	Ministry of Agriculture and Forestry	2	5. Have there been any changes on those policies?
6	Invest Salone	1	6. What laws/policy developments in Sierra Leone in the past five years do you think will affect SEZs?
7	Ministry of Mines and Mineral Resources	2	7. Are these laws and policies being implemented well? If no, why? If yes, what is fuelling the successful implementation of those policies?
8	SMEDA	1	8. What structures, facilities and features do you think needed to build successful and integrated Special Economic Zones (SEZs).
9	NRA	1	9. What is your possible choice for SEZ location in Sierra Leone?
10	Association of Commercial Banks	1	10. What opportunities, challenges and risks do you think is associated with the SEZs in Sierra Leone?
11	Chamber of Commerce	1	11. What public policies and priority sectors do you think should be developed through SEZs?
12	Sierra Leone Insurance Commission		12. What key stakeholders, institutions do you think should be engaged to produce a sound and effective policy on SEZs?
			13. What recommendations will you provide on the creation of spaces for mutual learning, partnerships and exchange of best practices, especially to scale-up innovative business ideas and increase the competitiveness of local firms in Sierra Leone?

Annex 2

Table 2.1: Key Stakeholders for Quantitative Interviews

S/No	Stakeholder / Sector
Government Ministries	Ministry of Trade and Industry
	Ministry of Finance
	Ministry of Agriculture and Food Security
	Ministry of Planning and Economic Development
	Ministry of Fisheries and Marine Resources
	Ministry of Mineral Resources
	Ministry of Internal Affairs
	Ministry of Labour and Social security
	Ministry of Tourism
	Ministry of Land
Government Departments and Agencies	Sierra Leone Import and Export Promotion Agency
	Local Content Agency
	National Investment Board of Sierra Leone
	Small and Medium Enterprise Development Agency
	Sierra Leone Producing Marketing Company
	Public-private partnership Unit
	National Revenue Authority
	Diaspora Investment Unit
Private Sector	Sierra Leone Chamber of Commerce
	Invest Salone
	Kissy Industry
	Shakandas
	Kings production company
	Sierra Leone Commercial Bank
	United Bank of Africa
	Ecobank
	Rokel Commercial Bank
Other Stakeholders	Cooperatives
	Recently Formalized Enterprises
	Business Incubators
	Local Councils
	Local Politicians
SEZs selected locations	Lungi
	Lumbly

Annex 3

Instrument Set A: List of Needs Required for Promoting Special Economic Zones

Table A.3.1: Structures

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Governance structure					
2	Technological structure					
3	Physical structure					
4	Operational structure					
5	Management structure					
6	Others					

Table A.3.2: Facilities

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Water					
2	Electricity					
3	Road network					
4	Education					
5	Health					
6	Others					

Table A.3.3: Features

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Importing					
2	Exporting					
3	Proceeding					
4	Packaging					
5	Warehousing/storing					
6	Others					

Instrument Set B: Location Selection for Establishment of SEZs in Sierra Leone

Rating of SEZ location factors in order of importance
SEZ Type: .

Table B.3.1: Economic Considerations

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Nearness to raw material					
2	Nearness to Market					
3	Access to energy					
4	Access to ICT					
5	Labor cost					

Table B.3.2: Financial Service Consideration

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Access to credit					
2	Interest rate					
3	Banking					
4	Insurance					
5	Shipment					

Table B.3.3: Environmental Consideration

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Proneness to disaster					
2	Biodiversity consideration					
3	Water and Irrigation					
4	Climate change					

Instrument Set B: Evaluation of Socio-Economic Context for Promoting Special Economic Zones using "SWOT" Analysis

Table C.3.1: What are the strengths of the economy for promoting SEZs? (Please list below)

1.
2.
3.
4.
5.

Table C.3.2: What are weaknesses of the economy for promoting SEZs? (Please list below)

1.
2.
3.
4.
5.

Table C.3.3: What are the opportunities to the economy for promoting SEZs? (Please list below)

1.
2.
3.
4.
5.

Table C.3.1: What are the possible threats to the economy for promoting SEZs (Please list below)

1.
2.
3.
4.
5.

Instrument Set D: Capacity Required for Establishing Special Economic Zones in Sierra Leone

Rating of SEZ capacity in order of importance

SEZ Type: .

Table D.3.1: Economic Capacity

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Financial Capacity					
2	Technical Capacity					
3	Managerial Capacity					
4	Institutional Capacity					
5	Infrastructural capacity					
6	Others					

Table D.3.2: Infrastructural Capacity

	Element of consideration	Not Important	Least Important	Important	Very Important	Highly Important
		1	2	3	4	5
1	Road					
2	Power (electricity etc.)					
3	Water					
4	ICT facilities					
5	Education					
6	Others					

