SENEGAL: THE INDUSTRIAL FREE ZONE AND PROSPECTS FOR AN ECONOMIC DEVELOPMENT ZONE

Final Report

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SENEGAL MISSION REPORT

I. INTRODUCTION

The purpose of this report is to provide an overview of the Sénégalese Industrial Free Zone (IFZ) regime and to provide an assessment of the future potential of the Dakar free zone and the possibilities for the development of an Economic Development Zone (EDZ) in Sénégal. This study has been executed by The Services Group (TSG), under a contract with the U.S. Agency for International Development (USAID), and funded by USAID under the Private Enterprise Development Support (PEDS) Project.

The focus of this study is a preliminary evaluation of Sénégal's IFZ regime and the potential for revitalizing the program. The report provides an overview of the Sénégalese free zone program and evaluates the possibilities for enhancing Sénégal's export competitiveness through the establishment of an Economic Development Zone. This report was prepared based on data gathered by a field mission in Sénégal conducted by TSG staff member Torge Gerlach from June 9-14, 1991.

The remainder of this report is organized according to the following framework:

- Chapter 2 consists of a discussion of the basic characteristics of IFZ regime in Sénégal -- a brief historic overview and description of its current status, an analysis of its competitiveness vis-à-vis other zone programs, and a summary of the perceived problems and deficiencies of the program.

- Chapter 3 discusses the basic concepts, current status, and future requirements of an Economic Development Zone. The chapter concludes in an overview of the next steps towards the establishment of such a project in Sénégal.

- The study's conclusions and recommendations are made in Chapter 4, where the viability of the rehabilitation of the Dakar IFZ and the potential for the development of an EDZ are summarized.

The study team particularly benefitted from the guidance and assistance of Babacar Diouf, President and Director General of the Société Africaine d'Applications Plastiques et de Mousse (SAPEM) and Vice President of the Conseil National du Patronat du Sénégal, and Terry Myers, Private Sector Advisor, USAID/Sénégal. The views expressed in this report, however, are those of the TSG project team, and do not necessarily reflect those of the Conseil National du Patronat (CNP) du Sénégal, the Government of the Republic of Sénégal (GRS), or USAID.

II. THE DAKAR INDUSTRIAL FREE ZONE

A. OVERVIEW

Sénégal was at the forefront of IFZ development, passing its law only shortly after the first zones were developed in Ireland, Taiwan, and the Dominican Republic in the late 1960s and early 1970s. However, the Dakar Industrial Free Zone Law, passed in 1974, has come far short of expectations in attracting new investment in the export manufacturing sector in Sénégal.

The development of the Dakar IFZ was part of the GRS's overall efforts to stimulate the industrial sector in the early 1970s. With new investment drying up in the 1960s, due to the socialist-oriented policies after independence; the break-up of the AOF (L'Afrique Occidentale Française), a regional free trade area of some 20 million people, served mostly by Sénégalese industry; failing attempts to recreate regional markets; and the creation of new competition through the rise of industry in Cote d'Ivoire, the GRS launched on a policy of heavy state involvement in the industrial sector. In 1969, a new industrial development agency, SONEPI, was created to promote small and medium industry by identifying potential projects, encouraging the participation of nationals, and helping new enterprises get off the ground. Furthermore, in the early 1970s, the GRS created a number of large industrial enterprises, mostly in the natural resource processing sector, which was mostly responsible for the burst of new industrial investment in the 1970s.

One of these large governmental industrial initiatives was the development, in 1976, of the Industrial Free Zone in Dakar. Six hundred fifty hectares (ha.) were reserved for this project, of which 65 were completed in the first phase. Between 1976 and 1983 nine factories had been approved and become operational, but by 1983 eight had shut down with only one, SAFCAC, which produces bicycle and motorbike tires, remaining operational. Since 1983, the Dakar IFZ has seen some new investment; however, overall levels are still very disappointing. Currently, there are only twelve operational companies, eight of which are in the manufacturing sector. The remaining four are transport and customs brokerage firms serving the manufacturers. (For a complete list of Dakar IFZ firms see Table 2-1 below.) Total zone employment in June 1991 was approximately 600 and zone exports totaled CFAF 993 million (US$3.6 million) in the last quarter of 1990.

Realizing that their IFZ program has been a relative failure, the GRS has made a number of changes to the law (which are discussed in Section B below) to improve their competitive position. To date, however, none of the changes have been effective in attracting new investments into the zone.

TABLE 2-1
DAKAR IFZ COMPANIES ACTIVE IN 1991

COMPANY NAME	YEAR ESTABLISHED	PRIMARY ACTIVITY	COUNTRY OF ORIGIN
Manufacturing:			
1. SAFCAC	1976	Tires for bikes	Burkina Faso
2. Parke Davis	1981	Pharmaceuticals	U.S.
3. SIPAO	1983	Plastic shoes	Sénégal
4. VENUS	1983	Wigs	Sénégal/Korea
5. SENECOR	1983	Wigs	Sénégal
6. SISPAS	N/A	Seafood	Sénégal/Spain
7. TAMARO	1981	Sugar refining	Sénégal/France
8. SAFRISAND	1986	Leather Shoes	France
Service:			
1. SCTTAO	1979	Transitaire	Sénégal
2. SOCOPAO	1982	Transitaire	Sénégal
3. SATA-FOINE	1982	Transitaire	Sénégal
4. SOMARCA	1986	Transitaire	Sénégal

Source: Administration de la Zone Franche Industrielle, June 1991

B. COMPETITIVE POSITION

1. Legislative and Regulatory

The Dakar Free Zone Law. On paper, the Dakar IFZ now offers highly attractive incentives. All equipment, raw materials, finished and semi-finished products are exempt from all taxes and Customs duties; similarly, end products are exempt from excise duties and taxes. In addition, firms are exempt until 1999 of all taxes on profits, patents, and property (equivalent to a tax holiday of 25 years for firms entering the IFZ when it first opened). S has duty-free access to the European Community under the Lomé Convention, and the country has greater geographical proximity to European markets than does Mauritius, which has a highly successful IFZ program. Finally, since the Sénégalese currency, the CFA franc, is linked to the French franc, it is fully convertible and profits are easily expatriated. Seldom, however, is the attractiveness of the incentives package a key factor explaining the success or failure of IFZs, and the performance of the Sénégalese IFZ program has been disappointing. As stated above, after 15 years of operation, only eight manufacturing firms have been established, employing some 600 workers, and there have been no new zone entrants since 1986.

Sénégal's IFZ was initially harmed by a provision (later amended) requiring firms to hire a minimum number of workers and exceed a specified level of investment. In addition, the government sought to set export prices for IFZ firms, rather than letting prices be determined by market factors. Finally, provisions in the Labor Code required were highly restrictive. Firms were required to hire employees on the basis of a five-year contract, and the right to discharge unsatisfactory employees was sharply constrained. Given that labor costs and managerial flexibility are important to IFZ firms, these factors have contributed to the IFZ program's failure to attract investors.

The following is a brief summary of the most important incentives currently offered by the Sénégalese free zone legislation. It should be noted that these are incentives offered on paper and that, reportedly, not all are fully applied:

-- Possibility of establishing single factory free zones, called "points francs" (since 1991).

-- Full and permanent tax exemption on profits and dividends.

-- Tax and duty exemption on imports and exports of machinery and equipment, raw materials, and finished products.

-- Free repatriation of capital, profits, and expatriate staff salaries.

-- Exemption from certain restrictive provisions of the Labor Code (since 1987).

-- Automatic local sales of up to 40 percent of total production (since 1990)

-- Availability of administrative services in the zone, and availability of land at long-term lease within the zone.

-- Easy access to expatriate work permits.

-- Investor dispute arbitration through the World Bank.

-- Finally, assistance through the free zone administration in marketing and promotion of zone industries.

While these incentives seem attractive and competitive with other zone locations, a number of factors should be noted:

- The Sénégalese IFZ law, passed in 1974, is valid for only twenty-five years. As a result, only eight years remain after which the law, and presumably the incentives, expire. This potential expiration of benefits is a major disadvantage. Even if the GRS's intent is to extend the law, this outcome is very uncertain at this time and does not provide adequate guarantees for any future investors.

- The common services to be provided by the free zone administration are, according to zone users, non-existent. Although high fees are charged for these services, common services such as trash disposal and landscaping are not adequately provided. Furthermore, firms interviewed in the zone reported that they hire their own security forces, due to the inadequacy of zone security.

- Even though sales of up to 40 percent of production are now allowed, there is some dispute over the payment of value added tax (VAT) on these local sales. For the past 15 years, no VAT has been assessed on local sales; however, the Sénégalese treasury is now demanding payment of VAT on local sales, which is challenged by zone industries. This uncertainty is stopping some zone users from selling locally until this issue is resolved.

- Recently, the GRS passed a decree allowing for the establishment of points francs. While this is a good concept and should be pursued, as of yet no regulations have been established and there appears to be general uncertainty as to whether points francs can be established anywhere in the country, or only in certain areas, or whether all types of industries can qualify or only certain ones, etc. These ambiguities need to be clarified before any points francs can be approved.

- Finally, as discussed in more detail below, the zone currently does not offer any buildings for rent, which is a major disadvantage. The fact that long-term leases are available for land in the zone is not really an advantage, especially since the law and its incentives will expire in another eight years.

Again, while on paper the Sénégalese IFZ law seems competitive, there are a number of problems which need to be addressed. Even though the GRS has introduced a number of measures to improve the incentives, there are problems in the implementation of the law. Moreover, the fact that there is no stand-alone legislation, but rather a number of decrees and ministerial orders amending and adding to the law, is also a disadvantage.

The Free Zone Administration (FZA). Implementation of the Sénégalese IFZ program is the responsibility of the "Administration de la Zone Franche Industrielle de Dakar", an autonomous government institution placed under the authority of an administrator. This administrator is the delegate of the President of the Republic, and the representative of the Prime Minister and the Ministers affected by the regime. The Free Zone Administration has the following responsibilities:

-- coordination of all administrative formalities required by the IFZ user industries;

-- development, management, and promotion of the Dakar IFZ; and

-- review and approval of zone user applications, both for the Dakar IFZ and the newly established points francs.

While it was impossible to conduct a careful analysis of this institution during the field mission undertaken for this study, it is quite apparent that the FZA is not very effective in carrying out its responsibilities. Although the FZA has a staff of over fifty employees, the zone is poorly managed and maintained, promotion of the Dakar IFZ is not very effective, and administrative assistance to free zone user industries is reportedly inadequate.

2. Factors of Production

a. Labor

Labor Policy. The Sénégalese Labor Code governing all industries is reported to be restrictive and burdensome for normal business conduct. The process required to terminate workers is highly structured and time-consuming. In an effort to promote job creation, the Government has made some minor amendments to the Labor Code in 1987 to allow employers more flexibility. These changes, however, did not have any substantial impact. More fundamental reforms were introduced in 1989, changing the Labor Code to allow multiple renewals of temporary contracts. This policy of moving towards greater flexibility in layoffs, however, was strongly opposed by the labor unions, and the best that could be obtained was a lengthening of the maximum period during which workers could be employed on temporary contracts from six months to one year.

More substantial changes were made, however, in the labor regulations governing the Dakar free zone. In 1989 the National Assembly adopted the following liberalizations:

-- free zone companies are allowed to use unlimited numbers of temporary contract labor in the form of activity increase (surcroit d'activité);

-- free zone enterprises can hire temporary workers for up to five years;

-- free zone enterprises will be allowed to lay off workers without prior approval for the GRS.

Reactions to these changes from free zone users were generally favorable; most stated that these new policies should allow increased flexibility in hiring and firing workers.

Availability. Although statistics on levels of unemployment or underemployment are very unreliable, companies operating in the Dakar region experience no difficulty in obtaining unskilled labor. Total wage and salary employment in the modern sector in Sénégal is estimated to be 250,000. There are approximately 68,000 civil servants and about another 20,000-25,000 employees in public and mixed ownership enterprises.

Although reliable statistics on employment figures are non-existent, it is clear that unemployment and underemployment poses a growing problem. There are an estimated 100,000 new entrants to the labor force each year, of whom an estimated 45,000 join the urban labor pool. Furthermore, the civil service establishment has been frozen at its mid-1987 levels of 68,000, and numerous jobs are expected to be lost in parastatals and other industry through the public sector restructuring programs, making labor abundant in the Dakar region.

Productivity. Respondents differed as to the productivity of Sénégalese labor. Most interviewees felt that it was mainly a question of management and organization of the labor force which determined overall productivity.

Wage Rates. The Sénégal Labor Code sets a basic minimum industrial wage which was last raised, to CFAF 183.75 per hour, in 1985. The official working week in Sénégal is 40 hours.

An often overlooked aspect of labor cost is a country's fringe benefit ratio; that is the ratio of fringe benefits to total salary. In Sénégal, the official fringe benefit rate is quoted at 25 percent of base salary. According to the businesspeople interviewed, however, the fringe benefit rate is closer to 40 percent, due to allowances such as transportation and housing not included in the official rate. For a comparison of fringe benefit rates see Table 2-1 below.
Combining the minimum wage rate with the fringe benefit ratio yields an all-inclusive prevailing wage of CFAF 234 per hour (US$0.85/hour). This rate is on the higher end of competitive wage rates in other free zone host countries as shown in Table 2-2 below.

b. Transportation

The availability of affordable and reliable transportation service is an important factor in the locational decision-making process conducted by foreign investors. Regularly scheduled, dependable transportation services are crucial to export manufacturers that rely on rapid delivery of supplies and production inputs, or that practice "just in time" methods of inventory control. Not only are the transportation infrastructure and international service capabilities of Sénégal an important consideration, but the quality and reliability of internal transportation as it affects the efficient transfer of goods from the port of entry to the free zone site are also important factors when evaluating a IFZ site. The following discussion offers a brief summary of the key elements of Sénégal's transportation infrastructure and services as they relate to IFZ development.

Roads and Road Transportation. The road network in and around Dakar is adequate for future free zone development and growth. Even though the Dakar-Rufisque highway which links the city and the port area to the Dakar IFZ gets somewhat congested during rushhour, this should not

TABLE 2-1
FRINGE BENEFIT RATES

Country	Rate
Jamaica	20%
Sénégal	**25% (*)**
Ethiopia	29%
Honduras	29%
Togo	35%
Mauritius	40%
Dominican Republic	45%
Costa Rica	49%

(*) The rate quoted in the table is the official government rate. According to private business people interviewed during the mission, however, total fringes are actually as high as 40 percent.

Source: Data compiled by The Services Group from various sources.

cause any problems for free zone traffic. If, however, traffic into and out of the zone increases significantly, a closer look will have to be taken at the road's capacity and the potential delay that this may cause.

Overall, the country's road network extends to 13,850 km, of which less than 4,000 km are tarred. Of the tarred roads, some 35-45 percent is said to be in a poor state of repair and another 25-30 percent is only of average quality. Any future IFZ development in outlying areas of the country will be hampered by the inadequate road network; however, in and around Dakar this should not pose any major problems.

Cost figures for road transportation reviewed during the mission date back to 1978 and cannot be used for accurate cost estimates and comparisons for this study. Discussions with free zone users and other industrialists, however, revealed that road transportation costs in Sénégal are very high. This appears to be especially true for transport into and out of the Dakar IFZ, which may be due to the relatively small volume of goods in transit at the current time.

Rail. In 1989, the status of the national railway authority Régie de Chemins de Fer du Sénégal was changed from that of *établissement publique*, aligning it closely with the civil service, to that

TABLE 2-2
PREVAILING WAGES

Country	Hourly Rate
Kenya	US$0.26
Ethiopia	US$0.31
Haiti	US$0.58
Dominican Republic	US$0.59
Mauritius	US$0.70
Sénégal	**US$0.85**
Jamaica	US$0.88
Cameroon	US$0.95
Costa Rica	US$1.15
Hong Kong	US$2.62
Taiwan	US$2.88
South Korea	US$3.04

Source: Data compiled by The Services Group from various sources.

of *société nationale*. The newly created Société Nationale de Chemins de Fer du Sénégal (SNCFS) has gained greater management autonomy through this change, and been able to introduce accounting methods closer to those of the private sector. In addition, the SNCFS has been able to change its employment contracts to allow collective bargaining and more flexible hiring provisions.

Again, cost information on rail transport was not available during the brief mission undertaken for this study. The railway system extends 1,255 km and carried a total of 442 million ton-km of freight a year ending June 1988, the latest year for which figures were available. Rail transport would most likely not play a major role in free zone development and expansion in Sénégal, due to the limited extent of the network.

Sea. The port of Dakar, which serves both Sénégal and Mali, is being modernized and extended to improve port handling efficiency. The port currently handles approximately five million tons of traffic annually. The port reportedly has adequate capacity and loading and unloading equipment to handle current volume quite effectively. The problem with the port of Dakar thus does not lie in its capacity and port handling infrastructure and equipment, but rather in the costs associated with port operations.

Port charges in Dakar are quite high. While exact figures for handling charges could not be obtained on this brief mission, they were quoted as excessively high and prohibitive. In addition, the port handling fees, free zone firms pay a "Banker Surcharge" in the port of Dakar which again was quoted to be excessive.

The shipping cost from Dakar to Western Europe for a 20 ft. container is approximately CFAF 550,000 (US$2,000), which is quite expensive given the relatively short distance between Dakar and a number of the major European ports. Shipping costs from Mauritius, which is approximately twice the distance from Europe, are about the same. Thus, the geo-economic advantage of Sénégal is negligent as far as transportation costs are concerned. Moreover, shipping costs between Sénégal and the Far East, where many Dakar free zone companies import significant amounts of inputs, are also quite high. For example, shipping costs from Hong-Kong to Dakar are three times higher than shipping costs from Hong-Kong to Rotterdam.

Air Transportation. The international airport of Dakar (Yoff) is served by a number of international airlines with daily flights to Europe and two direct flights per week to New York. In 1988 the airport handled 896,346 passengers; statistics on airfreight volume were not available. Throughout Sénégal, there are 15 secondary airports that link the capital to the rest of the country.

Quoted air freight rates to Western European destinations are comparable to rates from other potential African IFZ locations. Table 2-4 below shows comparative air freight rates per kilogram for apparel products to Western European destinations from other existing and potential IFZ locations.

c. Utilities

Electricity. As shown in Table 2-5 below, electricity in Sénégal is prohibitively expensive. With an installed production capacity of only 216 million kwh from six thermal power stations in the Dakar region and demand for close to 700 million kwh, Sénégal imports most of its energy from Mali, raising costs significantly. Reports of electric outages in the Dakar IFZ vary. Two of the people interviewed stated that they experience occasional outages for which they have to stop operations; however, none of them considered it a sufficiently severe problem to warrant the installation of back-up generators.

TABLE 2-4
SELECTED AIR FREIGHT RATES TO EUROPE

Country	Rate per kg
Togo	$1.56
Mauritius	$1.72
Cape Verde	$2.42
Sénégal	**$2.45**
Sri Lanka	$2.90
Cameroon	$2.98
Costa Rica	$3.00
South Korea	$6.87
Taiwan	$7.30

Source: Data compiled from various sources by The Services Group.

TABLE 2-5
INDUSTRIAL ELECTRICITY RATES
(per kwh)

Country	Rate
Kenya	US$0.03
El Salvador	US$0.05
Dominican Republic	US$0.06
Sri Lanka	US$0.07
Thailand	US$0.07
Taiwan	US$0.09
Ethiopia	US$0.10
Mauritius	US$0.10
Togo	US$0.11
Sénégal	**US$0.25**

Source: Data compiled from various sources by The Services Group.

Water. Water supply in the Dakar area was not raised during the mission's discussions as a problem. Water rates, however, are also quite high compared to other zone host countries as shown in Table 2-6 below.

Telecommunications. Telecommunications are the responsibility of Sonatel, an authority created in 1985 to operate along commercial lines. Currently there are about 20,000 lines in operation in Sénégal, 14,600 of which are in Dakar. A major program to modernize and expand the network, however, is underway and will treble the available lines in Dakar to 43,500 by the mid-1990s. Telecommunications rates are high by U.S. or European standards, but are within a competitive range with other African countries in the region.

3. Zone Location and Infrastructure

The Dakar Free Zone is located approximately 18 km. from the center of Dakar and the port of Dakar, and is within an equally short distance of the international airport. The two lane highway from the city out to the zone is paved and in good condition, but becomes congested during rush hours. The access road of approximately 150 meters in length from the highway to the zone gate is a dirt road with large potholes. While this should not pose a problem for the trucks carrying zone merchandise, given the short distance to the highway, it is a deterrent to potential investors, because it immediate gives an impression the zone is poorly maintained.

TABLE 2-6
WATER RATES
(per cubic meter)

Country	Rate
Ethiopia	US$0.25
Kenya	US$0.27
El Salvador	US$0.32
Togo	US$0.67
Jamaica	US$0.79
Honduras	US$0.85
Sénégal	**US$0.93**
Costa Rica	US$1.18

Source: Data compiled by The Services Group from various sources.

Moreover, the zone entrance immediately gives a poor impression. There are no signs announcing the zone and the entrance has a poor appearance. In addition, the zone overall appears poorly maintained; brush and grass are high and the zone landscaping can be vastly improved.

Of the total plot of 650 ha. available for zone development, approximately 65 ha. are developed with basic infrastructure, such as a road network, electricity, water, and communications hookups. With only eight operational companies in the zone, the developed 65 ha. area poses a heavy financial burden on the administration in maintenance and financing costs.

In the past, the Dakar IFZ has not offered any prebuilt factory shells for lease to potential investors, requiring free zone tenants to construct their own facility. The zone administration makes land available at a cost of 326 CFAF per sq.m. per year for a maximum lease of 99 years. The tenants then have to construct their own facilities at an average cost of 70,000 CFAF per sq.m. (US$253/sq.m.), a fairly high unit cost compared to other free zone host countries, as evidenced in Table 2-7 below. The absence of any buildings available for lease in the free zone has been one of the major shortcomings of the Dakar IFZ. Requiring tenants to construct their own facilities increases their initial capital investment, discouraging many investors from locating in the zone.

TABLE 2-7
CONSTRUCTION COSTS
(per sq.m.)

Country	Cost
Sri Lanka	US$120
Mauritius	US$131
Costa Rica	US$160
El Salvador	US$170
Cameroon	US$175
Togo	US$250
Sénégal	**US$253**
Ethiopia	US$300

Source: Data compiled by The Services Group from various sources.

Another substantial deterrent to investors is the fact that should a company decide to cease operations in the zone, it cannot recover any of its investment. The zone's regulations require that all buildings and equipment imported into the zone must become the property of the Dakar Free Zone Administration upon the departure of a company. This policy further increases the risk that a company takes when investing overseas, and again, many companies would be reluctant to assume this risk if they can locate in a competing zone in the region, which offers buildings for rent, or where they will have the right to sell facilities that they have constructed. own.

The zone administration has recognized the fact that the lack of prebuilt facilities is a disadvantage, and now has a program to construct a number of buildings for potential investors. To date, however, no financing has been identified to undertake the construction, and apparently no market studies have been undertaken to prudently plan and phase the construction of these buildings in line with anticipated demand for zone space.

The brief mission undertaken for this study did not allow for the careful examination of other zone infrastructure, such as the administration and customs facilities, or the physical provisions for zone security. As mentioned above, judging from a short tour through the zone, it seems as if the zone is poorly maintained and that common services such as trash removal, landscaping, etc. are not properly carried out by the administration.

Moreover, the fee charged for these services is prohibitively high. Zone users are assessed an annual fee of almost CFAF 6 million (US$21,800) for the provision of common services. This is an enormous fee to be paying, even if the services were adequate. Taking the average size of the factory buildings in the Dakar zone of about 1,000 sq.m. this fee translates to an annual charge of US$21.80 per sq.m., which is approximately half of what IFZs in the Caribbean region charge for rental of factory space inclusive of all services. Given that in Dakar, the fee is for services only, and that companies have to provide their own buildings and carry construction financing charges this is a very high fee to pay.

C. SUMMARY OF PERCEIVED PROBLEMS AND DEFICIENCIES

Sénégal has a number of significant advantages, including the country's proximity to European and North-American markets, as well as access to regional markets; preferential access to the European market through the Lomé Convention; relative political and social stability; adequate support infrastructures; membership in the Franc Zone, providing monetary stability and a fully convertible currency; and attractive expatriate living conditions. Nonetheless, the country's IFZ program is characterized by a number of disadvantages which need to be addressed to render the Dakar IFZ more competitive. These weaknesses are:

- full development of 65 ha. area poses a large financial burden on the zone;
- high utility rates;
- high annual user fee;

- high transportation cost;
- lack of unified free zone legislation;
- poorly maintained zone;
- lack of available buildings for rent;
- mandated transfer of building ownership to zone administration upon departure;
- inadequate zone management;
- overly bureaucratic administration;
- lack of promotional strategy; and
- no market studies to identify priority sectors.

III. THE ECONOMIC DEVELOPMENT ZONE

A. BASIC CONCEPT

The Economic Development Zone (EDZ) is a project initiated by a group of influential private sector businessmen to promote and revitalize the Sénégalese economy. Following the relative failure of the IFZ program and other recent economic development policies to stimulate investment and economic growth, the goal of this project is to stimulate economic activity through the establishment of an EDZ, offering a package of incentives and other advantages, such as common services and infrastructure, to investors. The project calls for the EDZ to contain three types of free zones:

-- an Industrial Free Zone, build on the principals of the Dakar IFZ for export manufacturing activities;

-- a Commercial Free Zone, featuring exposition centers, warehousing facilities, and conference facilities to serve as a distribution center or "vitrine sur l'Afrique" for other countries in the region; and

-- a Services Free Zone, to encourage financial services, offshore informatics industries, and other service industries to serve the region, as well as European markets.

The EDZ would be created through the introduction of one piece of encompassing legislation creating the most favorable environment for business formation and operation in the region and in the world. The zone would offer common facilities, infrastructure, and services, as well as administrative, legislative, fiscal, and regulatory provisions to render the business environment within the zone sufficiently attractive to compensate for certain existing handicaps that have brought new investment to a virtual standstill, and stalled economic development in the country.

B. CURRENT STATUS

While the idea is still in the formative stages of development, the group of businessmen has obtained the approval and support from the President of the Republic to further develop the concepts and prepare a project paper describing the project in more detail and identifying what would be required from the GRS in support for the project. During the consultant's visit to Senegal, a company was being incorporated to further develop the idea and eventually undertake the project. The *Société de Promotion de la Zone Economique de Développement* (PROMOZED) is being incorporated as a société civile under Sénégalese law and will have the conceptualization, organization, development, and promotion of the EDZ as its primary objectives. The company's principals are now in the process of finalizing the incorporation of the company and the refinement of the concept in order to seek support from the GRS and international donors to assist in the implementation of the project.

C. BASIC REQUIREMENTS

Since the mission undertaken for this study only permitted a cursory look at the Sénégalese investment climate overall, much less the specific problems and shortcomings of the Sénégalese IFZ legislation, the following is not a precise plan of the elements needed to make the project succeed but rather a fairly "general" list of ingredients required to create an attractive investment environment in support of a project of this nature. It will be essential, prior to defining the exact nature of the EDZ project and establishing its viability in Senegal, to undertake more targeted studies, conducting a careful analysis of existing legislation related to investment in Senegal, as well as a study an EDZ's potential markets. In addition, a more careful analysis is needed of the cost and reliability of Sénégal's basic factors of production than was possible for the preparation of this paper.

Generally speaking, the optimal legal and regulatory framework for the EDZ should incorporate three sets of factors:

- The package of incentives and services offered should draw upon the record of successful free zones worldwide, and be competitive with these zones.

- The regime should reflect the needs of the multinational company and local investor in terms of incentives, services, and amenities.

- The regime should be configured to offset the constraints of operating in Senegal, and build upon the country's comparative advantages.

Regulatory and Administrative Structure. The structure which will govern the EDZ will have to be well defined. How will it fit into the existing regulatory and institutional setting in Sénégal? A number of different forms of zone regulatory institutions exist throughout the world, all of which should be examined to determine the optimal type of institution for an EDZ in Sénégal. It is essential for the success of the project to be regulated by an efficient regulatory body, functioning as a "one-stop-shop" which is able to handle all questions and procedures related to investment approvals and regulation.

Comprehensive Incentive Package. While the Dakar IFZ legislation offers most of the incentives described below, there is currently no "stand alone," comprehensive legislation. It is imperative for an incentive package to be developed which will govern the EDZ. The incentive package outlined below represents the basic ingredients of a competitive EPZ regime which ideally should be incorporated into a single piece of legislation:

- import and export duty relief;
- freedom from licensing requirements;
- tax holidays;
- liberalized labor regulations;
- access to foreign exchange;
- free repatriation of capital and profits;
- local market access;
- procedural incentives; and,
- other incentives such as: deregulated infrastructure and services provision,export credit financing, paid training for workers, etc.

In addition to the incentives themselves, the implementation mechanisms employed in the administration of the EDZ are crucial to its success. To the extent that the incentive package is competitively configured, initial interest in the EDZ can be generated through successful promotional activities. However, the credibility of the project can be severely undermined if the application of the incentives is not efficient and straightforward. Finally, a number of issues related to economic factors of production will have to be addressed as well to render Sénégal a more competitive investment site. These are mainly cost factors, such as the cost of electricity and other utilities, transportation, and the like.

IV. CONCLUSIONS AND RECOMMENDATIONS

The following is a summary of the conclusions and recommendations reached by the consultant. The actions proposed below, if properly implemented should improve the investment climate within the Dakar IFZ significantly, and combined with an effective investment promotion strategy, may stimulate investment in the zone in the future.

-- **Prepare One Comprehensive Law.** As discussed, many changes have been made to the Dakar IFZ law. While these changes have added to the attractiveness of the law's incentives, they have been made in the form of separate decrees and ministerial orders. It is recommended that one comprehensive law be issued which incorporates all the changes made to date and improves the regime's incentives.

-- **Renew the Law for an Indefinite Period.** The fact that the IFZ law expires in 1999 is a major deterrent to future investors. Free zone investors look for guaranteed incentives and the uncertainty of what will happen in 1999 will deter potential investors.

-- **Separate Regulatory and Zone Management Functions.** Experience in other countries has shown that zone programs are implemented more effectively if the regulatory functions and zone development and management lie in the hands of two separate institutions. It is recommended that the institutional structures and functions of the FZA be examined in order to assess its efficiency.

-- **Establish Clear Regulations for Local Sales Provisions, Points Francs, and Other Amendments to the Law.** As mentioned above, a number of improvements have been made to the law over the years; however, according to zone users, no clear regulations have been established for theses provisions and the law remains ambiguous and open to interpretation.

-- **Construct Standard Factory Buildings (SFB).** The availability of SFBs for rent is a major factor in the decision-making process of an IFZ investor and should be pursued by the Dakar IFZ.

-- **Develop an Investment Promotion Strategy.** It appears as if there is no strategy for promoting investment for Sénégal. It is imperative to conduct some market surveys and research to identify the priority sectors to be targeted for investment in Sénégal. Moreover, investment promotion is currently the responsibility of the FZA, which, as noted above, is often not the most effective way to manage this function.

-- **Provide Preferential Utility Rates for Zone Users.** As discussed, some of the utility rates in Sénégal are uncompetitive. The GRS should offer preferential electricity rates for IFZ users, as well as allow them to provide for their own services, if desirable.

-- **Improvement of Zone Appearance.** In order to achier a more attractive appearance of the zone in order not to deter investors, the following measures are recommended: pave the zone access road; put up a sign identifying the Dakar IFZ; undertake some landscaping; and conduct a general clean-up of the site.

-- **Reduce Zone User Fees and Improve Services.** As described, the FZA charges zone users an annual fee of approximately CFAF 6 million (US$21,800) for common services provided by the Administration. This is a prohibitively high fee, especially given the extend and quality of the services offered. It is recommended that this fee be reduced substantially, and that zone services be improved.

-- **Evaluate Privatization of the Dakar IFZ.** Given the inefficiency with which the Dakar IFZ appears to be run, privatization of the zone should be considered. A recommendation to privatize the zone would be premature and outside of the scope of this study. Nonetheless, it appears a promising alternative for improving management of the zone.

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Finally, the content, structure, and administrative mechanisms adopted by a country establishing a free zone regime should reflect its particular economic, policy, and market environment. It cannot be overemphasized, however, that the key to the success of a competitively configured free zone regime in the burgeoning international zone community will be the degree to which the implementation of the program is in line with the policies and procedures extended "on paper." A potential zone investor will carefully investigate the realities of doing business in the location under consideration. Even "state-of-the-art" legislation cannot offset thc negative impact of inequitable, inefficient, or unpredictable administration of the stated incentives. This appears to have been Sénégal's primary shortcoming and underlies the poor reputation the Dakar Industrial Free Zone has gained in the increasingly competitive world of investment and production sharing operations.

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Mr. A. Moctar Sow	General Director	Société Industrielle de Produits Laitiers
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ANNEX A

INTERVIEWS CONDUCTED

NAME	TITLE	ORGANIZATION
Mr. Sangoné Amar	Operations Officer	The World Bank, Senegal
Ms. Colette Claude Cowey	Economist	USAID/Senegal
Mr. Sérigne Abdoul Aziz Dieye	General Director	Coopers & Lybrand, Senegal
Mr. Simon Dioh	Director of Industry	Ministry of Industry
Mr. Babacar Diouf	President	Société Africaine d'Applications Plastiques et de Mousse
Mr. Alain Fortin	General Manager	Safrisand, Senegal
Mr. Serge Garrigue	General Director	Parke-Davis, West Africa
Mr. Pierre Gianni	Conseil Juridique et Fiscal	Ernst & Young, Senegal
Mr. Samba Sassoum Guèye	General Director	Senecor Industrial Free Zone
Mr. Louis-Marie Humeau	General Director	Safrisand, France
Mr. Terry Myers	Private Sector Advisor	USAID/Senegal
Mr. Abdoul Aziz Ndiaye	General Manager	Compagnie Senegalaise de Transports
Mr. Baye Moussa Ndiaye	Manager	Novotel