

Special Economic Zones in Ghana: A Force for Good to Reduce Inequality?

Policy Brief |
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In Brief

- Special Economic Zones (SEZs) in Ghana are intended to benefit from firm clustering, which facilitates technology spillovers, labour availability, market access and social impact.
- SEZs positively impact household welfare, evidenced by significantly higher per capita consumption expenditure (PCE) and reduced poverty levels within 20km of SEZs, particularly within 5km.
- SEZs employees enjoy significant wage premiums, influenced by education and unionization, though gender wage gaps persist, especially at higher wage levels.
- Firms with SEZs features outperform non-SEZ firms in productivity, value addition, revenue, and profitability.
- Compared to non-SEZ firms, female CEOs in SEZs significantly boost firm innovation, both in product and process. SEZs support gender inclusivity and enhance innovation through better resources and reduced bureaucratic hurdles, highlighting the need for policies that promote female leadership and streamline SEZ processes.
- The expansive and flexible legal framework for SEZs in Ghana poses challenges for focus and agglomeration benefits, compounded by governance issues such as corruption and weak stakeholder coordination. Though SEZ registration increases rent-seeking behaviour among firms while, operating within SEZ enclaves reduces it.
- Effective governance structures, robust infrastructure, and targeted policies are crucial for maximizing the impact of SEZs on industrialization.

Motivation

Special Economic Zones (SEZs) are widely used policy instruments in developed and emerging economies to stimulate growth in specific geographic areas and economic sectors. Governments globally refer to their zone projects by various names, including Free Zones (FZs), Free Trade Zones (FTZs), Export Processing Zones (EPZs), Multi-

"Special Economic Zones: The government's grand illusion of progress, where a few privileged areas get all the perks while the rest of the country waits for the magic to trickle down."

Use or Multi-Functional Special Economic Zones (MFSEZs), Industrial Zones, among others. SEZs are designed to attract Foreign Direct Investment (FDI), create jobs, enhance participation in the Global Value Chain (GVC), and pilot economic reforms with zone-specific trade regulations (UNCTAD, 2019). They aim to complement market forces by addressing market failures, such as inefficient land markets, inadequate industrial infrastructure, and poor regulatory and business environments caused by coordination failures between the government and the private sector (Zeng, 2021). It is generally believed that SEZs can enhance an economy's well-being. However, despite their potential, some SEZs have failed to make a significant impact and, in some cases, have even become economic burdens.

Ghana has experienced globalization across its socio-cultural, political, technological, and economic spheres. And in the politico-economic dimension, just like in most developing countries, the most remarkable influence has been in the adoption of structural adjustment policies and export-oriented industrialization programmes like the Free Zone programme. Despite being understudied, existing literature suggests some performance challenges (Farole, 2011; Quaicoe et al., 2017). However, there is considerable debate within the broader SEZ literature on how to define SEZ success. Firstly, performance data are hard to obtain, secondly, difficulties arise from varying SEZ aims and the perception of SEZs as a one-stop solution for all industrial development issues.

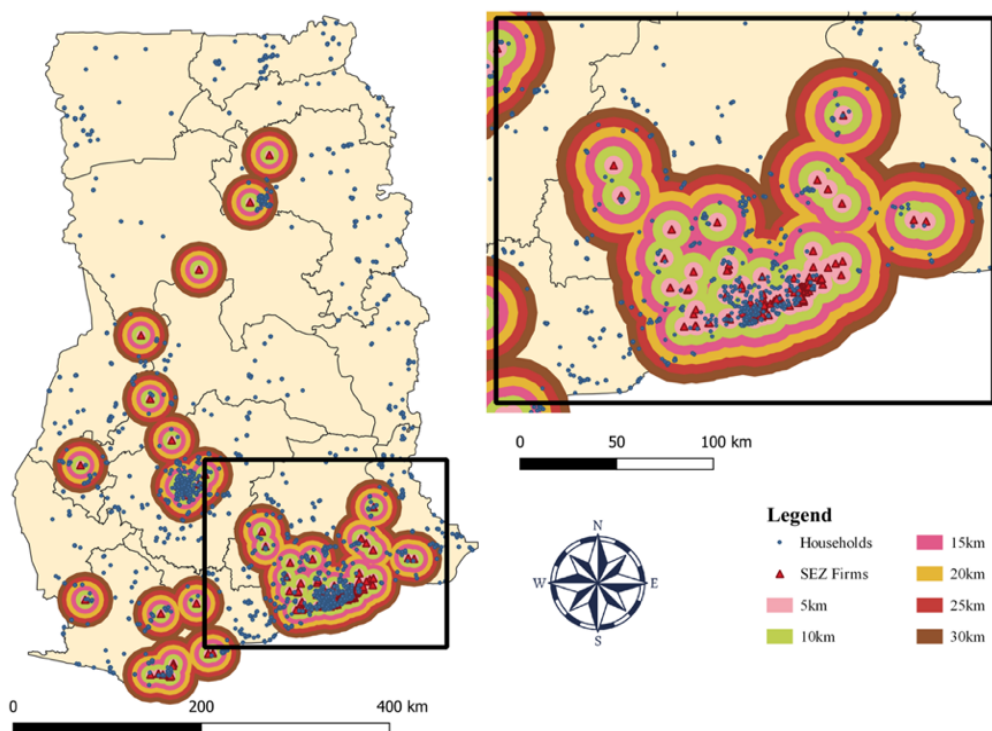
To close this knowledge gap and provide evidence of the impact of SEZ in Ghana, the Institute of Statistical, Social and Economic Research (ISSER), University of Ghana, in collaboration with the Kiel Institute for the World Economy (IfW), Germany conducted an in-depth survey to understand and quantify the developmental effects of special SEZs and similar policies pursued by developing countries, with a focus on both economic efficiency and inequality. The study employs micro-level data of firms, employees and households. In all a total of 328 firms (108 SEZ¹ and 220 non-SEZ firms) and employees were successfully surveyed in 2022, with data covering the period 2018 to 2021. The findings and policy insights from the study are provided in the following sections.

Key Findings

A. Economic Welfare

Impact on Household Welfare: This study assesses the effects of SEZs on household welfare by analyzing household per capita consumption expenditure (PCE) and poverty status using a combined firm and household data from the Ghana Socio-Economic Panel Survey.

¹ In the context of this study, SEZ firms refer to Free Zones firms registered under the Ghana Free Zone Act, 1995 (Act 504) and include firms located in an SEZ enclave or operating as single-factory firms. Additionally, for this study, all the existing zone terminology, Free Zones or Export Processing Zones popularly used in Ghana, were converted into the term Special Economic Zones or SEZs

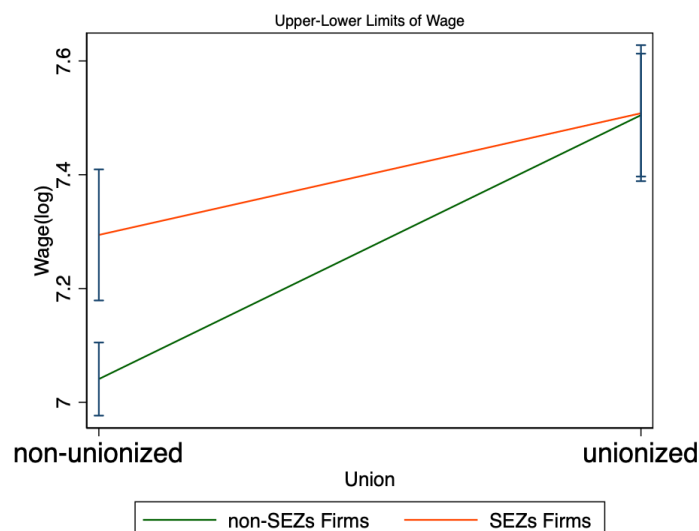
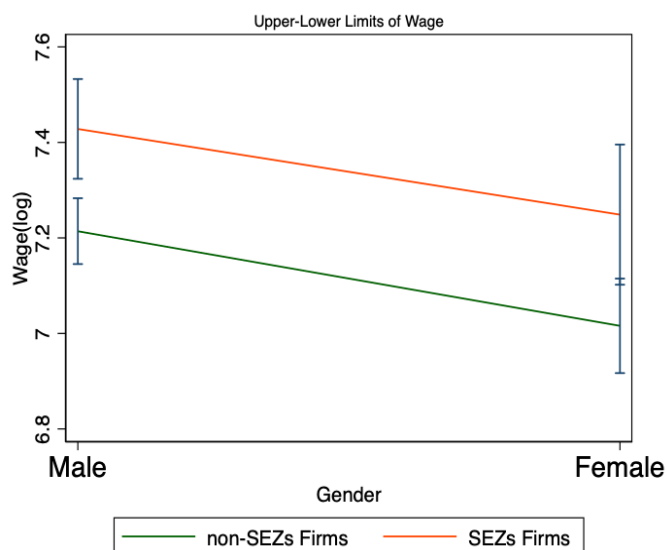


Key findings from welfare impact study:

- 1) **Positive Impact on PCE:** Households residing within 20 km of an SEZ have significantly higher PCE compared to those farther away, indicating improved economic welfare.
- 2) **Reduction in Poverty:** Proximity to SEZs reduces the likelihood of being in poverty, with the most significant effects observed for households residing within 5 km of an SEZ.
- 3) **Employment Effects:** SEZs increase the probability of household members being engaged in paid employment.

B. Employment Impact

Wage Impact: This study delves into the determinants of wage disparities within Ghana's SEZs and the broader labor market. This study employs Unconditional Quantile Regression (UQR) and decomposition techniques to understand wage determinants and propose policy solutions for equitable wage distribution.



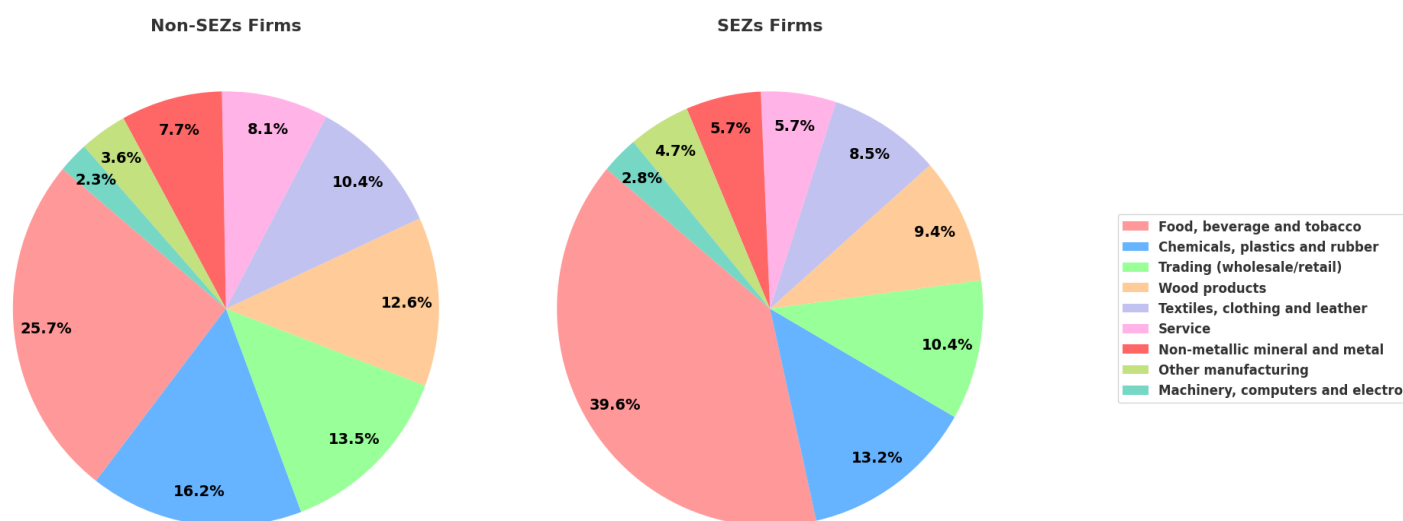
Key findings from wage study:

- 1) Wage Premium in SEZs: SEZ employees enjoy higher wages compared to their non-SEZ counterparts, particularly at higher wage quantiles.
- 2) Impact of Education: Education consistently enhances wages across all sectors, underscoring the importance of human capital development.
- 3) Gender Wage Gap: Gender disparities are pronounced, especially at higher wage levels, with women earning significantly less than men.
- 4) Role of Unionization: Unionized workers, especially in SEZs, benefit from higher wages, highlighting the importance of collective bargaining.

C. Firm Performance

Impact on firm performance: SEZs have emerged as powerful tools for stimulating economic and firm performance, particularly in developing economies where resources such as financial capital, human capital, and technology are scarce. This study examines the impact of SEZs on firm performance in Ghana, focusing on how different SEZ dynamics influence key performance indicators like total factor productivity, labor productivity, profitability, revenue generation, and value addition. The study covers 328 firms with information from 2018 to 2021 and provides evidence-based recommendations for policymakers to optimize the benefits of SEZs.

Firm Distribution- ISIC Rev. 4 Industries Classification



Source: ISSER-SEZ Survey, 2022.

Key Findings from firm performance impact:

- 1) SEZ Firms vs. Non-SEZ Firms: SEZ firms outperformed Non-SEZ firms across all measured indicators (productivity, value added, revenue, and profitability).
- 2) Enclave Dynamics: Firms operating within SEZ enclaves significantly outperform all other firms (productivity, value added, revenue, and profitability).
- 3) Non-SEZ Firms: Firms not registered as SEZ entities and operating outside SEZ enclaves exhibit poor performance, underscoring the importance of SEZ features in enhancing firm outcomes.

Food beverage & tobacco is the predominate sector among SEZs and Non-SEZS firm.

Gender and Innovation: Innovations are vital for competitive advantage, growth, and prosperity in modern societies. We examined the significant role that female CEOs play in driving product and process innovations within firms, particularly those operating in SEZs in Ghana.

Key Findings from gender-innovation study:

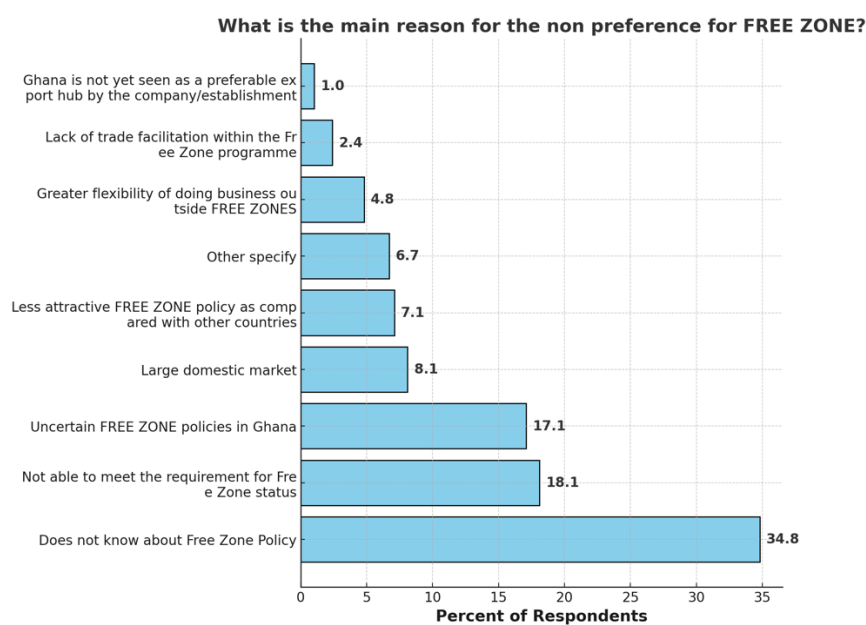
- 1) SEZs and Gender Inclusivity: SEZs provide an environment that supports female leadership, offering better managerial, financial, and technological resources.
- 2) SEZ firms are more likely to adhere to international standards, including those promoting gender equality and women's empowerment (SDG 5).
- 3) Female CEOs and Innovation: Female CEOs in SEZs are more likely to lead firms that engage in both product and process innovations compared

to their non-SEZ counterparts. The presence of female CEOs significantly enhances the likelihood of a firm introducing new products and processes.

- 4) Impact of SEZ Features: Female CEOs in SEZ firms and SEZ enclaves have a higher impact on innovation than those in non-SEZ firms. SEZ policies that reduce bureaucratic hurdles and create supportive administrative environments are crucial for harnessing the full potential of female leadership in innovation.

D. Governance and Regulatory Challenges

SEZs are designated areas with economic regulations that differ from the rest of the country, aimed at fostering economic growth. We examined the political economy of SEZs in Ghana, focusing on the challenges and complexities surrounding their institutional dynamics, governance structures, and stakeholder interests.



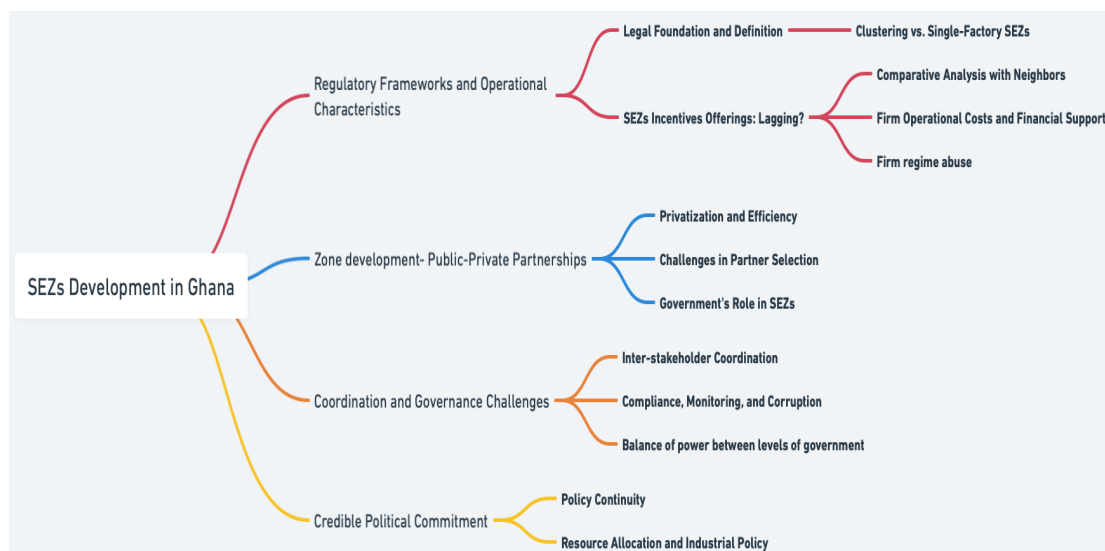
The primary reason for the non-preference for Free Zone is the lack of awareness about the policy, cited by 34.8% of respondents.

Key Findings:

1. Broad Legal Definition and Flexibility: Ghana's expansive legal definition of SEZs includes single factory zones and free ports, offering flexibility but complicating focus and agglomeration benefits. A more targeted approach could enhance the economic impacts through synergy and scale.
2. Challenges in Public-Private Partnerships: Selection of inappropriate private partners has hampered progress, as seen in the Tema zone project. Insufficient due diligence in forming public-private partnerships has led to inefficiencies and stalled projects.

3. **Regulatory and Incentive Frameworks:** While SEZs offer significant incentives such as tax holidays and duty-free imports, they lack elements like subsidized utilities and competitive rental rates, affecting their competitiveness. Financing avenues and preferential interest rates for SEZ firms are also inadequate.
4. **Coordination and Governance Issues:** Poor inter-stakeholder coordination, especially between the Ghana Free Zones Authority (GFZA) and other government entities, hinders the seamless operation of SEZs. Local municipalities lack motivation to support SEZ infrastructure due to the absence of direct benefits or revenue-sharing mechanisms.
5. **Compliance, Monitoring, and Corruption:** Issues with compliance and monitoring, including false reporting by SEZ enterprises, undermine the effectiveness of the SEZ program. Corruption and lack of stringent anti-corruption measures further threaten the sustainability of SEZs.

Fig: Mind Map of themes from the qualitative analysis



“Policies could mandate local procurement for SEZ businesses, thereby directly benefiting the local economy and giving local governments a tangible stake in the zones”,

A Local government Officer,

Policy Implications & Options

The findings from the various studies present some policy implications and options, which are further highlighted below:

1. Infrastructure Development

- **Expand SEZ Infrastructure:** Invest in the development and improvement of infrastructure within and around SEZ enclaves to enhance their functionality and attractiveness. This includes providing reliable utilities, efficient logistics, and advanced technology to support business operations.

- **Develop a Comprehensive SEZ Policy Document:** Create a clear policy document outlining the SEZ program in Ghana, its implementation, and the roles of all stakeholders, including private developers. This will help in understanding and operationalizing SEZ policies effectively.

2. Inclusive Economic Policies

- **Support Small and Medium Enterprises (SMEs):** Implement policies that ensure the benefits of SEZs are broadly shared by supporting SMEs and promoting gender equality in employment. This will help in creating inclusive growth and ensuring that economic benefits reach a wider population.

- **Promote Gender-Inclusive Policies:** Encourage gender-inclusive policies within SEZs to create a supportive environment for female leaders. This includes implementing family-friendly workplace policies and ensuring equal opportunities for professional development.

3. Enhance Wage Equity

- **Enhance Educational Opportunities:** Invest in education and vocational training to equip workers with the skills required for higher-paying jobs within

SEZs. This will help in addressing wage disparities and promoting equitable wage distribution.

- **Strengthen Labor Unions:** Support the formation and activities of labor unions to ensure fair wages and working conditions through collective bargaining. This will help in improving wage equity and labor standards within SEZs.

4. Governance and Institutional Frameworks

- **Improve Governance Structures:** Promote autonomy, reduce bureaucratic red tape, and implement transparent management practices within SEZs. Decentralized and accountable governance structures are crucial for effective SEZ operations.

- **Strengthen Institutional Frameworks:** Improve regulatory frameworks, ensure strict compliance, and combat corruption to create a conducive business environment. This will enhance investor confidence and promote sustainable economic growth.

5. Local Economic Integration

- **Encourage Local Firm Participation:** Incentivize local firms to operate within SEZs to leverage international standards and practices prevalent in SEZs. This will help in integrating local economies and fostering economic clusters.

- **Mandate Local Procurement:** Develop policies that mandate local procurement for SEZ businesses, thereby directly benefiting the local economy and giving local governments a tangible stake in the zones.

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Ghana Team Members

The Institute of Statistical, Social and Economic Research (ISSER) serves as the research wing under the College of Humanities, University of Ghana and engages in a number of policy relevant research whose findings are intended to help policy makers on the best policy decisions to make for national development.

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