SINGLE FACTORY SPECIAL ECONOMIC ZONES POLICY IN SOUTH AFRICA

International observations and implications for South Africa

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1. Executive Summary

A new Special Economic Zone (SEZ) Act was signed by into law by the President of South Africa in May 2014. The new Act identifies the objectives of the SEZ programme as the promotion of "*national economic growth and export by using support measures in order to attract targeted foreign and domestic investments and technology*". Incentives for the SEZ programme have been promulgated in sections 12S and12R in the Income Tax Act ("ITA") as well as the Employment Tax Incentive Act No 26 of 2013. In addition to the new incentives existing incentives such as section 12I of the ITA provides for enhanced incentives for companies locating in SEZs. Although the Act extends the scope of the previous Industrial Development Zones (IDZ) programme by providing for a more diverse typology of zones, e.g. Free Zones, Sector Development Zones, Free Ports, etc. it does not provide for single factory SEZs even where the award of the status to such factories could contribute significantly to the economic and export growth objectives of the programme. International surveys of SEZ policies of different countries have often highlighted the increasing trend of the designation of single factory SEZ to provide flexibility in achieving programme objectives.

In preparation for interacting with stakeholders regarding and government regarding single factory SEZs, the Manufacturing Circle has commissioned this report with the limited objective of obtaining an understanding of how single factory SEZ's have worked in other countries and identifying the key policy and regulatory impediments to the designation of single factory SEZs in South Africa. The scope of the work included identifying broad trends internationally with regards to the use of single factory SEZ's and analysing the existing South African legislation and impediments contained therein to the designation of single factory SEZ's. The impact of World Trade Organisations' Subsidy and Countervailing Measures agreement on the SEZ programme was also reviewed. Three countries, Costa Rica, India and Ghana were selected for an in depth analysis of their single factory programmes, looking at the governing legislation, implementation and the outcomes achieved by the projects. The selection of countries was in keeping with the limited ambitions of the scope which is to obtain some understanding that can serve as the basis of initiating a policy discussion rather than to yield universally valid policy conclusions. The countries were thus selected on the widespread availability of information about their zones programmes.

1.1 Summary of Findings

Some of the key findings of this work are as follows;

- A 2011 report by the World Bank notes that there has been an explosive growth of SEZs worldwide. According to the report in 1986, the International Labour Organization's (ILO's) database of SEZs reported 176 zones in 47 countries; by 2006, this number rose to 3,500 zones in 130 countries, with many of these zones being single companies licensed individually as free zones.
- Many EPZ programs around the world offer licenses for both EPZ industrial parks and "single unit" EPZs. We identified more than twenty developing countries which offer single factory SEZ status.
- The current SEZ legislation in South Africa is flexible enough and probably permits all types of SEZ permutations existing around the world except for single factory SEZs.
- The main barrier to the establishment of single factory SEZs in South Africa are;
    - The area based definition of an SEZ
    - The prescriptions on who can apply for an SEZ and
    - SEZ governance requirements such as the requirement for establishment of Special Economic Zones' Boards in terms of the PPP legislation. These would place extremely onerous and unnecessary requirements for any company intending to establish a single factory SEZ.
- Because of the prohibition of subsidies contingent on export by the Subsidy and Countervailing Measures Agreement of the WTO, government will not be able to impose export obligations in return for tax incentives. Companies who receive tax incentives in the SEZ will have full and equal access to the domestic market. They will get bigger incentives without having to fulfil additional requirements different from companies located outside SEZ. This implies that the incentives will serve more to influence location choice by new companies establishing manufacturing facilities in South Africa rather than established companies considering major expansions. The difference in incentives offered to SEZ and non SEZ investors can be quite substantial, in certain instances more than three times as big.
- The single factory SEZ programmes in Costa Rica and India has achieved some export growth success as reported by independent institutions. The flexibility to locate close to skills, infrastructure and production inputs has contributed to the export success of the programme.
- Even though all three countries selected were able to offer export subsidies, which South Africa cannot, one cannot discount their experiences.

- The experience of Costa Rica and India are suggestive that location based incentives may not produce the desired result in export growth. The SEZs of both India and Costa Rica increased their export contributions once the programmes had been amended to provide flexibility in terms of location of factories.
- There are different ways of providing for single factory based SEZs. Costa Rica defines a Free Zone Regime as a system of incentives. The Free Zone is where a company or group of companies which has been awarded the incentive are located. Ghana's SEZ law provides for both industrial estates and single factory zones. In India on the other the single factory SEZ's is based on a different law.
- The size of investment has been used to limit the proliferation of single factory zones in both Costa Rica and India.
- Even though Costa Rica's exemption from prohibited subsidies is coming to an end, the programme is being amended and not abandoned.
- From interaction we had with policy makers during the course of the study we suspect that there are possibly two key concerns that such policy makers may have regarding the introduction of single factory SEZs;
    - Proliferation of such SEZ's and the complexity of managing such a scheme.
    - Dead weight losses for granting incentives to companies for undertaking activities that they would anyway in the absence of participating in the programme.

1.2 Recommendations

This study was limited in scope to examining international experience in single factory SEZ's and establishing a platform from which the Manufacturing Circle can engage government and other stakeholders on the possibility of expanding the SEZ programme to major exporters in the manufacturing industry.

The study has been able to identify countries, with different circumstances to those of South Africa, who have been able to successfully introduce and manage single factory SEZs.

The examples of Ghana, Costa Rica and India are suggestive of how these valid concerns of policy makers could be overcome provided there is political will to experiment with such an incentive scheme for major exporters;

- Both India and Costa Rica have used measures such as the size of a plant to determine participation in the programme thereby limiting proliferation.
- The study has also been instructive with regards to restraining or at the very least minimising deadweight losses.
- All the programmes that we have looked at are factory based and not company based, meaning that the incentives granted relate to revenue only out of the manufacturing activities and not other company income.
- Participation in the programme could be linked to performance measures such as employment investment output and exposure to trade to ensure that the correct profile of participants is targeted.

The SEZ legislation (SEZ Act) will have to be amended specifically to allow for single site SEZs. For this to happen there to be significant political will. The amendments would however have to be carefully considered so that they minimise changes to the text of the Act.

2. Introduction

The Manufacturing Circle has requested an assessment of international practice with regards to the designation of single factory manufacturing Special Economic Zones (SEZs[1]). The manufacturing circle has further requested an evaluation of local and international policy and regulatory barriers to the designation of this particular type of SEZ.

The project has been commissioned to assist the Manufacturing Circle to make an informed assessment of the possibility of introducing single factory SEZ sites before engaging with government and other stakeholders on this possibility. The assessment is not intended to provide conclusive recommendations on single factory SEZs be but rather to serve as a basis for an informed discussion and an identification of the type of further work that may be required to inform the practicability and desirability of introducing single factory SEZs.

The scope of work agreed with the Manufacturing Circle includes the following:

- Analyse existing South African SEZ legislation with regard to allowing the designation of single factory SEZs.
- Analyse applicability of existing SEZ incentive legislation to single factory SEZs.
- Identify and analyse three developing country jurisdictions which permit single factory SEZ with regards to:
    - The governing legislation
    - Criteria for awarding single factory SEZ status
    - Incentives
    - Programme outcomes (i.e. number of SEZ's, publically documented or reported success of the programme)
    - World Trade Organisation (WTO) compatibility of governing legislation
- Propose recommendations on possible amendments to current legislation.
- Have informal discussions with relevant government stakeholders

[1] The term SEZ in this paper is used to describe a number of zone arrangements that go under different names including Free Trade Zones, Duty Free Zones, Tax Free Zones, Free Export Zones, Special Economic Zones, Export Processing Zones and are increasingly either privately owned, developed and operated, or are the subject of public-private partnerships.

- Draft report and prepare slides on the analysis and recommendations.

This report therefore explores the experience of three developing countries with single zone factory policies and assess the barriers that may be posed by the new South African SEZ Act, 2014, the proposed new SEZ incentives and South Africa's WTO obligations.

3. SEZs in an International Context

SEZs are a phenomenon of modern international trade and have been utilized by both developed and developing countries to promote exports, encourage foreign direct investment and improve the international competitiveness of the economy in question. The first “modern zone” was established in Ireland in Shannon in 1959. Since then Zones have become a popular instrument of industrial development. The popularity of the SEZ model owes somewhat to the perceived success of the instrument in countries as diverse as China, Mauritius and Malaysia. In 2007 the International Labour Organisation (ILO) estimated that there were approximately 3,000 zones in 135 countries that account for over 68 million direct jobs and over $500 billion of direct trade-related value added within zones.

Companies operating in SEZs are usually offered a series of incentives, the most common being;

- Fiscal Incentives (inclusive of tax breaks, tax exemptions and tax holidays)
- Regulatory Incentives (exemption foreign exchange regulations flexible rules on imports and labour, one stop shop services), and
- Incentives of an infrastructural nature (easy access to improved services, research facilities and skilled labour).

There is a diversity of approach to these establishment of zones by different countries, in the sense that sometimes they comprise an entire city; other times they are all or part of a port or airport area; they might be developed as an industrial or technology park; or they can be an individual factory. Whatever forms the zone takes however; it is standard practice to have a secure perimeter around the zone that is under Customs control. In this sense such zones are treated as a separate country from a customs perspective. Many such schemes contain a requirement that all of the output from the zone must be exported to a third country, but there are some schemes that allow sales into the local market; for example, Israel, Syria and the United States.

The following is typical of the types of zones established around the world;

Type of Zone	Description	Examples
Free Trade Zones	Small, fenced-in, duty-free areas, offering warehousing, storage and distribution facilities for trade, transhipment and re-export operations.	Colon Free Zone in Panama.
Export Processing Zones (EPZ)	Industrial estates aimed primarily at overseas markets. Hybrid export processing zones are sub-divided into a general zone open to all industries and a separate export processing zone area reserved for export-oriented, export processing zone-registered enterprises.	Traditional EPZ; Karachi EPZ in Pakistan Hybrid EPZ; Lat Krabang Industrial Estate in Thailand.
Enterprise Zones	Zones intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants.	Empowerment Zone in Chicago, USA.
Freeport	They encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits.	Aqaba Special Economic Zone in Jordan.
Single Factory EPZ	They provide incentives to individual enterprises regardless of location. Factories do not have to locate within a designated zone to receive incentives and privileges. Similar to the bonded warehouse but usually offer a broader set of benefits and more flexible controls.	Example of countries with single factory EPZ includes Mauritius, Mexico, Fiji and Madagascar

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Single Factory Zones differ from all the other traditional zone models in that it offers investors flexibility with regard to choice of location taking into account the availability of inputs, skilled labour, infrastructure, etc. There are approximately twenty two countries with single factory zone programmes, a majority of the based in Africa. The table below gives a list of countries with single factory EPZ programmes.

Africa	Others
Burundi	Colombia
Cameroon	Costa Rica
Egypt[2]	Fiji
Ghana	Jamaica
Liberia	Kyrgyzstan
Madagascar	Mexico
Malawi	Sri Lanka
Mali	USA
Mauritius[3]	
Nigeria	
Senegal	
Seychelles	
Tanzania	
Zimbabwe	

3.1 Free Zones in and the WTO Agreement on Subsidies and Countervailing Measures ("SCM Agreement")

One of the major issues a country needs to assess when it implements any type of incentive programme is its compliance with the SCM Agreement of the World Trade Organisation (WTO). South Africa was a signatory and founder member to the predecessor institution to the WTO; the General Agreement on Tariffs and Trade (GATT) and is also founder member of the WTO. The WTO classifies some countries as developing and Least Developed Countries (LDC). LDCs are exempted from certain WTO disciplines of the SCM until such a time that their income level reaches a particular threshold. South Africa currently does not enjoy any exemptions and is subject to the full disciplines of the SCM agreement.

The obligations in the SCM Agreement have an impact on the design of free-zone programmes of WTO Members. Because of the type of the obligations in the SCM Agreement, this impact concerns

[2] In Egypt, private free zones in considered as single factory zones.
[3] SEZ Act 2002 has been repealed, but there are many legacy companies with single factory SEZ status.

mostly the type of free zones where there is some manufacturing activity, rather than just transit or commercial activities.

When one looks at a special economic zone, which gives benefits and assistance to companies locating in the zone it is important to determine whether the benefits are allowed in terms of the Agreement on Subsidies and Countervailing Measures ("SCM Agreement").

The SCM addresses two topics:

- Multilateral disciplines regulating the provision of subsidies, and
- The use of countervailing measures to offset injury caused by subsidized imports.

In terms of SEZ, the focus is on the subsidy question.

3.2 Classification of Subsidies

The SCM has a traffic light approach to subsidies. In effect all subsidies are put into three categories namely:

Red – prohibited subsidies	
Yellow or amber – actionable subsidies	
Green – non-actionable subsidies.	

Before one looks at the classification above, one has to determine whether the scheme or programme of benefits offered is a subsidy in the first place. A subsidy needs to meet 3 criteria:

- Financial support/income or price support which would include for example:
    - Direct transfer of funds such as grants, loans, equity infusion
    - Potential direct transfer of funds such as for instance a loan guarantee
    - Government revenue that is otherwise due if forgone or not collected such as tax credits

   - Provision of goods or services other than general infrastructure
   - Purchase of goods
- Provided by a government body or any public body e.g. National Bank, National power company even if government outsources actual running of it
- Confers a benefit which is an advantage to company (better than market rates)

Footnote 1 of the SCM Agreement provides that, ' . . . the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy.' This clause exempts drawbacks and duty suspension and VAT on intermediate good consumed in the production of exports. Duty remission on capital goods used in the production of exports is however not covered under footnote 1 and is as such a prohibited subsidy.

If a particular form of subsidy is identified by the three criteria above, one has to determine whether the subsidy is "specific". The four different ways in which a subsidy may be specific are:

- Enterprise specific - a government targets a particular company or companies for subsidization;
- Industry specific - a government targets a particular sector or sectors for subsidization.
- Groups of above
- Region specific - A government targets producers in specified parts of its territory for subsidization.
- Prohibited subsidies are deemed to be specific.

Assuming that a measure is a subsidy within the meaning of the SCM Agreement, it nevertheless is not subject to the SCM Agreement unless it is deemed specific. Only "specific" subsidies are subject to the SCM Agreement disciplines.

- Prohibited subsidies

These are specific subsidies are seen as trade distortive and effectively outlawed by the WTO, subject to certain exceptions. To get this type of subsidy removed one does not have to prove there is any injury caused to industry.

The 2 major categories are:

- Export subsidies – these are subsidies contingent on export performance, except as provided in the agreement on Agriculture. In South Africa's context subsidies like the General Export Incentive Scheme (GEIS) and the Motor Industry Development Programme fell into this category so had to be phased out. Other examples of these include:
    - Remission of direct taxes on exported production
    - Provision of export credit guarantee or insurance at rates which are inadequate to cover operating costs of the programme
- Import substitution subsidies - these are contingent on the use of domestic over imported goods.

Certain least developed and developing countries who's GDP per capita is below USD1000 per annum are allowed to have prohibited subsidies. They are specifically listed in Annexure VII to the SCM. The countries include India, Kenya, Nigeria, Philippines, and Ghana etc.

So when looks at the various countries SEZ systems one must understand that they actually might be allowed to have prohibited subsidies in terms of the above exception.

In South Africa's case, it is not specifically listed, so it is not exempted from the above rule. Any incentive design for South Africa must be compliant with the disciplines regarding prohibited subsidies.

Actionable subsidies

An actionable subsidy is a specific that is not contingent on exports. It can result in them being challenged at a country level through the imposition of a countervailing duty which would have the effect of nullifying the impact of the subsidy received. Actionable subsidies are not prohibited.

A subsidy is actionable if:

- It is specific (refer to 3 criteria above) and
- Causes adverse effects (injury, serious prejudice etc.

Non actionable subsidies

No action can be taken against subsidies that are non-specific which is determined on the basis of:

- Criteria are neutral, economic in nature and horizontal in application
- No predominant use by certain enterprises
- Eligibility based on objective criteria or conditions
- Eligibility automatic and criteria are strictly adhered to.

4. The Special Economic Zones in South Africa

The SEZ Act, 2014 in South Africa was signed into law in May 2014. The aim of the SEZ seeks to boost private investment (domestic and foreign) to labour-intensive areas, to increase job creation, competitiveness and exports of beneficiated products. Following the passing of the act all the current IDZ designated under the Manufacturing Development Act, i.e. Coega, East London, Richards Bay, Saldanha Bay and O.R Tambo became SEZ designated under the SEZ Act.

The act seeks to build on the experience of the Department of Trade and Industry ***(the dti)*** with the IDZ programme. The SEZ Act provides for the:

- Determination of SEZ Policy and Strategy,
- Establishment of SEZ Advisory Board and SEZ Fund,
- Designation, promotion, development, operation and management of SEZs,
- Regulatory measures and incentives for SEZs to attract domestic and foreign direct investment, and
- Establishment of a single point of contact or One-Stop Shop to deliver government services.

The Act provides for the designation of the following four types of SEZ's:

Type of Zone	**Description**
Free Ports	Duty free areas adjacent to a port of entry where imported goods may be unloaded for value-adding activities, repackaging, storage and subsequent re-export, subject to special customs procedures
Free Trade Zones	A duty free area offering storage and distribution facilities for value-adding activities within the Special Economic Zone, for subsequent transhipment or re-export
Industrial Development Zone:	A purpose built industrial estate that leverages domestic and foreign fixed direct investment in value-added and export-oriented manufacturing industries
Sector Development/Specialised Zones:	A zone focused on the development of a specific sector or industry through the facilitation of general or specific industrial infrastructure, incentives, technical and business services primarily for the export market

By making it possible to have different categories of Special Economic Zones, the Act aims to allow for the tailoring of the individual SEZ's strategies, to the strengths of different locations.

The approach of the SEZ is enabling rather than prescriptive on the type of SEZs that may be designated. The language in the Act is such that the type of SEZ's mentioned in the Act may in fact not constitute an exhaustive list. Section 24(2) provides that *"The Minister may prescribe different categories of Special Economic Zones, which may include (a) a free port; (b) a free trade zone; (c) an industrial development zone; and (d) a sector development zone"*. The criteria for the designation of each category are to be outlined on a separate guideline issued by the Minister.

The Act is however very prescriptive regarding who may apply for an SEZ status and how an SEZ is to be governed and managed; "*only National government, a provincial government, a municipality, a public entity, a municipal entity or a public-private partnership, acting alone or jointly, may apply to the Minister in the form and manner prescribed for a specified area to be designated as a Special Economic Zone"*. Private companies are excluded from applying as SEZs by themselves. They need to partner with a state institution in order to apply.

The Act requires that after designation an entity must be established to manage the SEZ. In the case of a PPP the entity can be a private company. The Act however requires that the company shall manage the PPP SEZ in accordance with regulation 16 of the National Treasury Regulations and section 120 of the Municipal Finance Management Act in the case of a PPP involving a local government institution. The Boards of these entities which are referred to as Special Economic Zones Boards have reporting responsibilities to the Minister with respect to the management of the SEZ.

Each SEZ Board is required to appoint a Special Economic Zone operator to manage and develop the SEZ board. The operator must be approved.

4.1 SEZ Incentives

- Section 12I Of the Income Tax Act (ITA)
- Section 12R of the ITA
- Section 12S of the ITA and
- The VAT and Customs Act

4.1.1 Section 12I

Section 12I incentive provides an additional tax allowance to Greenfield investments, i.e. new manufacturing projects as well as Brownfield investments i.e. expansions or upgrades of existing industrial projects. The incentive is provided for both capital investment and training. The scheme is available to both companies establishing in and outside of SEZ's. The scheme is however extremely beneficial to companies within SEZ. For a similar investment it is possible for a project located inside an SEZ to obtain three times as more benefit.

The maximum additional allowance that can be granted to a new Greenfield project with a preferred status is R900 million and in the case of a project attaining a qualifying status it is R550 million. For a brownfield project the maximum additional allowance that can be granted to a project is R350 million.

A project obtains a qualifying status if it scores at least five points out of a total possible ten points and a preferred status if it scores at least 8. The point scoring criteria are as follows:

Criteria	Brownfield	Greenfield
Upgrade an industry within South Africa (via an innovative process)	1	1
Upgrade an industry within South Africa (via improved energy efficiency)	2	2
Provide general business linkages within South Africa	1	1
Acquire goods and services from small, medium and micro-sized enterprises (SMMEs);	2	1
Create direct employment within South Africa	2	2
Provide skills development in South Africa	2	2
Industrial Development Zone (IDZ)	0	1
Total	10	10

The actual incentive granted is based on a percentage of the value of the investment in manufacturing assets. For projects locating in an SEZ the additional allowance granted is 100% of the investment for a preferred project and 75% for a project with qualifying status. For projects not locating in an SEZ the additional allowance granted is 55% of the investment for a preferred project and 35% for a project with qualifying status.

Thus a new project investing R900 million which scores 7 points outside the IDZ would have its benefit increased from R315 million to R900 million if it moved into the SEZ and awarded a preferred status.

4.1.2 Section 12 R

Section 12R of the income Tax Act provides for a reduced income tax rate of 15% (normal 28%) for some manufacturing firms locating in an SEZ. The granting of the reduced income tax rate is however not automatic. In order to qualify a company has to meet the following criteria;

- incorporated by or under any law in force in the Republic or has its place of effective management in the Republic;
- carries on business in a category of a special economic zone designated by the Minister of Trade and Industry in terms of the Special Economic Zones Act and approved by the Minister of Finance after consultation with the Minister of Trade and Industry;
- the business or services are carried on or provided from a fixed place of business situated within a special economic zone; and
- Not less than 90 per cent of the income of that company is derived from the carrying on of business or provision of services within that special economic zone.

The Act thus provides that the Minister of Trade and Industry and the Minister of Finance will have to agree on the types of businesses within the SEZs that can qualify for the incentive.

4.1.3 Section 12S

Section 12S of the Income Tax Act contains provisions for accelerated depreciation on buildings; a 10% tax annual allowance on the cost of buildings (and their improvements) in SEZs. In order to qualify for the aforementioned allowance, companies will have to meet the following requirements:

- comply with the definition of a “qualifying company” in terms of section 12R;
- be the owner of any new and unused building or any new and unused improvement to a building; and
- the building/improvement should be mainly used during any year of assessment for the purpose of producing income in the course of a taxpayer’s trade within an SEZ.

4.1.4 Employment Tax Incentive

The employment tax incentive provides for a wage subsidy for workers earning the minimum wage within an IDZ.

4.1.5 VAT and Customs Benefits

An SEZ may have a Customs Controlled Area ("CCA") or multiple CCAs where a Customs Controlled Area Enterprise ("CCAE") will operate and obtain certain benefits and privileges.

Relevant operators within a CCA will be permitted to acquire certain goods exempt from the VAT levied on importation into the Republic, and to acquire certain goods or services from the local market at the zero rate of VAT. Furthermore, CCAEs will receive relief from customs duties at the time of importation into a CCA in terms of any goods for storage, raw material for manufacture and machinery used in the manufacturing process. Simplified customs procedures will be an additional benefit for a CCAE (i.e. Clearance of goods – importation, exportation and transit; application for designation, licensing and registration; and release of cargo etc.)

Numerous Customs and VAT related benefits are available to CCAEs in terms of the VAT as well as the Customs and Excise Acts and are available as a result of the CCA designation within a SEZ. A complete analysis of these benefits are not suitable for this report.

4.2 Observations regarding South Africa's SEZ programme the international SEZ experience and the WTO

4.2.5 Types of SEZ's

The legislation in South Africa is flexible enough and probably permits all types of SEZ permutations except for single factory SEZs. The legislation primarily is intended for industrial estates as is evident from the definition of an SEZ as an area. The legislation provides the Minister with discretion on introducing new types of SEZs, however the main barrier to the establishment of single factory SEZs are the prescriptions on who can apply for an SEZ and other SEZ governance requirements such as the requirement for establishment of Special Economic Zones boards in terms of the PPP legislation. These would place extremely onerous and unnecessary requirements for any individual company intending to establish a single factory SEZ.

4.2.6 Impact of the WTO

As has been noted there is a limitation on the types of SEZ incentives that South Africa can offer. The implication is that some companies who receive incentives in the SEZ will have full and equal access to the domestic market as compared to existing companies. Since there will be no special performance requirements on some SEZ enterprises, limiting certain incentives to geographically defined SEZ will in practice imply that the incentives will serve more to influence location choice by companies establishing new manufacturing facilities in South Africa.

As can be seen the difference in incentives offered to SEZ and non SEZ investors can be quite substantial. More than three times as big. This may create a temptation on the part of firms to relocate to the SEZ. This will be particularly appealing to firms because the increased incentive does not require a project to meet any additional requirements except location.

The Incentive regime for the SEZ's are broadly compliant with WTO requirements, i.e. there are no prohibited subsidies offered, i.e. major tax exemptions contingent on exports. This however means that the SEZ programme has a challenge of how it will incentivise exporters. This implies that the programme may not succeed in its objective of export growth.

It may be required that in order to meet the objective of export growth a criteria that could serve as a proxy for export should be considered. A random example of a proxy that could be used is the degree of a company's products openness to trade, i.e. imports and exports as a percentage of domestic consumption of the product.

5. International Experience with Single Factory Zones

5.1 Free Zones in Costa Rica

5.1.1 Background

Free Trade Zones (FTZs) began in Costa Rica with the promulgation of Law 6695 of December 10, 1981, the Export Processing Zones and Industrial Parks Law, as a mechanism for promoting the export of non-traditional products and fostering productive investment by attracting foreign direct investment. The policy was part of the new outward-oriented development strategy that Costa Rica adopted in response to a severe economic crises. The intent was to create a diversified productive basis, through the export of non-traditional products, that would give the Costa Rican economy greater stability in the face of shifting terms of trade for its previously dominant exports (coffee, bananas, sugar and meat) and imports (manufactured products).

At the outset, the FTZs also tried to take advantage of investment opportunities in less-developed geographic areas, to promote their development. Article 2 of the law authorized the establishment of FTZs in the provinces of Puntarenas, Limon and Guanacaste, as a means of attracting investment that would generate employment in these historically underdeveloped areas. The results, however, were disappointing, and the experience showed that, in order to operate there, businesses required the kind of infrastructure and human resources not available in those provinces. The concept of FTZs in the initial legislation was very restrictive, limited to "controlled areas with no permanent residents, devoted to the handling, processing, manufacture and production of articles for export or re-export to third markets." The law also restricted the activities in which firms established under that system could engage, by excluding services for example. This situation was corrected in 1990 by Law 7210, which included services within the activities covered by the FTZ system. Moreover, the new law placed no constraints on exports in terms of markets or the type of products to be exported.

Article 1 of Law No. 7210 describes the Free Zone Regime "a the set of incentives and benefits granted by the State to companies making new investments in the country, provided they do comply with all the other requirements and obligations established in this Law and its Regulations. The Regulations shall determine the definition of new investments in the country." The place where a group of companies benefited under the Free Zone gets established is named the "free zone". The law specifies that it shall be a "delimited area, without population, authorized by the Executive Branch to operate as such".

5.1.2 Qualifying Criteria and Governance

The basic requirements to join the Free Zone incentives include new initial investment on fixed assets of at least US$ 150,000 for companies inside industrial parks, and US$ 2,000,000 for companies installed outside a park. In the case of manufacturing companies, the export requirement dictates that at least 75% of the production must be exported. For services companies, at least 50 % of the services must be exported.

The application for receiving Free Zones incentives is submitted to the Costa Rican Foreign Trade Corporation: PROCOMER, prior to the beginning of operations. Applicants submit the application to PROCOMER Once approved, PROCOMER's consulting department and business analysts will issue a report to be approved by their Technical Commission. The entire review process takes approximately two weeks. If PROCOMER's Technical Commission has no objections to the application, the business analyst will draft an Executive Free Trade Zone Agreement. Both the Minister of Foreign Affairs and the President of Costa Rica must review and sign the Executive FTZ agreement. If either parties has an objection or denies the agreement, PROCOMER's Operations Department will be notified and PROCOMER will notify the applicant. If there are no problems, the applicant moves on to the signature and publications process. This step also takes an estimated two weeks.

After all paperwork is complete, the FTZ applicant must secure custom authority approval, which includes sanitary permits for operation and municipal licenses. This process takes approximately two weeks. Finally, once the company has received all related permits and permissions, they will secure their PROCOMER operations contract with a $5,000 deposit. Upon receipt of the deposit, PROCOMER will publish the executive agreement in La Gaceta, Costa Rica's official government newspaper.

5.1.3 Incentives

Article 20 of Law 7210 provides for the following exemptions:

- From payment of all taxes and duties on imports of raw materials required for the operation of the business;
- From all taxes and duties affecting imports of machinery and equipment corresponding to the beneficiary's operation;
- From all taxes and duties on imports of fuels, oils and lubricants required for the operation of the business;
- For a term of 10 years from taxes on capital and net assets and the payment of the real estate transfer tax, as of the date of approval of operations of the company;
- From sales and consumer taxes;
- From all taxes on remittances abroad
- From all taxes on profits, including dividends paid to shareholders in accordance with the following differences:
    - 100% for companies located in zones of higher relative development, for a term of up to eight years and 50% for the following four years;;
    - 100% for companies located in zones of lower relative development, for a term of up to 12 years and 50% for the following six years;; and
    - Exemption from all municipal taxes and licences for a term of 10 years.

Also, export processing enterprises that re-invest in the country may receive an additional exemption on the payment of income tax. Furthermore, processing companies - independent of whether they export or meet special requirements - may enjoy other benefits such as the importation of merchandise with tax suspension when the merchandise is submitted to transformation, repair, reconstruction, or assembly within Costa Rican territory.

The beneficiaries may obtain from the government an extension of the incentives if they make a considerable additional investment (such as works in progress, non-depreciable real estate, machinery and equipment and software used in the business).

5.1.4 Programme Outcomes

A study by PROCOMER and the Costa Rican Ministry of Trade on the impact of Free Zones between the years 1997- 2005, showed that Free Zones constituted 42 percent of foreign direct investment in the country in 2005, and that companies located in Free Zone areas generated 39,000 direct jobs in 2005. The Costa Rican Free Zones Association estimated that those companies contributed to 44,000 direct jobs in 2006. The Costa Rican figures indicate that Free Zones have made a strong contribution to economic development in Costa Rica and have propagated notable growth in the entire region.

A cost benefit study of the Costa Rican Free Zone programme conducted by the Office of Trade, Growth and Competitiveness of the Organisation of American States (OAS) in 2005 made the following conclusions;

- Slightly less than half of the FDI flow to Costa Rica in the 1990s came in under the FTZ incentives program. The actual number of companies operating in the free trade zones rose from 56 in 1990 to more than 200 in 2002.
- The composition of the FTZ-associated FDI had changed in the decade 1995-2005, as more companies have been attracted into high-tech fields, and especially into sectors such as microprocessors, call centres, and medical accessories.
- Firms operating within the FTZs had increased their contribution to national output: that contribution rose from 0.5% at the beginning of the 1990s to 8% of GDP in 2003.
- The firms operating within the FTZs typically export to third markets, and their contribution to Costa Rica's external sales has also increased significantly over the last decade, from 6.5% in 1990 to 53.7% in 2003.
- The operation of multinational corporations (MNCs) has produced positive balances on the trade account and on the current account of the balance of payments over the last 10 years and five years, respectively.
- MNCs associated with the FTZs have increased employment opportunities in Costa Rica, especially for skilled workers. The labour force employed by these MNCs has grown significantly since the beginning of the 1990s, from 7,000 workers in 1990 to 35,000 in 2002. This means that the relative weight of this sector in overall industrial employment in Costa Rica stood at 16% in 2002.

5.1.5 Costa Rica’s SEZ Programme and the WTO

Costa Rica belonged to a group of countries that have been able to obtain extension of their export subsidies under article 27. 4 of the WTO. This extension came to an end in 2013 and the country had a two year phase out period.

Beginning in December 31, 2015 the tax exemptions on exports of goods, considered by WTO as prohibited subsidies, must be eliminated. For such reason, the Costa Rican Government made some changes to the Free Trade Zone Law and its regulations. One of the main changes made to such Law was that the regime of prohibited incentives for manufacturing companies which are beneficiaries of the Free Trade Zone Regime will end in December 31, 2015.

However, there are specific manufacturing operations that under certain conditions and characteristics are allowed by the Law to transfer to what was denominated as “f” type manufacturing companies. These “f” type manufacturing companies will “survive” the December 31, 2015 deadline, and will be able to keep their operation as beneficiaries of the Free Trade Zone regime. Type “f” type are manufacturing companies than can destine 100% of their sales to the local market, meaning that these companies will not require to export in order to be beneficiaries of the Free Trade Zone Regime.

To be selected for type “f” benefit, companies will have to meet the following criteria;

- Are part of strategic investment sectors for the country
- The amount of the additional investment to be made
- The number of additional employees to have and maintain.

The exemption on income taxes for the “f” type companies is applied as follows: (i) payment of a 6% income tax for the first 8 years (from the initial date of operation under the “f” type regime); (ii) payment a 15% income tax for the following 4 years.

5.1.6 Lessons for South Africa

- The SEZ programme in Costa Rica has achieved some success as reported by an independent multilateral institution, the Organisation of American States’ Office of Trade Growth and Competitiveness.

- The Costa Rica law defines a Free Zone Regime as a system of incentives. The Free Zone is where a company or group of companies which has been awarded the incentive are located. The law in Costa Rica provides for both single factory zones and industrial estates.
- The Costa Rica programme only became successful when flexibility was introduced with regards to choice of location of SEZs. Before the flexibility was introduced even with much bigger incentives than South Africa's SEZ programme offers the programme failed to attract investment to less developed areas.
- The size of investment has been used to limit the proliferation of single factory zones.
- Even though Costa Rica's exemption from prohibited subsidies is coming to an end, the programme is being amended and not abandoned.
- The Costa Rica SEZ programme has been successful in upgrading the technology composition of exports.

5.2 The Indian Single factory Zone Programme

5.2.1 Introduction

The Indian special economic zone model is approximately 50 years old, as the SEZ's were first introduced in 1965. The programme has undergone numerous iterations and terminological shifts and its underlying structure and policy aims have changed since its first implementation. The broad Indian SEZ policy now encompasses traditional SEZs, smaller, diversified (and newer) export processing zones, and Export-Oriented Units (EOUs). The first Indian zone (Kandla), established and maintained entirely by the Government of India (GOI), was located in the western coastal state of Gujarat in a rural coastal area for reasons of local development and access to international trade. The Santa Cruz zone (in Maharashtra) followed eight years later, further south along the western coast.

Between the 1960's and 1990's, the Indian domestic economy was governed by a complex system of government controls; these restrictions and the bureaucratic hindrance which accompanied them extended to the country's nascent SEZ policy. As a result, the performance of India's first zones was not spectacular: the SEZ contribution to India's output actually *declined* from 9% in 1975 to 1.5% in 1982.

In 1981, the GOI instituted the EOU policy platform in response to an independent commission's suggestions to decentralize its exports-promotion system. The EOU programme was introduced in early

1981 and is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

EOUs fall into 3 categories:

- EOUs established anywhere in India and exporting 100% products except certain fixed percentage of sales in the Domestic Tariff Area (DTA) as may be permissible under the Policy.
- Units in Free Trade Zones in Special Economic Zones (SEZs) and exporting 100% of their products.
- EOUs set up in Software Technology Parks (STPs) and Electronic Hardware

The EOUs are licensed to manufacture goods within the bonded premises for the purpose of export. As per the policy, the period of bonding is initially for five years, which is extendable to another five years by the Development Commissioner. On completion of the bonding period, it is for the unit to decide whether to continue under, or to opt out, of the scheme.

5.2.2 Qualification Criteria and Governance

The EOU programme is governed by the Foreign Trade Policy (27th August 2009 - 31st March 2014), Department of Commerce, Ministry of Commerce and Industry of the Government of India. The procedures for the programme are outlined in chapter 6 of the Handbook of Procedures (Vol. I)

To qualify for EOU status, the core requirements are;

- The minimum investment should be Rs.10 million (Indian Rupees) (USD 165,000) in plant and machinery except for agriculture /Aquaculture/IT/Service units, Brass handmade jewellery).
- The investor/entrepreneur needs to provide, in effect, a complete business plan, capital investment plan and physical location plan. Information is required, for example, on the capital equipment (foreign and local) to be used, sourcing of local resources and other inputs, the production process, the environmental management plan, power requirements etc.
- EOUs have to export a 100% 0f their output although 50% of physical exports can be sold in domestic market on payment of concessional customs duty.

- In case of new EOUs, sale in the domestic tariff area will be allowed not exceeding 50% of its estimated exports for the first year except the pharmaceutical units where this will based on its estimated exports for the first two years.
- An EOU unit must be a positive Net Foreign Exchange earner (NFE). NFE earnings are calculated cumulatively in blocks of five years, starting from commencement of production. Whenever a unit is unable to export due to prohibition / restriction imposed on export of any product mentioned in its approval, the five year block period for calculation of NFE earnings may be suitably extended. The government may also consider extension of block period by another one year, for calculation of NFE, on case to case basis, for those units which complete 5 years block period in between 30.09.2008 and 3 0.09.2009, keeping in view the decline in exports in that particular unit, due to economic slowdown only.
- Existing factories in the domestic tariff area can also convert into EOU Scheme and avail the Income Tax benefits as per latest policy issued by the Government.
- Units engaged in Business services, Computer and related services, R&D services, Real estate services, Communications services, Engineering services, Educational services etc., can also be set up under EOU scheme availing all the benefits with the investment of below Rs.10 Million.

The EOU scheme functions under the administrative control of one of the seven Development Commissioners of Special Economic Zones, authorised by the Ministry Of Commerce, located in Mumbai, Ghandhidham, Chennai, Cochin, Vizag, Noida, Calcutta. An application for setting up a facility under EOU scheme needs to be filled with the concerned Development Commissioner under whose jurisdiction the unit is proposed to be located.

A transfer for Rs. 5,000/- is required to the Ministry of Commerce and Industry, Department of Commerce. Registration and a Membership Certificate (RCMC) needs to be obtained from the office of the concerned Development Commissioner. Also an Import Export Code needs to be applied for and obtained.

After the approval from the respective Development Commissioner, the manufacturing and other activities have to be undertaken under customs bond. A formal application needs to be made to the jurisdictional Assistant Commissioner/ Deputy Commissioner of the Customs/ Central Excise for issuance of a Private Custom Bonded Warehouse Licence under section 58 and 65 of the Customs Act, 1962.

The Development Commissioner is empowered to grant approvals on the following matters:

- Import of additional capital goods
- Enhancement of production capacity
- Broad-banding/diversification
- Change in name/ constitutions
- Change of location/expansion
- Import of office equipment:
- Merger of two or more EOU/SEZ Units
- Eligibility certificates for grant of employment visa to low level foreign technicians to be engaged by EOUs
- De-bonding/ Exit from EOU scheme

State government agencies will providede approvals for local matters such as electrical wiring, power allocation, industrial water supply, etc.

5.2.3 Incentives

The main incentives and operational business advantages are these:

- No license required for import.
- Exemption from Central Excise Duty in procurement of capital goods, raw-materials, consumables spares etc. from the domestic market.
- Exemption from customs duty on import of capital goods, raw materials, consumables spares etc.
- Reimbursement of Central Sales Tax (CST) paid on domestic purchases.
- Supplies from DTA to EOUs treated as deemed exports.
- Reimbursement of duty paid on furnace oil, procured from domestic oil
- Companies to EOUs as per the rate of drawback notified by the Directorate General of Foreign Trade.
- 100% Foreign Direct Investment permisisible.
- Exchange earners foreign currency (EEFC) Account
- Facility to retain 100% foreign exchange proceeds in EEFC Account.
- Facility to realize and repatriate export proceeds within twelve months.

- Re-export of imported goods found defective, goods imported from foreign suppliers on loan basis etc.
- Exemption from industrial licensing requirement for items reserved for SSI sector.
- Profits allowed to be repatriated freely without any dividend balancing requirement

5.2.4 Programme outcomes

A 2012 study by Development Planning Unit at University College London noted that there were nearly 2500 functioning EOUs in India, primarily concentrated in the states of Karnataka, Andhra Pradesh, Tamil Nadu, Gujarat, Maharashtra, Delhi, Kerala, Uttar Pradesh, Haryana, Punjab, and West Bengal.

National statistics indicated that India's EOUs comprise a sizable portion of its exports earnings and domestic activity, especially compared to its longer-standing SEZs: in 2009 EOUs comprised 8% of India's exports, while SEZs contributed 4%. They also generated a larger portion of domestic industrial activity than SEZs: EOUs employed more than 6 million people in 2003, compared to SEZs' 2 million in 2008.

5.2.5 The Indian Free Zone programme and the WTO

India has been able to offer subsidies that are considered prohibited by the WTO. India is on the list of countries in Annex VII(b) of the WTO SCM Agreement that are excluded from the prohibition on export subsidies until their GNI per capita exceeds $1,000 in 1990 dollars for three consecutive years.

5.2.6 Lessons for South Africa

- The Indian SEZ Programme has a different structure. The single factory zones are governed by a different legislation than the main programme.
- Existing companies in India are able to convert to EOU (single factory zone) status. If they do not meet targets they drop out of the programme.

- India is able to offer much more aggressive incentives because of its status as an LDC and therefore able to offer prohibited subsidies.
- Comparative analysis of the two Indian programmes, Industrial Park SEZs and EOUs by an independent institution from government (University College London) shows that there has been a benefit to introducing the single factory programme and providing firms with flexibility with regards to choice of locations.

5.3 Ghana Free Zone Programme

5.3.1 Background

Ghana's free-zone program started when the country's government decided to focus on export-oriented manufacturing. The program, begun in 1995, was a major part of attracting foreign direct investment through infrastructure improvements and liberal incentives. It was part of a wider "Gateway Project," which included regulatory, infrastructure and other types of improvements aimed at making the country an export platform for West Africa, as well as the United States and European Union. The Ghana Free Zones Board began operating in late 1996, although the Free Zone Act was promulgated in 1995. Operators in free zones can be licensed as single-factory zones with no geographic restrictions (effectively bonded warehouses) and in classic geographically defined EPZs.

As of 2011, the country has had 4 Export Processing Zones (EPZ) in operation since 1999 that are run by private companies under the supervision of the Ghana Free Zone Board (GFZB). One of them is located in Tema (480 ha) and two near Takoradi (in Segondi and Shama), while the fourth has been established in Ashanti country near Kumasi and close to the Kwame Nkrumah University of Science and Technology. There are also about 150 Single Factory EPZ's.

5.3.2 Governance and Qualification Criteria

Investors can invest in any sector of their choice as long as it meets the requirements of the Board. Plastic manufacturing, wood processing and all forms of mining are however not allowed under the Free Zones Programme. Main sectors of interest are:

- Information and Communication technologies

    - Business Process Outsourcing
    - Data Entry and Processing
    - Call Centres
    - Software Development
    - Hardware Assembly
    - ICT Infrastructure Development
- Agro processing
    - Processing of fruits and vegetables
    - Processing of shea nuts and cashew nuts
    - Processing of palm oil
- Industry and manufacturing
    - Textile and garments
    - Light industry
    - Fabrication of hand tools and machinery
    - Jewelry production
    - Production of Chocolate
- Oil and gas
    - Oil refinery and distribution
    - Manufacturing of by-products from oil and gas
    - Manufacturing of chemical inputs and accessories for the petroleum industry.

Prospective single factory SEZ Investors wishing to set up enterprises (for Manufacturing, Commercial or Service activities) must obtain the relevant Enterprise Licence from the board. The investor(s) should incorporate a company or partnership in Ghana and show evidence of possession or lease of real property or intent to acquire such property. Depending on the activity to be undertaken, the applicant should obtain and complete standard paperwork. The GFZB will notify the investor of his/her application for license within 28 working days. The licence must lead to commencement of activities within 6 months of approval.

An Enterprise License fee of US$2,000 – Manufacturing or S$3,000 - Service or US$5,000 - Commercial in the first instance and a renewal fee of US$1,600 - Manufacturing or US$2,000 - Service or US$4,000 - Commercial paid annually. Other procedures also apply, such as erecting fences. Quarterly financial returns also need to be filed with GFZB.

5.3.3 Incentives

The following incentives apply to the SEZ programme;

- A foreign investor may take and hold a maximum of 100 percent of the shares in any free zone enterprise.
- EPZ enterprises granted licenses under the Act will be exempt from the payment of income tax on profits for the first ten years from the date of commencement of operation.
- The income tax rate after ten years shall not exceed a maximum of 8 percent. A shareholder is exempted from the payment of withholding taxes on dividends arising out of free zone investments.
- Full exemption from customs duties on imports and exports, exemption from the VAT.
- Single factory EPZs may sell up to 30 percent of the annual production of goods and services to the national customs territory. Sale of goods from free zone enterprises to the national customs territory shall be considered as imports and shall be subject to the rules and regulations relating to imports into the national customs territory.
- Damaged or rejected goods, or samples may be sold by the single factory zones to the national customs territory; such goods are considered as part of the 30 percent of annual production of the free zones authorized to be sold to the national customs territory.
- Sales of goods and services by a domestic enterprise from the national customs territory to single factory zone shall be considered as exports.
- A domestic enterprise will be eligible to benefit from the prevailing export incentives available to a national exporter and will not require an export license for sale of any goods and services to single factory zone.
- An enterprise in a free zone or single factory zone may purchase goods and services sold by a domestic enterprise with local currency obtained through conversion of foreign currency through the banks and any licensed foreign exchange bureau.
- There are no restrictions on repatriation of dividends or profits, payments for foreign loan servicing, payments of fees related to technology transfer agreements, remittance of proceeds from the sale of a portion of a free zone investment, and operation of a foreign-currency account in a bank in Ghana.

5.3.4 Outcomes of the Programme

The Ghana Free Zone programme has achieved modest success. These Free Zone ports have succeeded in capturing a portion of the maritime traffic that abandoned Abidjan in the wake of the civil war that broke out in Côte d'Ivoire in 2002. They have also established themselves as outlets for raw material exports from the landlocked countries of Burkina Faso, Mali and Niger. They are, therefore, in direct competition with the free port of Lomé in Togo.

Around 130 enterprises were registered in the EPZ in 2010. In 2005, the last year for which official employment data was reported, they employed 6227 workers (down from 9 857 in 2004), and their exports amounted to USD 457 million. Most of these exports and jobs, however, are accounted for by a few large firms, mainly in the food processing business (tuna and fruit packing, cocoa liqueur and powder, etc.) and manufacturing (foil wrapping, furniture, drugs, etc.).

5.3.5 The Ghanaian Free Zone programme and the WTO

Ghana has been able to offer subsidies that are considered prohibited by the WTO. Ghana is one in a list of countries in Annex VII(b) of the WTO SCM Agreement are excluded from the prohibition on export subsidies until their GNI per capita exceeds $1,000 in 1990 dollars for three consecutive years.

5.3.6 Lessons for South Africa

- Ghana's SEZ law provides for both industrial estates and single factory zones.
- The programme has achieved modest success
- The biggest contribution at this stage is from the single factory SEZ.

6. Findings

Some of the key findings of this work are as follows;

- The current SEZ legislation in South Africa is flexible enough and probably permits all types of SEZ permutations existing around the world except for single factory SEZs.

- The main barrier to the establishment of single factory SEZs in South Africa are;
    - The area based definition of an SEZ
    - The prescriptions on who can apply for an SEZ and
    - SEZ governance requirements such as the requirement for establishment of Special Economic Zones' Boards in terms of the PPP legislation. These would place extremely onerous and unnecessary requirements for any company intending to establish a single factory SEZ.

- Because of the prohibition of subsidies contingent on export by the Subsidy and Countervailing Measures Agreement of the WTO, government will not be able to impose export obligations in return for tax incentives. Companies who receive tax incentives in the SEZ will have full and equal access to the domestic market. They will get bigger incentives without having to fulfil additional requirements different from companies located outside SEZ. This imply that the incentives will serve more to influence location choice by new companies establishing manufacturing facilities in South Africa rather than established companies considering major expansions. The difference in incentives offered to SEZ and non SEZ investors can be quite substantial, in certain instances more than three times as big.

- The single factory SEZ programmes in Costa Rica and India has achieved some export growth success as reported by independent institutions. The flexibility to locate close to skills, infrastructure and production inputs has contributed to the export success of the programme.

- Even though all three countries selected were able to offer export subsidies, which South Africa cannot, one cannot discount their experiences.

- The experience of Costa Rica and India are suggestive that location based incentives may not produce the desired result in export growth. The SEZs of both India and Costa Rica increased their export contributions once the programmes had been amended to provide flexibility in terms of location of factories.

- There are different ways of providing for single factory based SEZs. Costa Rica defines a Free Zone Regime as a system of incentives. The Free Zone is where a company or group of companies which has been awarded the incentive are located. Ghana's SEZ law provides for both industrial estates and single factory zones. In India on the other the single factory SEZ's is based on a different law.
- The size of investment has been used to limit the proliferation of single factory zones in both Costa Rica and India.
- Even though Costa Rica's exemption from prohibited subsidies is coming to an end, the programme is being amended and not abandoned.
- From interaction we had with policy makers during the course of the study we suspect that there are possibly two key concerns that such policy makers may have regarding the introduction of single factory SEZs;

    - Proliferation of such SEZ's and the complexity of managing such a scheme.
    - Dead weight losses for granting incentives to companies for undertaking activities that they would anyway in the absence of participating in the programme.

7. Recommendations

The study has been able to identify countries, with different circumstances to those of South Africa, who have been able to successfully introduce and manage single factory SEZs.

The examples of Ghana, Costa Rica and India are suggestive of how possible concerns of policy makers could be overcome provided there is political will to experiment with such an incentive scheme for major exporters;

- Both India and Costa Rica have used measures such as the size of a plant to determine participation in the programme thereby limiting proliferation.

The study has also been instructive with regards to how a properly structured programme could restrain or minimise deadweight losses.

- All the programmes that we have looked at are factory based and not company based, meaning that the incentives granted relate to revenue only out of the manufacturing activities and not other company income.
- Participation in the programme could be linked to performance measures such as employment investment output and exposure to trade to ensure that the correct profile of participants is targeted.

The SEZ legislation (SEZ Act) will have to be amended specifically to allow for single site SEZs. For this to happen there to be significant political will. This would however need to be carefully thought out so that the number of changes can be minimised

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