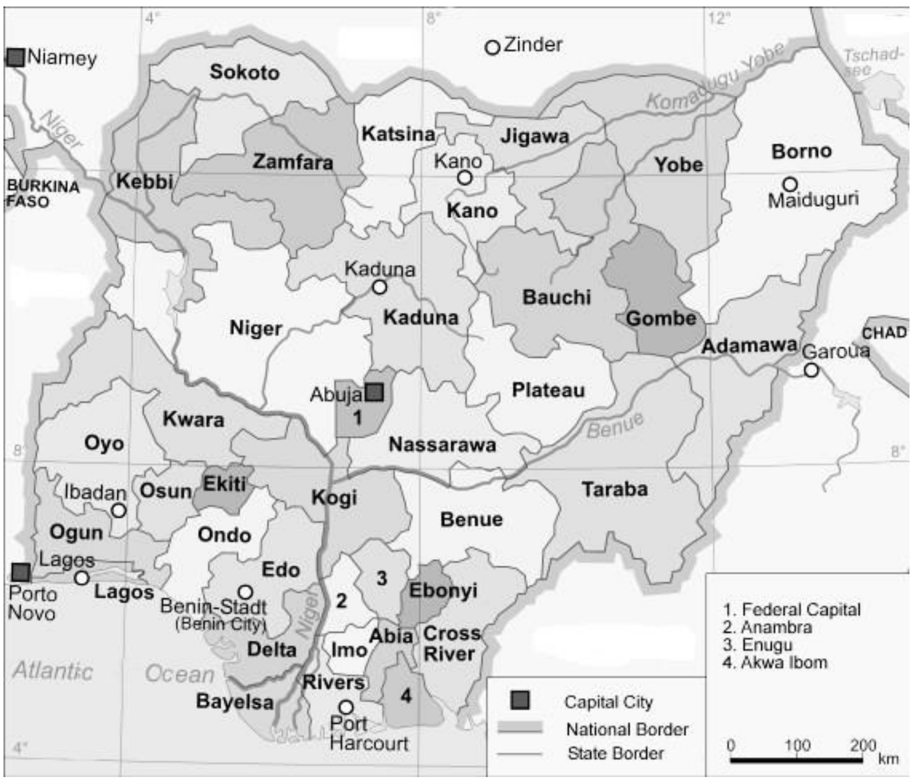
An Overview of Six Economic Zones in Nigeria: Challenges and Opportunities



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Executive Summary

This report provides a brief overview of six economic zones in Nigeria, and discusses the main findings with respect to the zones: development goals and the anticipated benefits of the zone projects, key implementation challenges and preliminary proposals on enhancing the development/implementation process moving forward. The objective is to *improve the shared understanding* of these six zone projects and to *identify opportunities* on how foreign investments in these six zones can provide the maximum possible benefits both for investing countries and the host country.

Based on a preliminary assessment, it seems all six zones reviewed in this report have made some progress, albeit at different degrees. In terms of real development, the Lekki Free Zone and the OgunGuangdong Free Trade Zone have made the most significant progresses, with some on-site infrastructure already built or committed and several firms already operating in the zones. The zones in Abuja and Delta State are mostly in the early stages, but they seem to have strong government ownership and backing and each got several potential partners or anchor firms interested for investing.

All the zones face some common challenges, at varying degrees, in the areas of legal and institutional framework, resettlement, infrastructure, environment, zone management & operational know-how, and host government ownership. Given these challenges, a set of action plans are proposed for moving forward, including: hands-on technical assistance to the zone developers and regulators through WB projects; knowledge sharing and capacity building; additional analytical TAs for business plan or master plan; financing or credit enhancing schemes through the equity investment of IFC or the risk guarantee programs of MIGA; and assistance on investment promotion.

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A. Introduction[1]

This note is based on the insights gained from field visits by World Bank staff[2] to six Zone project sites in Nigeria in December 2011. Meetings were held with relative stakeholders (government officials, zone developers, and zone management) in:

1. Lekki Free Trade Zone, Lagos Stage;
2. Ogun-Guangdong Free Trade Zone, Ogun State;
3. Abuja Technology Village in FCTA;
4. KoKo Free Zone, Delta State;
5. Warri Industrial Business Park, Delta State; and
6. The ICT Park Asaba, Delta State.

The note builds on earlier work in Nigeria conducted in 2009-10, as mentioned in Section C of this report.

The objectives of this report are twofold:

(1) to *improve the shared understanding* of these six zone projects including the development objectives, investment structures and institutional arrangements, current status and performance, issues and challenges related to implementation, and the short to medium term plans; and
(2) to *identify opportunities* on how foreign investments in these six zones can provide the maximum possible benefits both for investing countries, such as China, and for the host country in terms of leveraging the combined expertise, experience and resources of investing countries, host government and the World Bank Group.

This report discusses the main findings of the missions with respect to the six zones: development goals and the anticipated benefits of the zone projects, key implementation challenges and preliminary proposals on enhancing the development/implementation process moving forward.

The report is structured as follows. Section A provides a brief introduction of the report; Section B provides a summary of the international best practices in economic zone development; Section C provides a description of the zone profiles and current status; Section D summarizes the key challenges facing the zones; and Section E proposes some action plans for moving forward; and Section F is a summary matrix of the zone characteristics.

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[1] Some figures and facts in the report are preliminary and may need further verifications with the zone developers.

[2] From December 5-17, a team consisting of Michael Wong (TTL, AFTFW), Douglas Zhihua Zeng (Co-TTL, AFTFE), and Collins Umunnah (World Bank country office, Abuja) carried on the mission. Chioma Kelechi Nwagboso (World Bank country office, Abuja) also provided operational support.

B. International Best Practices on SEZs: A Nutshell

There are strong policy and infrastructure rationales behind establishing SEZs. International experience has shown that successful SEZs have compelling business cases, enabling legal/regulatory frameworks, effective management arrangements and enjoy strong political support at all levels of Government. In addition, they are well integrated with the local economy and have clear ownership and accountability arrangements. Perhaps most importantly, the global experience of SEZs suggests that optimal results are achieved when SEZs are established and operated as part of a national economic development reform strategy, and not as a "one off" venture.

More specifically, good practice SEZs share the following key attributes:[3]

(a) Physical planning and infrastructure
- Integrated, multi-use development
- Effective IT systems and networks
- Availability of specialized facilities and business services
- Public provision of off-site infrastructure

(b) <u>Development Approach</u>
- Business driven (demand driven as opposed to policy driven)
- Part of a national economic growth strategy
- Public-private partnerships or private developer builds/owns/operates SEZs on cost-recovery basis

(c) <u>Policy Features</u>
- Political consensus – political 'champions' to support required reforms
- Best practice regulatory framework and stable business environment
- Targeted at multi-markets and not just for exports
- Wide range of activities permitted
- Emphasis on deregulation and de-monopolization
- Streamlined procedures to establish and operate enterprises
- Shift towards universal tax incentives/low tax area
- Adherence to universal labor rights
- Environmental compliance
- Equal treatment of all foreign and domestic companies
- Incentives for private developers

(d) <u>Institutional Framework</u>
- Establishment of a single administration to manage zone activities and high level political support
- One-stop shop for efficient zone regime regulation
- Autonomous, flexible, well funded regulatory authority
- MOUs with stakeholders to govern relationships
- Public-private partnership arrangements

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[3] Draws on World Bank, 2010, "Chinese Investments in Special Economic Zones in Africa: Progress, Challenges and Lessons Learned", AFTFP.

Learning from the Chinese Experience

China's SEZ policy has been widely lauded for its remarkable success as a tool for attracting FDI, promoting export-oriented industrialization, and catalyzing market-wide reforms. Starting in 1980, with the establishment of four SEZs in the southeastern coastal region of the country, more than a hundred zones of various kinds have now been rolled out throughout the country. They have become one of the key drivers of China's rapid economic development.

As a result, there is especially strong interest in many countries to emulate the experience of China in developing SEZs as a policy instrument in economic liberalization and export-led growth, attracting foreign investments and enhancing the competitiveness of the manufacturing sector (see Box 1).

Box 1: Lessons learned from the Chinese SEZ experience
The contributions of SEZs to the economic growth of China in terms of share of gross domestic product (GDP), FDI, employment creation, technology and skills spillovers are remarkable. From experimental beginnings as policy test beds for controlled economic liberalization and marketoriented reforms in 1979/80, Chinese SEZs accounted for more than 22 percent of GDP and 50 percent of FDI in 2007. Many factors contributed to this success including the following: **Strong commitment to reform and pragmatism from top leadership:** the SEZ policy was backed by the highest levels of national, provincial and local authorities and emphasized a pragmatic approach towards economic reforms. **Location advantages**: the zones were located in the coastal region with good access to major infrastructure such as ports, airports and railways and links to international markets and historical trading relationships. **Preferential policies and institutional autonomy**: the zones had in place preferential policies, including inexpensive land, incentives, rapid Customs clearance and a business-friendly environment. The SEZs also enjoyed institutional autonomy to establish and implement a legal and policy framework conducive to investors. **Early emphasis on infrastructure investments**: there was a strong commitment towards government investments in infrastructure both onsite and offsite as well as establishment of business support services. **Role of FDI and the Chinese Diaspora**: the success in attracting foreign investors and the Chinese Diaspora led to significant technology transfer and learning spillovers. **Technology learning, innovation, upgrading and strong links with the domestic economy:** there was a strong emphasis by the government in supporting learning and skills upgrading through a combination of incentives, policies and regulations and linking SEZs to domestic supply chains. **Clear objectives, benchmarks and intense competition**: the SEZs were set up with clear objectives and targets for economic growth, exports, employment and investment. The large number of SEZs competed with each other for investments based on quality of services and infrastructure offered to investors. *Source:* Zeng, Douglas Zhihua. 2010. *Building Engines for Growth and Competitiveness in China: Experience with Special Economic Zones and Industrial Clusters*. World Bank.

C. A Brief Background of the China-Africa-World Bank Cooperation on Economic Zones

Two World Bank missions had been conducted so far under the general China-Africa-World Bank framework since 2009. Consultations were carried out between the Ministry of Commerce of China (MOFCOM), the World Bank Group (WBG) and the governments of Nigeria, Ethiopia and Mauritius on learning from the Chinese experience on Special Economic Zone (SEZ) initiatives as well as exploring the prospects for tripartite collaboration. It was agreed that all three stakeholders share similar objectives in promoting the development of SEZs to support Africa's industrial development and export growth by encouraging manufacturing and other investments from China as well as from domestic and other foreign investors.

In July 2010, a WBG mission visited four zone project sites and met with the respective developers: (i) in Nigeria, the Lekki Free Trade Zone in Lagos State and the Ogun-Guangdong Free Trade Zone in Ogun State, (ii) in Ethiopia, the Eastern Industrial Park in Dukem, and (iii) in Mauritius, the JinFei Economic and Trade Cooperation Zone in Riche Terre. The mission also met with counterparts from Governments and the private sector as well as the principal stakeholders in China: China-Africa Development Fund, Export-Import Bank of China (Eximbank), Guangdong Xinguang International Group, China Railway Construction Corporation (CRCC) and Qiyuan Group.

In December 2011, a follow-up WB mission[4] visited six zone project sites in Nigeria and met with relative stakeholders. Except for the Lekki Free Trade Zone and Ogun-Guangdong Free Trade Zone, which were visited before, all other four zones were visited first time, which include: Abuja Technology Village in FCTA; KoKo Free Zone, Warri Industrial Business Park, and the ICT Park Asaba in the Delta State.

D. Main Findings of the Nigerian SEZs - Zone Profiles and Current Status

This section reviews the current situation in all six zones located in Nigeria, mainly based on the World Bank mission in December 2011. It includes the brief profile, ownership structure, development phasing, financing, infrastructure status, business prospects, and key challenges for each zone.

1. Lekki Free Trade Zone, Lagos State

The Lekki Free Trade Zone (LFTZ) is located 60 km east of Lagos on a sandy peninsula with the Atlantic Ocean to the south and Lekki Lagoon to the north. The LFTZ is part of the overall multi-use development plan for a new city on the Lekki peninsula which includes residential, commercial, industrial, logistics and recreational development as well as a new airport and deep water port. The

[4] From December 5-17, a team consisting of Michael Wong (TTL, AFTFW), Douglas Zhihua Zeng (Co-TTL, AFTFE), and Collins Umunnah (World Bank country office, Abuja) carried on the mission. Chioma Kelechi Nwagboso (World Bank country office, Abuja) also provided operational support.

illustration plan reflects a large-scale vision plan that has been completed for the entire Lekki peninsula.

The development objective of the LFTZ project is to "establish a free economic zone and an international city with multi-functions of industry, commerce, trade, tourism, recreation and residence to attract foreign investment, create employment and expedite economic growth".[5]

The zone is owned by a joint venture between a Chinese consortium - China-Africa Lekki Investment Co. Ltd (CALIC) (60 percent), the Lagos State Government (20 percent) and its subentity, Lekki Worldwide Investment Ltd (20 percent). The Chinese consortium CALIC is an investment holding company registered in China solely for the purpose of investing in the Lekki FTZ. CALIC consists of CRCC (35 percent), CADF (20 percent), Nanjing Jiangying Economic and Technology Development Corporation (NJETDC, 15 percent) Nanjing Beyond Investments Limited (NBIL, 15 percent) and China Civil Engineering Construction Corporation Ltd (CCECC, 15 percent). Lekki Worldwide Investments is an investment company, owned largely by the Lagos State Government: 40 percent of Lekki Worldwide Investments is owned by LSDPC, the Lagos State Government Development Corporation, with another 40 percent owned by Ibile Holdings, the investment company of Lagos State. The Lagos State government allocated 16,500 ha of land of which 3,000 ha has been officially transferred to the developer so far. The Lagos State Government's equity share is in return for providing the land and the 50-year right to operate the zone to the Chinese consortium. The State Government is also contributing towards the construction costs of the zone infrastructure, together with the developer.

Development phasing and financing

According to the March 2009 Feasibility Study, Phase I of the LFTZ (the China-Nigeria Economic and Trade Cooperation Zone) consists of the development of 1,176 ha over a period of five years with a start up area of 780 ha. Based on more recent information, it is understood that this plan has been scaled down considerably. The start up phase, which is currently under construction, now consists of a total land area of 154 ha.[6] The first stage of this development involves the construction works for the provision of necessary infrastructure facilities, including site clearance and leveling (partial), internal roads, landscaping, water supply and sewerage, power supply, telecommunications, gas supply, industrial workshops, warehousing/logistics/storage facilities, public/commercial facilities, residential buildings and environment protection facilities. This is expected to take up to five years to complete, and will encompass 109 ha. The second stage, also estimated at five years, will see the completion of construction of the remaining 45 ha of land. The total project cost is estimated at US$400-500 million, with the financing sources from the developer, Chinese government, Lagos government and private investors. The project envisages a mixed use of industrial companies, service-sector companies, commercial property, residential property, and other amenities, such as school, hospital and hotels. The developer estimates that the full development of the zone could create more than 100,000 new jobs directly and many more indirectly once the zone was fully occupied and completely operational.

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[5] CCECC-Beyond International Investment and Development (2009).

[6] the team was informed that the 2009 Master Plan has been revised but was not provided the revised Master Plan as it was yet to be approved by NEPZA

Current status and infrastructure

The major infrastructure needs include: a dedicated power plant for the Lekki peninsula, water and waste water treatment plant, access roads, airport, and deep sea port as well as two additional bridges to the mainland.

Completed works in the start up phase include an entry gate and associated offices, land clearing, construction of around 14 km of internal roads and drains, water supply from six bore wells and power supply from a 1,750 kw diesel generator. Bids have been completed on a 10-15 megawatt transitional power plant[7] project, which will be evaluated by May 2012, and construction should be completed 12 months after that. A 7 km drainage canal is under construction. A Lekki One Stop Shop has been established at the zone and was formally launched in September 2010. A small industrial unit producing construction materials for the project is operational. A ready-built standard factory (3,500 m^2) and warehouse (3,000 m^2) have been completed and according to the developer, 8 companies are currently operational, employing approximately 450 employees, 80% of whom are Nigerian. Residential facilities for Chinese workers have also been completed and are partially occupied. The deep sea port has got a concession from an investment consortium consisting of a Singaporean investor (Eurochem), the Lagos state government and some Chinese firms and is expected to start the construction work in June 2012. Two access roads have been built (including a toll road) and a water road is also being planned. A new airport has been planned to be built through PPP and will be open for bidding in 2012. The estimated investment would be around $1 billion. A potential light rail line from Lekki to the mainland is also being considered through PPP. However, much of the future viability of PPP opportunities rests on resolving the current impasse on toll collection for the completed Lekki toll road (it was said that the toll road will start to collect toll in 2012 but it is a still a big concern for the financiers).

The developer indicated that several marketing and training activities have been conducted in China, and a large scale marketing event is being planned in Nigeria (Investment Forums in Lagos and Abuja) in 2012.

Business prospects

Based on the 2009 Feasibility Study, the zone is targeting four types of activities:

- Light industry including furniture, textile & garments, footwear & headwear, construction & building materials, household electrical appliances & other consumer products;
- Vehicle assembly including buses, trucks, tractors, motorcycles as well as construction and engineering equipment;
- Warehousing and logistics including for petroleum products; and
- Real estate development for urban services, finance, trade, hotel, recreational and business and residential facilities.

According to the developer, 75 investors have signed MOUs to date, 64 are registered in the zone of which about 28 have signed investment agreements, and 8 are operational. Currently the 8 firms employ about 450 people, with about 80% are Nigerian. The tenancy on zone lot is about minimum

[7] Also called "Captive Power Plants" (CPP) – power plants producing for a localized zone.

5 years, and maximum 25 years, and the tenancy in factory shells is about 3-5 years. Lease prices for lots are $20/m^2 for manufacturing; $50/ m^2 for oil & gas sector; and $50-100/ m^2 for real estate development. High prices are due to the high cost to sand fill in that area. Tenants would pay for utilities through the management company so they don't have to deal with utilities directly.

The major challenges in Lekki are the legal and institutional framework and the land resettlement issues, besides infrastructure, such as ports and power plant. However, the former ones are beyond the developer's control, and affect all the potential investors in the zone, and the legal framework is a hurdle to all the zones in Nigeria, therefore, they need to be tackled with great urgency.

2. Ogun-Guangdong Zone, Ogun State

The Ogun-Guangdong Zone is located in the Igbessa Region of Ogun State, west of Lagos State, 30 km from Lagos international airport. The zone is being developed as a joint-venture between a Chinese consortium (82 percent) which consists of Guangdong Xinguang International Group, China-Africa Investment Ltd and CCNC Group and the Ogun State Government (18 percent). The equity share of the Ogun State is in return for the land and a 100-year concession for the developer.

The project originated from a 2004 study of South China University of Technology on the feasibility of setting up a Guangdong economic trade cooperation zone in Nigeria. This study was used in the successful bid by Xinguang International Group in the first MOFCOM tender in 2006. The project was originally planned to locate in Imo State, but the developers ran into high administration fees imposed by the State Government and a general climate of insecurity, and decided to relocate their project to Ogun State. The move in addition to the developer's legal and financial problems back in China caused delays to the project implementation. Construction in Ogun began only in the first half of 2009. The zone has a total area of 10,000 ha, which will be developed in two phases. Phase I consists of 2,000 ha with an estimated investment of US$500 million; within this, the start-up zone will be developed on 250 hectares, with an estimated investment of US$220 million. The zone will focus primarily on light manufacturing, including construction materials and ceramics, ironware, furniture, wood processing, medicine, small home appliances, computers, lighting, and paper.

Current status and infrastructure

So far the developer has invested about $20 million to build on-site infrastructure, such as roads, land clearing, fencing, lighting, water, and ready-built factory shells, etc. However, the infrastructure needs are still very significant. A power plant still needs to be built and a potential investor has been identified from China. Gas pipelines have been laid by the Shell Oil Company but they are not operating yet. The state government has promised to build the access roads but nothing has been done yet. There is no direct road to the sea port, which is 40 km away, and it takes about 3-4 hours to get to the port.

Business prospects

There are three FTZs in Ogun State—the Ogun-Guangdong FTZ, the Olokola (OK) FTZ (an LNG facility on the border with Ondo state) and a Specialized Railway Industry FTZ. An oil refinery is under construction, and the state government has plans for a new seaport at Olokola as well as a cargo airport (Gateway). Given Ogun's location, it serves as an important commercial gateway to the Lagos metropolitan area. As a result, it hosts a number of major foreign investors, including Nestle. The development objectives of the Ogun-Guangdong zone are similar to Lekki and the zone is envisioned to be a multi-use development project with manufacturing, logistics, commercial and residential areas. The developer indicated that 32 firms have signed investment contract out of which 25 have registered with NAPZA, and seven companies already operating in the zone (in steel works, furniture, packaging/printing, footwear, detergents and leather products).

Similar to the Lekki Zone, the major challenges for the Ogun-Guangdong zone are also the legal and institutional framework and the land resettlement issues, besides infrastructure, such as the access roads and power plant. Due to the legal and land issues, many potential investors are put on hold.

3. Abuja Technology Village (ATV), FCTA

Abuja Technology Village is a technology park and free zone located in the capital city of Nigeria, with a land allocation of 700 hectare. In 2004, Abuja Technology Village was conceived by Nigeria's Federal Capital Territory Administration (FCTA) as one of the strategic tools to diversify Nigeria's economy and enhance the country's competitiveness.

Considering the abundant natural resources available in Nigeria, continuous in-country research efforts to address peculiar health concerns including malaria and sickle cell anaemia, the Federal Government's plans and ongoing efforts to ensure stable electricity and energy supplies, and the obvious impact of Information and Communications Technology on economic growth and development, Abuja Technology Village will focus on supporting R&D in minerals technology; biotechnology; energy technology; and information and communications technology (ICT); skills training; and incubation.

The zone is owned by a joint venture – ATV Free Zone Company with 40% share by the FCTA (Federal Capital Territory Administration) through the Abuja Investment Corporation Limited and 60% by the Abuja Technology Village Foundation.

The zone is to be built through 3 phases through PPP approach and the estimated cost is about $900 million. The land is leased to the developer on a term of 99 years.

Current status and infrastructure

The zone has completed the master plan and feasibility study and engaged in active marketing efforts. The land has been acquired with clean title (the FCT took care of the resettlement issues). The developer is developing some legal templates based on global experiences, which could be adopted on the national level.

Since the zone is close to the Abuja airport and main roads, its off-site infrastructure seems to have no major challenges. The 3-layer fence work has been planned. Major on-site roads, utility pipes, fibre cable lines and power lines have been built. Yet the power plants still need to be built. It is planned that an individual power plant will be built for each of the 3 clusters within the zone. A water supply contract has been signed. The waste management facility needs to be built as well.

Business prospects

Given its location advantage, there seem to be a great interest from potential investors. So far Cisco has signed MOU, and other firms such as Microsoft, HP, Google, AT&T, Huawei, etc. have showed interest.

The key constraints from the zone could be the on-site infrastructure, such as the power plants and waste management; and to identify the right partner(s) which can provide solid zone management and operational expertise.

4. KoKo Free Trade Zone, Delta State

KoKo free trade zone is located about 20 miles (35 km) from the port city – Sapele in the Delta State. KoKo is also a port town and is the administrative headquarters for the Warri North local government area. The zone has a land allocation of 2,327 hectare with a sea port (to be upgraded) within the zone.

The project is intended to support the goals of the Federal Government's Nigerian Gas Master Plan under the Gas Based Industrialization Program (GBIP). The GBIP is intended to collect and transport natural gas and liquids from numerous locations throughout Nigeria to a number of Industrial Parks owned and operated by various investors in partnership with the Nigerian National Petroleum Corporation ("NNPC"). In line with this goal, the main target sectors for the zone are gas, oil refining, and related sectors, such as petrochemicals, fertilizer, plastics, etc. Community service amenities such as healthcare facilities, regional skilled training centers, schools, and residential housing will be built as well.

The zone is still at very early stage, and a public-private equity share holding structure is being explored. A consortium comprising of Chevron, Shell, Sahara energy resource and NNPC together with other additional investors are already investing in the Central Processing Facilities. The Delta State Government is planning to participate as an equity owner in the zone investment.

Current status and infrastructure

The zone is at its initial stage, and the site construction work (including fences) has not started yet. The State is in the process of engaging a company to begin the master plan work, and also begin the environmental baseline studies. Discussion is being held with DFID on possible assistance with the feasibility studies on the infrastructure development.

Required infrastructure include ports, roads, bridges, potable water, sanitary waste water, storm water sewers, electrical power generation and transmission, piping right of ways, storage tanks, fire station, etc. The zone has an existing port on the site but it needs to be updated. A port study has been commissioned by some key investors to examine the channels, evacuation of products, port infrastructure requirement and investment required. Since the Free trade zone license was issued to the State Government, the State Government is expected to provide the infrastructure facilities for the Koko free trade zone, in partnership with private investors.

Business prospects

So far several anchor investors have been identified, including the petrochemical investor - Xenel of Saudi Arabia in partnership with NNPC, and the fertilizer plant investor - Nagarjuna Fertilizer and Chemical Industries of India.

Moving forward, the key challenges would be the on-site infrastructure, lack of zone management expertise, as well as the environmental and resettlement issues given the nature of this zone as mainly an oil/gas focused one and the existence of the KoKo town on the premise of the zone.

5. Warri Industrial Business Park, Delta State

Situated on a land area of approximately 329 hectares, Warri Industrial Business Park (WIBP) is located in Warri, a south-south city of Delta State, Nigeria. The Project is in line with DTSG's strategic vision of creating a mixed use world class industrial business park with security and ultramodern amenities that will act as a catalyst for the rapid industrial development and growth of Warri.

The target sectors include: heavy industries, such as automobile parts; light industries, such as home appliances and electronics, textile and garment, and agriculture and by-products processing; oil and gas; shipping and logistics; research and development; commerce and trade; residential real estate; and entertainment, sports and leisure.

The Park is being developed through a Special Purpose Vehicle (SPV) –Warri Industrial Park Limited (WIPL), which is jointly owned by Delta State Government (80%), and Arco Petrochemicals and Engineering (20%).

The Park will be developed through 5 phases, with phase I focusing on field development and basic infrastructure for an area of 212 hectare. The total estimated funding for the zone is about $365 millions, and funding for Phase I is available, but the total funding gap is about 70%. The land is leased to the developer on a term of 50-75 years.

Current status and infrastructure

The State Government has set up an inter-ministerial Project Implementation Committee (PIC) to ensure all legal and regulatory issues are treated with dispatch and the government provided the take off funds for development planning activities. The developer has completed the master plan, business plan and feasibility study. Land acquisition and site preparation as well as the environmental impact assessment are ongoing. No households resettlement is involved, but there are 6 existing firms on the designated site, which need to be kept (assuming they meet the zone requirements) or relocated. According to the developer, the negotiation with the businesses and landowners are currently at advanced stage.

The construction work for the zone has not started yet, but is expected to commence in the first quarter of 2012. The Warri airport is about 6 miles away. The roads, water, power, gas and waste treatment infrastructure needs to be built, and the developer plans to use PPP approach to tackle these issues. There is an oil refining plant is nearby which can provide the gas feeds, but many infrastructure are still need to be built.

Business prospects

According to the developer, the Park has the potential to create up to 5,000 direct and indirect jobs within Warri and Delta State in the next 5years. The estimated total return of investment is 28%, and the recouping period is about 25 years.

So far 7 firms have expressed interest, including Radisson, Park Inn, Subsahara, Persianas Group, etc. Several existing firms which meet the zone requirements will stay in the zone.

Although the resettlement doesn't seem to pose as a major challenge for this zone, the key challenges could include the infrastructure funding, and environment compliance issues, as well as competitions from other zones for investment, especially those in Lagos. In addition, the developer needs to find a private turnkey development partner(s)/concessionaire(s) with solid zone experience.

For the zones in Delta state in general, the security concern could be still a hurdle though great improvement has been made through government's dedicated efforts in recent years, such as the Amnesty Program.

6. ICT Park Asaba, Delta State

With a land allocation of 54 hectares, the ICT Park Asaba is located at the capital city of Delta State. The park is envisaged as an ICT incubator and information technology hub for the Delta State and beyond. It will be owned through a public-private consortium, with government accounting for 25% of the share. The formation of the consortium is still in progress.

The park will mostly focus on ICT related sectors/activities, including IT training center, R&D center, center for software incubation & development, business processing and outsourcing center, data production center, and multimedia center, etc. Other supporting amenities will be built as well, such as office building, hotels, etc. The park will provide micro-credit and matching grants for young IT start-ups.

The park will be developed through 2-3 phases, and phase 1 will develop 30 hectares mainly by the Digital Bridge Institute of the Nigerian Communications Commission (NCC). The total required investment for the project is about $33.8 million.

Current status and infrastructure

The park is at initial stage, and the developer has completed the master plan and feasibility study, but the environmental impact study is still to be completed. The land has been acquired and site preparation is expected to start soon. Since the designated land has no residents or businesses, so there seem to be no resettlement issues.

The off-site infrastructure is in a relative good condition, with well-paved state roads and a newly built Asaba airport, which is only about 5 km away. However, the on-site infrastructure still needs to be built. These include power plants with a 1000 megawatts capacity, gas, on-site roads, water, waste treatment, etc. Three IPP (independent power plant) are planned for the Delta state, including one in Asaba. The developers plan to use the PPP approach to build the on-site infrastructure.

Business prospects

According to the developer, the park is close to Onitsha, the biggest market in West Africa, so the potential demand is high. It is estimated that about 25,000 young people can be trained or employed in the park in 4 years. So far three anchor investors have expressed interest, including the Digital Bridge Institute, Shell (for an e-library), and the Zenith Bank (for an ICT center).

The key challenges for the park include the on-site infrastructure, appropriate legislative and institutional support for ICT development at the state level, as well as the lack of capacity for zone management and operations. In relation to this, it's important for the developer to identify a development partner with solid zone experience.

E. Zones Characteristics and Key Challenges

All the zones face some common challenges albeit at different degrees. Based on the field visits, the following are the ones that need to be tackled in the short and medium terms.

1. ***Legal and institutional framework, which is the foremost important challenge.*** The current legal framework for free zone is NEPZA Act, which was enacted almost 20 years ago, and does not apply to the current free zone operations. For example, the act doesn't allow for the products made/processed in the zones to be imported to the domestic market. Although the new regulations by NEPZA and Ministry of Trade & Investment allow for the importation of such products providing that they have minimum 35% value addition and the producers pay 100% customs duties, however, the Customs Administration does not acknowledge these regulations. This created a big problem for all the zones in Nigeria. Many potential investors are put on hold due to this problem.
2. ***Resettlement issue.*** In several zones, state governments has promised to take care of the land acquisition and resettlement issues, however, these promises were not or only partially fulfilled, which hinder the further development of the zones. This is especially prominent in the zones which have advanced the furthest, such as the Ogun-Guangdong zone and the Lekki zone, though for the Lekki Zone, the government has promised to settle it within 3 months. The KoKo zone is at the very early stage, but once it advances, the issue will be quite significant due to the KoKo town in the zone's proximity.
3. ***Infrastructure.*** This is an overall constraint for all the zones but at different degrees. In general, power, gas, roads, ports, airports are the key constraints and all of them try to resort to the PPP approach to solve the constraints. In the Delta state, due to the rich fuel and gas resources, the power, gas and off-site infrastructure seem not a big challenge, yet they still need to build the on-site infrastructure, which requires large amount of investment. Some of them have not completed the business plan and the feasibility study

yet. The Lagos state government has got a concession to build a sea port near the Lekki zone and is also planning to build an airport for the planned new Lekki metropolis. Some off-site roads still need to be built. The Abuja technology park is close to the Abuja airport and the major infrastructure needs are on-site ones. The Ogun-Guangdong zone faces challenges in term of off-site roads, power and gas but a potential investor has agreed to build a power plant for the zone.

4. ***Environmental impact.*** All the zones have committed to comply with the environmental standards and minimize the environmental impact. So far some zones have completed the environmental impact assessment but some have yet to complete, such as the KoKo zone and Asaba ICT park. When the zones begin to operate, the issue of managing wastes and pollution will continue to be a challenge, especially for those zones with a high component of oil processing and petrochemical sectors, such as the KoKo zone.
5. ***Zone management and operational know-how & experiences***. Most of the zone developers, including the relevant government agencies, do not have the zone management and operational experiences, and many zone developers are only construction companies; therefore, it's a challenge for them to identify the right partners to provide the critical knowledge and expertise on Zone management and operations. In this regard, the Lekki zone is relatively in a better position - it has a Chinese zone as its minority stakeholder and has conducted several workshops/study tours for the local partners to understand the Chinese/East Asian experiences in SEZs.
6. ***Host government ownership & continuity.*** This is especially a challenge for the Ogun zone given that the new state government doesn't fully recognize the potentials of the economic zones and doesn't fully acknowledge the commitments made by the previous government.

F. Proposed Action Plans

All the zones have expressed strong desire to gain the support from the Bank and other international donors. Given the constraints and challenges faced by the zones, the Bank can possibly provide assistance in the following areas:

- ***Hands on technical assistance (TA) to zone developers and regulators through the World Bank GEMs (Growth and Employment in States) project and PPP project in Nigeria.*** Through these projects, the Bank can help organize dialogues between the government agencies, developers, investors and other stakeholders to enhance common understanding and help solve the key constraints, such as the legal & institutional issues and infrastructure bottlenecks. For example, the GEMs project (where ICT is an important component)[8] could be leveraged for the Abuja Technology Village and the ICT Park in Asaba in the Delta State, and the PPP project could help with the infrastructure needs in the Lekki Free Zone and possibly others, especially on the PPP institutional arrangement and transaction assistance.
- ***Knowledge sharing and capacity building.*** The Bank can organize workshops, dedicated skills trainings and learning tours to help the zone management, developers and policy makers better understand the global best practices and necessary know-how. This can be

[8] By the time that report was produced, the GEMs project has not been approved by the National Assembly yet.

done with all six zones in question. In addition, skills training programs can be designed to train the local workers for the zones. This is important for creating local employment.

- ***Additional analytical TA.*** This may include helping the developers to refine their business plans or master plans and help formulate in-depth investment promotion strategies. This can also help the host government and the developers to develop a strategy on strengthening the linkages between the zones and local economy.
- ***Financing or credit enhancement schemes.*** This can be done through the equity investment of IFC or the risk guarantee programs of MIGA. Given the potential political and social risks the zones are facing, such schemes are quite necessary for the zones to attract investors and to solve the funding constraints.
- ***Investment promotion.*** The Bank can help implement a marketing and investment promotion strategy for the zones ready for attracting investors. This could be done through partnerships with emerging economies or NIEs which have strong interest to invest in Africa, such as China, Singapore, India, Brazil, Turkey, etc.

G. Appendix: A Summary Matrix of the Zone Characteristics

Please read this Appendix in conjunction with sections D and E above, which discuss the current development status of the zones, and the remaining key challenges.

Summary table of zone characteristics in six SEZs in Nigeria

	Lekki Free Trade Zone, Lagos State	Ogun-Guangdong Zone, Ogun State	Abuja Technology Village, FCTA	Warri Industrial Business Park, Delta State	ICT Park Asaba, Delta State	KoKo Free Trade Zone, Delta State
Location	60 km east of Lagos with the Atlantic to the south and Lekki Lagoon to the north	Igbessa Region of Ogun State, 30 km from Lagos international airport	Abuja, capital city of Nigeria	Warri, a south-south city of Delta State, about 6 miles from the Warri airport	Asaba, the capital city of Delta State	KoKo town, the Warri North LGA, about 20 miles (35 km) from the port city – Sapele in the Delta State
Type of zone	Mixed use: manufacturing, services, commercial and residential property	Mixed use: manufacturing, logistics, commercial and residential property	Mixed use: R&D, ICT services, logistics, commercial and residential property	Mixed use: manuf., oil & gas; shipping and logistics; R&D; commerce and trade; residential and commercial property	Mixed use: mainly ICT related sectors and activities, but will also include some commercial real estate	Mixed use: mainly oil & gas and related sectors, but will also include community service amenities and residential property
Legal & regulatory framework	Free Zone Law	Free Zone Law	Free Zone Law	Free Zone Law	Free Zone Law	Free Zone Law
Land area and phasing	Phase I: 109 ha (year 0-5) Phase II: 45 ha (year 6-10) Total land allocation: 3,000 ha	Phase I: 250 ha Phase II: 1,750 ha Total land allocation: 10,000 ha	Phase I: n.a. Phase II: n.a. Total land allocation: 700 ha	Phase I: 212 ha Phase II: 117 ha Total land allocation: 329 ha	Phase I: 30 ha Phase II: 24 ha Total land allocation: 54 ha	Phase I: n.a. Phase II: n.a. Total land allocation: 2327 ha
Estimated investment commitments	Phase I-II: $400-500 million State Government: $67 million	Phase I: $220 million Phase II: $280 million	Phase I: n.a. Phase II: n.a. Final: $900 million (?)	Phase I: $110 million Final: $365 million	Phase I-A: $1.4 million Phase I-B: $6.76 million Phase II: $25.65 million Final: $33.8 million	Phase I: n.a. Phase II: n.a. Final: $ 16 billion
Investment 12/2011	$60 million by zone developer	$20 million by zone developer	NA	NA	NA	NA

Progress in attracting investment (by 12/2011)	64 companies with licenses to invest in the zone ($730 million) of which 28 have signed investment agreements; 75 companies have signed MOUs.	32 companies have signed investment contracts, and 25 have registered with NAPZA.	6 major companies have showed interest, with 1 signed the MOU	7 companies have expressed an interest	3 anchor investors have signed MOUs	6 anchor investors have expressed strong interest
Domestic investors	Allowed	Allowed	Allowed	Allowed	Allowed	Allowed
Ownership structure	China-Africa Lekki Investment Co. Ltd (60%) → owned by China Railway Construction Corp. (35%), China-Africa Development Fund (20%), Nanjing Jianging Economic and Technology Development Co. (15%), Nanjing Beyond Investments Ltd (15%) and China Civil Engineering Construction Co. Ltd (15%) Lagos State Government (20%) Lekki Worldwide Investment Ltd (20%)	Ogun-Guangdong Free Trade Zone Company (a consortium of Guangdong Xinguang International Group, China-Africa Investment Ltd and CCNC Group) (82%) Ogun State Government (18%)	ATV Free Zone Company, with 40% share by the FCTA (Federal Capital Territory Administration) through the Abuja Investment Corporation Limited and 60% by the Abuja Technology Village Foundation.	Warri Industrial Park Limited (WIPL), which is jointly owned by Delta State Government (80%), and Arco Petrochemicals and Engineering (20%).	A public-private consortium, with government accounting for 25% of the share. The formation of the consortium is still in progress.	A public-private equity share holding structure is being explored
Incentives to SEZ developers	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure	100% tax holiday for all Federal, State and Local Government taxes, rates, duties and levies Provision of offsite infrastructure

Incentives to SEZ-based companies	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for goods destined for re-export	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for goods destined for re-export	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for goods destined for re-export	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for	Incentives as per the Nigerian FTZ policy: 100% tax holiday from all Federal, State and Local Government taxes, rates, duties One stop approval for permits, operating licenses and incorporation papers Duty-free and tax-free import of raw materials and components for

	Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA	Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA	goods destined for reexport Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA	Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA	goods destined for reexport Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA	goods destined for reexport Duty-free introduction of capital goods, consumer goods, machinery, equipment, and furniture Permission to sell 100% of manufactured, assembled or imported goods into the domestic Nigerian market with import duty calculated on the basis of the value of the raw materials or components used in assembly not on the finished products 100% foreign ownership of investments 100% repatriation of capital, profits and dividends Waiver of all expatriate quotas, and import and export licenses Prohibition of strikes & lockouts (10 years) On-site customs office, immigration and police station One-stop-shop services through NEPZA