THE ROLE OF
DEVELOPMENT FINANCING

IN

PROMOTING ECONOMICALLY
VIABLE INFRASTRUCTURE
DEVELOPMENT

THROUGH

SPECIAL ECONOMIC ZONES

EXECUTIVE SUMMARY ON DEVELOPMENT FINANCING

Definition

Development Finance is provision of resources to support, encourage and catalyze expansion through public and private investment in physical development, business and industry.

Forms of Financing

- ✓ Debt, loans, bonds, guarantees, gap financing.
- ✓ Equity, venture/seed capital.

Projects to be Financed

- ✓ Industry such as industrial parks, manufacturing, technology.
- ✓ Small and micro businesses.
- ✓ Education and health facilities.

What are SEZs?

These are spatially delimited areas in an economy that function with different administrative, regulatory and often fiscal regimes (typically more liberal) to those of the domestic market. There are 50 in Nigeria.

Rationale

- ✓ Employment Generation including upgrading of skills.
- ✓ Promote Export Growth in diversifying the economy.
- ✓ Increase Foreign Exchange Earnings through Foreign Direct Investment (FDI).
- ✓ Enhanced productivity.

Financing Options

- ✓ Multilateral Development Banks (MDSs)/Development Finance Institutions (DFIs).
- ✓ Public-Private-Partnership.
- ✓ Banks.
- ✓ Capital Markets – the Stock Exchange.

Notable MDBs/DFIs

- ✓ Africa Development Bank (AfDB).
- ✓ African Export-Import Bank (Afreximbank).
- ✓ China Development Bank (CDB).
- ✓ European Investment Bank (EIB).
- ✓ French Development Agency (AFD).
- ✓ Japan International Cooperation Agency (JICA).

Conclusion

- ✓ Development Finance play a crucial role in enabling countries overcome development challenges and achieve long-term economic growth and stability.
- ✓ Therefore, Your Excellencies can leverage Development Finance resources to support critical development projects.

  By maximizing the deployment of economic tools such as SEZs, State Governments can attract Foreign Direct Investments, create more job opportunities and generate more revenue for States and the Country at large.
- ✓ It is pertinent to note that in addition to Development Financing, the success of a SEZ depends on factors such as sound legal and regulatory framework, quality of investors, excellent management, good location, high level leadership etc.

1. DEVELOPMENT FINANCING: DEFINITION AND SCOPE

i. Definition

Development Finance is provision of resources to support, encourage and catalyze expansion through public and private investment in physical development, business and industry.

Financing includes, debt, equity, loans, bonds, credits, liabilities, remediation, guarantees, collateral, credit enhancement, venture/seed capital, angles, incentives and gap financing.

ii. Scope: Development Financing Cover

a) Public Projects

These include roads, bridges, sewers, water facilities, schools, airports, docks, parking garages, broad bond, utilities etc.

b) Industry

This represents

- Industry and retail sectors. Examples such as industrial parks, manufacturing, technology/research hubs and commercial retail centres.
- Small and Micro businesses.
- Education and health facilities.
- Incubation centres.

2. OVERVIEW OF SPECIAL ECONOMIC ZONES

a) Definition

According to the World Bank, Special Economic Zones (SEZ) are spatially delimited areas within an economy that function with different administrative, regulatory and often fiscal regimes (typically more liberal) to those of the domestic market.

b) Types

The term SEZ has a wide range of variants which include, Free Trade Zones, Export Processing Zones, High-Tech Zones and Innovation Parks, Free Ports and Enterprises Zones, amongst others.

c) Rationale

- Employment Generation including upgrading of skills.
- Promote Export Growth in diversifying the economy.
- Increase Foreign Exchange Earnings through Foreign Direct Investment (FDI).
- Technology Transfer for local firms and Innovation.
- Enhanced productivity.
- Propel Urban Development
- Supporting a wider Economic Reform Strategy.

d) Number

- Developed Economies – 374. Europe 105, North America 269.
- Developing Economies - 4,772. Asia 4,046; Africa 237; Latin America & Caribbean 489.
- Total – 5,383

e) Impact of SEZs

- Foreign Direct Investment

In China, SEZs account for 80% of cumulative FDI. In Malaysia, 90% of investment in SEZs is FDI. In Vietnam between 60 and 70% of all Foreign Direct Investment (FDI) are located in SEZs. In Myanmar, 80% of investors in the Thilawa SEZ are foreign owned and 15% joint venture with foreign firms. In Bangladesh, 72% of Zone tenants in eight public Zones is FDI.

- Export Generation and Diversification

SEZs have contributed to export growth and development. In Latin America and the Caribbean, SEZs contribute more than 50% of total exports in Costa Rica, the Dominican Republic and Nicaragua; 31% in Mexico and 13% in Colombia. SEZs account for 60% of exports in the Philippines and 10% of India's export.
In Bangladesh, eight publicly owned Zones account for 20% of the Country's export of goods. In Morocco, SEZs account for 60% of non-oil export, 25% in Egypt and 40% in the United Arab Emirates. In Kenya and Ghana, Zones account for 10% of export.

SEZs have also played a vital role in the development of Global Value Chains (GVCs). By lowering transaction costs within Global Value Chains, SEZs contribute to profitability.

f) SEZs in Nigeria

There are 50 Free Zones in Nigeria distributed as follows:

Ownership/Financing	Number
Private	25
Public – FGN	2
FGN/PPP	2
Public – State	15
State/PPP	6
Total	**50**

The Free Zone Scheme has grown in leaps and bounds from one Free Zone in 1992 to 50 Free Zone covering all facets of the economy including but not limited to manufacturing, services, logistics, agriculture etc.

Furthermore, the Free Zone scheme has recorded investment value of over $30 billion as FDI, generated over 25,000 jobs and 580 registered Free Zone Enterprises.

3. DEVELOPMENT FINANCING THROUGH SEZs

SEZs require financing for on-site infrastructure, namely, power, utilities, internal roads, common facilities and buildings. For off-site infrastructure, these include access roads and utility connections.

A common model of financing PPPs is the public and the private partners being shareholders and board members with the shareholdings and board members reflecting the assets contributed respectively.

Table 1: SEZ financing options

Requirement	Public or private	Common structures	Example financiers
External off-site infrastructure	Public or private	Outright public ownership; PPPs	International Development Association; African Development Bank; Chinese Government; Commercial Banks.
SEZ on-site infrastructure	Public or private	Outright public ownership; PPPs; private companies with public and/or private shareholders	International Finance Corporation; Venture Capitalists; Chinese Government.
SEZ management	Public or private	Private companies with public and/or private shareholders	International Finance Corporation; Venture Capitalists; Chinese Government.
Firms operating in SEZs	Private	Private companies	Self-financing including foreign direct investment and venture capital.

4. PUBLIC FINANCING FOR SEZS

a) Financing by Multilateral Development Banks and Development Finance Institutions

Multilateral Development Banks (MDBs) have provided significant support for SEZs, including technical advice and financing. The World Bank financed $2.4 billion for 35 SEZ projects between 1973 and 2015.

Financing has covered a broad range of needs, including land acquisition and site development, infrastructure, factory shells and technical assistance. The financing provided includes projects worth over $100 million with long-tenured financing with long tenure.

The World Bank provided a 20-year concessionary rate loan of $40 million to the Subic Bay Metropolitan Authority (SBMA) for the development of the Subic Bay Freeport Zone as an SEZ in the Philippines. The SBMA is wholly owned by the government of the Philippines and was provided with concessionary land acquisition and equipment by the government.

Today, the Subic Bay Freeport Zone hosts the world's fourth largest shipbuilding facility (owned by Hanjin Heavy Industries and Construction) as well as more than 700 other investment projects providing employment for 7,000 people. Further, the SMBA is self-funded through income from private investors to finance management operations.

In Africa specifically, the World Bank has financed several 'start-up' SEZs, in Ghana, Madagascar, The Gambia and Uganda. The Bank's financing is predominantly for infrastructure and land, as well as broader technical support.

The African Development Bank (AfDB) also provides finance and technical advice for SEZs in Africa. Its focus has been on providing financing for infrastructure, including supportive infrastructure external to the zone and recently the development of Special Agro-industrial Processing Zones in Nigeria.

b) Chinese-led Partnerships

China has been a global leader in developing its own SEZs. In recent years, it has sought to build on its expertise to establish SEZs.

The partnerships typically involve finance from Chinese state-owned banks for infrastructure and private Chinese firms managing and establishing operations in the SEZs. The private Chinese firms also receive support from the Chinese government, including subsidies, long-term loans, grants and guarantees from various Chinese state-led banks.

Many such partnerships with the Chinese government have been successful. They have lent expertise and important political and economic relationships in relation to SEZs, as well as providing financing and leveraging on private firms to operate in SEZs.

c) Public-Private-Partnership

PPPs are the most common form of private financing of infrastructure for SEZs. They typically involve private financing of the infrastructure and facilities within the SEZ combined with public financing of off-site infrastructure such as utilities and transport connections. This is sometimes accompanied by land ownership or concessions to secure development rights, or by either 'build-operate-transfer' or other management agreements.

Partnerships with the private sector can add dynamism to zone development and be an important source of expertise. They also transfer risk from the public to the private sector. However, PPPs require the host government to develop an appropriate legal, regulatory and institutional framework, and achieving this can be difficult in countries with weak public institutional capacity.

Panama has created several SEZs, which have created employment and attracted Foreign Direct Investment (FDI). One of the most successful examples is the Panama Pacifico Project, which has created 4,800 jobs and attracted international corporations including 3M, Dell, Cable & Wireless and Singapore Airlines.

The SEZ was financed through a PPP that was developed by the government, with support from the International Finance Corporation (IFC) to create a special regulatory framework to manage the PPP.

d) Private Financing for SEZs

The sources of private finance are domestic and foreign. This includes investment from commercial firms and from venture capital funds. Such sources have the key advantages of combining liquidity and risk appetite as well as significant expertise. However, they are often relatively high-cost.

Commercial banks are active in project financing and are potentially important sources for infrastructure in SEZs. Such loans are typically higher and since the global financial crisis of 2008, there has been limited cross-border bank lending.

e) Capital Markets

To date, there has been no issuance of either equity or bonds to finance SEZ development. However, both are possible sources of finance.

Vietnam had about 800 industrial zones and EPZs as at 2017, with more than 5,000 foreign firms and investment capital of $100 billion located in them. The industrial zones offer a wide range of activities, including manufacturing for export as well as higher-value activities such as microelectronics and biotechnology.

SEZs in Vietnam have been developed predominantly by the private sector, with government limited to providing broad-based policy incentives, tax and export incentives and leasing of land as well as regional licensing and regulation.

5. LEVERAGING DEVELOPMENT FINANCING THROUGH SEZs IN NIGERIA

The foundation of all economic development is infrastructure, which Nigeria is deficient in. Nigeria's infrastructural deficit is significant, and it affects many sectors of the economy. The World Economic Forum (WEF) ranked Nigeria 114th out of 190 countries in its 2022 Global Competitiveness Index, citing poor infrastructure as a significant barrier to economic growth. The infrastructural deficit in Nigeria is estimated to cost the country about $3 trillion over the next 30 years, according to a report by the Nigerian Economic Summit Group (NESG). This figure translates to an average annual cost of $100 billion.

Your Excellencies can leverage development financing resources from a variety of sources such as:

- ✓ Africa Development Bank (AfDB).
- ✓ African Export-Import Bank (Afreximbank).
- ✓ China Development Bank (CDB).
- ✓ Development Bank of Ethiopia (DBE)
- ✓ Development Bank of Rwanda (BRD).
- ✓ Development Bank of Southern Africa (DBSA).
- ✓ Eastern and Southern African Trade and Development Bank (TDB).
- ✓ European Investment Bank (EIB).
- ✓ French Development Agency (AFD).
- ✓ German Development Bank (KfW).
- ✓ Japan International Cooperation Agency (JICA).
- ✓ United States International Development Finance Corporation (DFC).
- ✓ West African Development Bank (BOAD).

These organizations provide loans and grants at concessionary rates, complemented with grants, and technical assistance to support the implementation of critical development projects in areas such as infrastructure, education, healthcare, agriculture, and job creation.

To make projects such as SEZs viable for DFI support, States and Federal Governments must ensure that the projects are financially sustainable, technically sound and socially inclusive. They must also provide an enabling environment for private sector investment. A good example of a State Government that has done this well is Lagos State. Lagos State has established several SEZs that have attracted significant private sector investment. These SEZs have provided infrastructure, such as roads, power and water, which has made it easier for businesses to operate in the SEZs.

The Federal Government has developed a National Integrated Infrastructure Master Plan (NIIMP), which outlines the priority infrastructure projects for the country. This plan provides a roadmap for infrastructure development and can guide development financing. State governments can also develop their infrastructure plans that align with the NIIMP to attract development financing.

His Excellencies can also leverage on the Development Finance Institutions (DFIs) to create jobs using the SEZ scheme that is strategically located along or close to the trade corridors. Establishing SEZs along these trade corridors provide the external infrastructure needed to support trade and investment. The establishment of SEZs designed around Nigeria's port logistics can also support the growth of the maritime sector and provide a significant boost to the economy. The current trade corridors are the Lagos Corridor, Central Economic Corridor, Coastal Corridor, and Eastern Corridor.

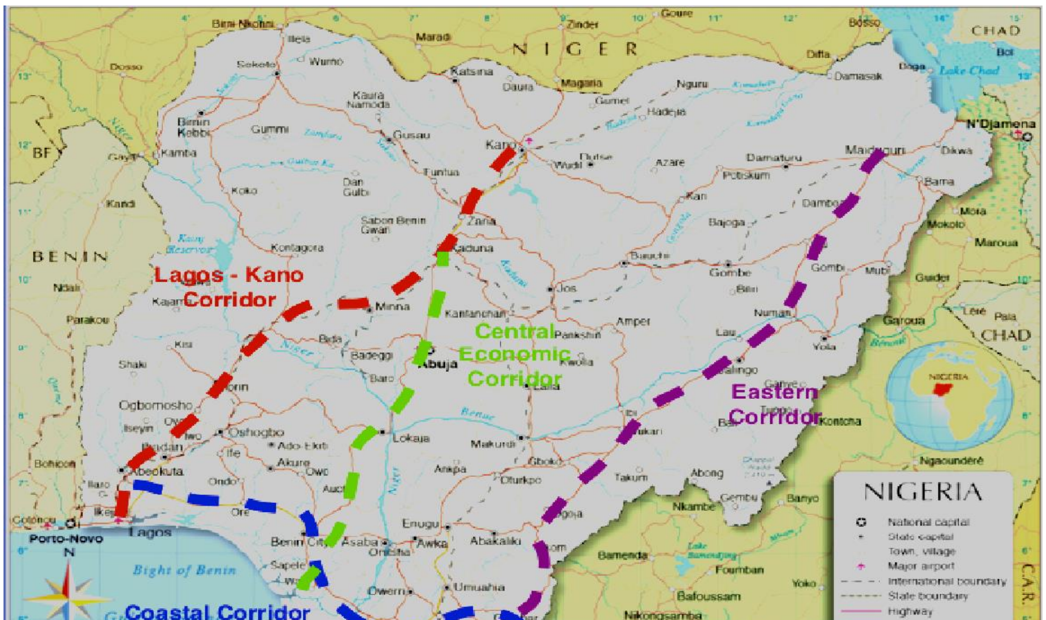

Figure 1: Nigeria Trade Corridors (Source IDI)

Additionally, for states that already have established SEZs but remain dormant, Your Excellencies may wish to contact NEPZA for more information on the investment procedures.

In recent times, the Free Zones have attracted a significant number of landmark infrastructure projects with potential to transform the Nigerian economy. Such projects include the newly commissioned Deep-Sea Port an Oil Refinery, which is expected to become the largest single-train facility of its kind in the world upon completion. Additionally, the new United States

Embassy located in one of the Zones will be the largest U.S Embassy in the world upon completion. These and other revolutionary infrastructure projects hold sufficient potential to transform Nigeria's hospitality, industrial, agriculture, energy, and transport, among other sectors of the domestic economy.

Conclusion

Development Finance play a crucial role in enabling countries overcome development challenges and achieve long-term economic growth and stability.

Your Excellencies can leverage development finance resources to support critical development projects. By maximizing the usage of economic tools such as SEZs, the State Governments can attract more foreign investments, create more job opportunities and generate more revenue for the States and the Country at large.

It is pertinent to note that the success of a Zone is not only dependent on development financing but on other critical non-financial factors such as sound legal and regulatory framework, quality investors, excellent management, good location, high level leadership etc.