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Special Economic Zones: An Evaluation of Lusaka South - Multi Facility Economic Zone

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Abstract

Special Economic Zones are geographical areas allocated and designated to attract foreign investment, enhance industrialization, and spur economic development of the identified jurisdiction. The trade laws applicable in the Economic Zone are different from those used by the rest of the country. Investors are offered tax and several other incentives to set up businesses. It is envisaged the Zones can be effective special purpose vehicles to deliver industrialization and structural transformation. However, the aims of the Zones are achievable only if the development programme was properly crafted and correctly implemented. Worldwide, for over 50 years many countries have established and experimented the concept of Economic Zones albeit with, mixed results. This preliminary article based on an active research attempts to present the interim results of the Lusaka South Multi Facility Economic Zone (LS-MFEZ) in Zambia. There have been variations in terms of progress and performance of the projects undertaken, some of which are at the formative stage. The objectives of the study among others is to establish the reasons behind the slow uptake of investment space in LS-MFEZ. The study focuses on businesses that have invested in the Lusaka South Multi Facility Economic Zone, and those that have expressed interest to invest. This study embraces a mixed-methods model comprising qualitative and quantitative research approaches. The interim findings indicate that investors face several challenges in starting businesses in the Zone, besides the inappropriate Zone infrastructure. Furthermore, some incentives the government had put in place are not the primary factors attracting Investors.

Keywords: Special Economic Zone, Multi Facility Economic Zone, Foreign Direct Investment, Incentives, Infrastructure, Industrialization

1. Introduction

In 2012, the Government of the Republic of Zambia created a special purpose vehicle, the Lusaka South – Multi Facility Economic Zone (LS-MFEZ) Limited company to superintend and manage the affairs of the Lusaka South – Multi Facility Economic Zone (LS-MFEZ).

1.1 Problem Statement

This initial article focuses on the problem of slow uptake of investment space in the LS-MFEZ which is one of the research areas that the ongoing study on the economic zone is assessing. The problem is important because finding answers to it would help in addressing the challenges of slow uptake of investment space in the economic zone and can later assist in realizing the goals of why the zone was established.

The study targets the businesses that have invested and the investors that have expressed interest in investing in the Lusaka South - Multi Facility Economic Zone. The research strategy adopted mainly comprises the use of qualitative interviews with purposively selected senior management personnel, and administration of a questionnaire to key employees in the management hierarchy of businesses operating in the zone and prospects.

1.2 Establishment of Multi Facility Zones in Zambia

Legislation governing the establishment and management of Multi Facility Economic Zones (MFEZs) is mainstreamed in the Zambia Development Agency (ZDA) Act No. 11 of 2006 under Section 18. Furthermore, the regulations and guidelines governing the declaration and establishment of MFEZs were put in place through Statutory Instrument No. 65 of 2007 of the Constitution of Zambia. In addition, Section 5(p) of the ZDA Act No. 11 of 2006 confers ZDA with powers to administer, control and regulate MFEZs in Zambia (ZDA, 2015).

The Ministry of Commerce, Trade, and Industry (MCTI) of Zambia has as of December 2019 created eight MFEZs in Zambia. These are the Chambishi Multi Facility Economic Zone owned by the Zambia China Commercial and Trade Cooperation Zone (ZCCZ) which is a subsidiary of the China Non Ferrous Metals Group; the Lusaka East MFEZ also owned by ZCCZ; the Lusaka South MFEZ owned by the Government of the Republic of Zambia; Lumwana MFEZ owned by the Barrick Lumwana Mining Company (North Western Province); the Sub-Sahara Gemstone Industrial Park in Ndola; Roma Industrial Park in Lusaka; Chibombo MFEZ in Chibombo (Central Province); and the Maamba MFEZ in Maamba (Southern Province).

1.3 Some definitions of an Economic Zone

Before delving into the main aspects of the Lusaka South – Multi Facility Economic Zone, it is important to look at some definitions of an economic Zone. A Multi Facility Economic Zone (MFEZ) is a Special Economic Zone (SEZ) which may be defined as ‘a special geographical region which has unique economic regulations compared to other areas in the same country’. SEZs are intended to facilitate rapid economic growth by leveraging tax and other incentives to attract foreign direct investment (FDI) and technological advancement (Investopedia, 2017). The benefits of operating within an SEZ include tax breaks for business owners, and independence. However, the macroeconomic and socioeconomic benefits for a country using an SEZ strategy are subject to debate. Countries promoting Zones have sought to stimulate economic development both within and outside the Zone. Within the Zone, governments aim to attract investment that will lead to new firms and jobs, and to facilitate skills and technology transfers. Outside the Zone, countries aim to generate synergies, networks, and knowledge dissemination to foster additional economic activity (World Bank, 2017). However, whether SEZs have always achieved their objectives is a matter that has attracted intellectual debate and discourse.

Zeng (2016) argued that there exists a huge disparity in the description of a SEZ. He starts by postulating that the term “Special Economic Zone” covers a broad range of Zones such as free trade Zones, export processing zones, Industrial parks, economic and technology development zones, high-tech zones, science and innovation parks, free ports, enterprise zones and others. Furthermore, he contends that the basic concept of SEZs includes several other specific features such as being in a geographically demarcated area which may be physically secured; has a single management or administration; offers incentives for investors physically present in the zone or park; has a separate customs area offering duty-free benefits and streamlined procedures.

The Zambia Development Agency (ZDA, 2015) describes a Multi Facility Economic Zone (MFEZ) as a Special Economic Zone (SEZ) for both export oriented and domestic oriented industries. The MFEZ blends the best features of Free Trade Zones (FTZ), Export Processing Zones (EPZ) and Industrial Parks/Industrial Zones concept, and creates on the administrative infrastructure, rules, regulations and other instruments that benchmark among the best performing dynamic economies in other parts of the world. The blending of a physical infrastructure with an efficient administrative infrastructure creates the ideal environment for attracting world class investment. The key objective of establishing MFEZs in Zambia is to make the country competitive through increased activities in the trade and manufacturing sectors, which have numerous spill-over effects in other sectors such as utilities, transport, agriculture and services (ZDA, 2015).

1.4 Research Hypothesis

The hypotheses for the study were developed in line with the identified independent and dependent variables. The independent variables being Zone Infrastructure, Government Policy and Regulatory, Zone Management and Administrative Procedures, and Fiscal and Non-fiscal Incentives. The moderating variables included Zone Location, depth of Special Economic Zone Knowledge of Government officials, Proximity of Input Sources and Markets, Availability of labour (skilled and unskilled). The Investment decision being the dependent variable. According to Creswell (2014), the hypotheses developed by the researcher makes a prediction about the expected outcome for the population of the study. The hypotheses for this active study are as follows:

- i. Alternative hypothesis (H₁): Zone Infrastructure is important in deciding to Investment in the Multi Facility Economic Zone.
Null hypothesis (H₀): Zone Infrastructure is **not** important for the investment decision in the Multi Facility Economic Zone.
- ii. Alternative hypothesis (H₁): Government Policy and Regulatory instruments play a vital role in making the decision to Invest in the Multi Facility Economic Zone.
Null hypothesis (H₀): Government Policy and Regulatory instruments **does not** play a vital role in making the decision to invest in the Multi Facility Economic Zone.
- iii. Alternative hypothesis (H₁): Zone Management and Administrative Procedures can adversely or favourably affect decisions to invest in the Multi Facility Economic Zone.
Null hypothesis (H₀): Zone Management and Administrative Procedures **cannot** adversely or favourably affect decisions to invest in the Multi Facility Economic Zone.
- iv. Alternative hypothesis (H₁): Fiscal and Non-fiscal Incentives are needed to attract investors to invest in the Multi Facility Economic Zone.
Null hypothesis (H₀): Fiscal and Non-fiscal Incentives are **not** needed to attract investors to invest in the Multi Facility Economic Zone.

The first part of this article provides a comprehensive background of the study and lays a platform to on which to anchor the study that will argument the process of proving or disproving the underlying research hypothesis. In this section, the concept and importance of SEZs are introduced and briefly highlights the different types of SEZs as presented by different researchers as cited. Furthermore, in the section, the different critical success factors for a well-developed SEZ in any country are highlighted. A synopsis of the Zambian SEZ model, known as the MFEZ, is given.

This article focuses on interim results of an active research being conducted on the Lusaka South -Multi Facility Economic Zone (LS-MFEZ) which is owned by the Government of the Republic of Zambia. The final findings shall be presented in the ensuing article once the study is concluded in a few months' time.

2 Literature Review

The literature review of this study was based on documented material as empirically observed phenomena that can be validated. Therefore, it is evidence based rather than theoretical. The review embraced a broader approach covering the local, sub-Sahara Africa and the global perspectives. The material gleaned from the literature review helped in establishing the theoretical framework, the development of the conceptual framework and identification of the research gap for this study.

2.2 Overview of the Special Economic Zone Concept

Worldwide, there were approximately 5,400 SEZs by mid-2019, at least 1,000 of these were established between 2014 and 2019 (UNCTAD, 2019). According to UNCTAD, Special Economic Zones may be referred to using many different names, however, they revolve around three key criteria and these are: (a) clearly demarcated geographical area; (b) a regulatory regime distinct from the rest of the country's economy – usually customs and fiscal rules but may also cover other relevant regulatory areas; and (c) infrastructure support.

It is argued that location of an SEZ is an important factor contributing to its success. A location near a large metropolitan area assures investors access to other firms forming part of the zone's supply and value chains. Available sources of labour and capital allow zone operators to freely integrate with other firms outside of the zone and tapping into support innovation activities (World Bank, 2017). The World Bank Group also suggests strategic politically driven reforms which should cut across the entire economic development divide to support SEZ development and forestall rent-seeking. Rent seeking is identified as one of the major reasons for opposition to reform. In addition, most of the SEZs in Sub Saharan Africa face impediments to development mainly attributed to unreliable electricity and water services, excessive regulation, rent-seeking customs agencies, unsuitable locations, and prohibitive cost, low productivity labour supplies. Many African zones have generally underperformed, with the significant exception of Mauritius and the partial exception of Kenya, including Madagascar and Lesotho.

2.3 Special Economic Zones – Global Perspective

Special Economic Zones are typically established with the purpose of achieving one or a combination of four policy objectives, namely: (a) attracting FDI; (b) promoting industrialization and exports; (c) creating employment, especially when there is large-scale unemployment, supporting a wider economic reform strategy; and (d) acting as experimental test areas for application of new policies or related actions (Zeng, 2016). Zeng (2016) contends that whilst these are universal or broad objectives, there is no standard formula that measures the success of a special economic Zone.

The most cited goals of SEZs include alleviation of wide-scale unemployment; supporting wider economic reform strategies; promotion and diversification of exports; attracting foreign direct investment (FDI); and allowing governments to test new policies. The provision of attractive incentives and benefits seeks to attract multinational companies (MNCs) which in turn transfer knowledge and technology to the domestic economy. For domestic firms, locating in the SEZ provides an opportunity to develop their capacity to produce for the export markets as well as access to international marketing and distribution channels. SEZ development is further motivated by attempts to reap the agglomeration benefits that arise from the concentration of industries close to one another, such as the development of supply and subcontracting relationships (Woolfrey, 2013).

It is not surprising that generous tax holidays offered to firms enlisting to operate in an SEZ have made little difference to the decision by these firms to invest, it is argued that political and fiscal stability must be assured (Farole and Moberg, 2017).

2.3.1 Special Economic Zones – Europe/ Eurasia

Most high-income economies such as those in Western Europe do not have SEZs with similar economic policy direction as those of middle to low income ones. According to UNCTAD (2019), high income economies set up such zones with the policy objective of providing a platform for complex cross-border supply chains. Another

objective is to focus on avoiding distortions in the economy. With these objectives, even zone types developed are of specific type, seeking to meet the stated objectives. Most high-income European countries target logistics hubs free zones instead of industrial zones. Innovation and new industrial revolution objectives are pursued through science parks without separate regulatory framework or through incentives not linked to zones. Upper middle-income economies key objectives include support transition to services economy, attracting new high-tech industries and upgrading innovation capabilities.

2.3.1.1 Western Balkan States

Citing a study of SEZs in the Western Balkans region, it was contended that SEZs have become a very important vehicle for attracting Foreign and Domestic Direct Investment in the Balkan countries of Macedonia, Kosovo, Bosnia-Herzegovina, Montenegro, and Albania. It was pointed out that in that part of Europe, SEZs have developed as part of wider investment strategies aimed at boosting manufacturing investments in embattled Western Balkan economies, which had been struggling for decades to reverse the post transition deindustrialization and create foundations for sustainable economic growth. Whilst all Western Balkan economies have EU-imposed limits on the amount of state aid they can provide to enterprises, they are less restricted than EU member states on the type of aid they can grant, which gives them advantage in attracting FDI over their EU peers, in the short run as it may be. Zone ownership, classification and management have been cited as critical factors in determining the success of a zone. The Western Balkan hosts 40 established SEZs covering 3,500ha of land. As of 2017, there were approximately 23 zones had become operational (OECD, 2017).

2.3.1.2 Poland

Investment in SEZs in Poland requires that specially defined conditions for doing business in economic zones are met. These include a specified amount of investment, share of own resources of total investment costs, maintenance of investment in the region from the beginning to the end of the whole investment, and maintenance of the employment level for the whole investment period. SEZs in Polish language known as Specjalne Strefy Ekonomiczne or SSE are the administrative territory of parts of the country where economic activity can be conducted on preferential terms. Business activities in the SSE can be conducted on special, preferential conditions as defined in the law on SEZs and the Ordinance of the Council of Ministers on establishing an SSE in a specified region. Enterprises located in the SSE may receive public assistance in terms of tax exemptions, and some other incentives. Poland uses SSEs as tools of regional policy of the State. Their main task is to accelerate economic development of regions affected by economic stagnation. These are regions that are poorer, less developed, bypassed by investors and exhibiting high levels of unemployment. SSEs have been set up for a specific period (until December 2016, according to EMCC) and are geographically limited areas where companies' operations are governed by specific rules. As of 2018, Poland had 14 SSEs. The aims of SEZs or SSEs in Poland are to accelerate the economic development of the regions; to manage post-industrial property and infrastructure; to create new jobs; and to attract foreign investors to Poland (EMCC, 2018).

2.3.1.3 Russia

The Russian experience with SEZs is rather poorly studied. They advance three main reasons for this argument. Firstly, the Russian Federation adopted an inefficient policy on SEZs for about 15 years. This has been cited as common to most post-socialism countries. The Russian Federation improved on this after 2005, coming up with good initiatives that served as examples for other countries to follow. Secondly, the country combines features of high income developed countries and developing or emerging economies. This resulted in SEZs that were characterized by a mix of different economic and political features. Thirdly, the successful SEZ models on the ground received official and public criticism, leading to the dismantling of some of these economic zones and creation of new forms of territorial incentive by investors, especially in the far eastern regions. whilst the efficiency and effectiveness of an SEZ can only be established over a long period of time, most Russian economic zones are only a few years old. Russian SEZs are an instrument of federal investment policy, they are the grounds for additional state investments in infrastructure, and a sign of special attention by federal authorities to the investment climate in the region where the SEZ is located. It is argued that limited efficiency of state investment policy is

better than total absence of such policy. The preferential regime for investment in Russian SEZs is based on generally accepted approaches and consists of three elements: infrastructure construction for investment projects, tax and customs privileges, and simplification of the administrative regime or reduction of administrative barriers. By 2019, the Russian Federation had decided to create 37 SEZs being 11 industrial, six technology, 17 tourism and three logistics. However, 11 of these have since been closed due to liquidation – the law permits early liquidation if an SEZ does not secure occupants within three years of establishment (Kuznetsov & Kuznetsova, 2019).

2.3.2 Special Economic Zones – Asia

Asia accounts for 75% of global Special Economic Zones. Early adopters of the SEZ model achieved success in earlier years. In recent times, more advanced economies have transformed their SEZs and even launched new ones, such as high-tech zones and integrated wide area zones which include housing and amenities. Less developed economies in the region are rapidly building or expanding SEZ programmes to attract more labour-intensive manufacturing activities that more advanced neighbouring economies used to host. A few resource-rich Asian economies such as Indonesia and Iran are experimenting with SEZs that specialize in natural resource processing, to attract investment in downstream activities. Asian foreign investors such as China, India, Malaysia, Japan, South Korea and Thailand participate in the development and operation of FDI-driven zones in the region (UNCTAD, 2019).

2.3.2.1 China

China's Special Economic Zones originated from its 'reform and open up' policy of the 1980s. To experiment with market reform policies, SEZs were established in four coastal cities of Shenzhen, Zhuhai, Shantou, and Xiamen close to Hong Kong, Macao, and Taiwan. In the mid-1980s, more zones were established along the east coast to fully leverage the geographical advantages of these cities as foreign investment destinations. As economic growth took place, focus shifted to inland locations and westwards to promote regional development. Since then, China has been experimenting with new types of wide-area zones. After 2010, the original four zones were expanded to include their entire administrative areas, from which they are expected to be used to test institutional innovation in tackling specific development issues. Government support to these zones focuses on economic liberalization including investment policy experimentation, not the traditional fiscal incentives (UNCTAD, 2019). China is one of the most successful countries in leveraging SEZs to achieve far-reaching transformations. It started with four zones initially, to experiment with market-oriented economic reforms which involved laws, regulations, taxation, land, labour, finance, customs, immigration, and a host of other factors. After scoring successes, the zone programme and relevant reforms were gradually rolled out over the whole country in more diversified forms with some being re-designed with a more sophisticated agenda such as creation of high-tech industrial parks. Together with numerous industrial clusters, SEZs have significantly contributed to national GDP, employment creation, exports and attraction of FDI, adding that in recent years SEZs had accounted for about 22% of national GDP, 46% of FDI, 60% of exports and generated in excess of 30 million jobs as well as bringing new technologies to China, as well as adoption of modern management practices (Zeng, 2015). Zeng (2015) argues that the following factors have been credited with China's comparative success with SEZs: a) Strong commitment and support of government to pilot the market-oriented economic reforms; (b) Land Reforms; (c) Investment Incentives and Institutional Autonomy; (d) Foreign Direct Investment and the Chinese Diaspora; (e) Technology learning, innovation, upgrading, and strong links with the domestic economy; (f) Innovative cultures; (g) Clear objectives, benchmarks and competitions; and (h) Location advantages.

2.3.3 Special Economic Zones – Sub Saharan Africa

Some countries in the Sub-Saharan region of Africa launched their SEZ programmes in the early 1970s (Liberia in 1970, Mauritius in 1971 and Senegal in 1974) but did not operationalize the programmes until the 1990s or 2000s. These zones are different from the modern large-scale multi-use zones that are currently being proposed (Zeng, 2015).

2.3.3.1 Sub Saharan Africa – South Africa

The South African government, to reposition itself on the global economic arena, established the Industrial Development Zones (IDZ) programme whose primary focus was to attract FDI and export of value-added commodities. Despite some successes scored earlier, weaknesses emerged that necessitated a review of the IDZ programme in 2007. The review was also precipitated by the developments in national economic policies, strategies such as the National Industrial Policy Framework, and the Growth Path. Developments in the global economy such as the formation of BRICS also necessitated this review according to the South African Department of Trade and Industry (DTI, 2017).

2.3.3.2 Sub Saharan Africa – Ethiopia

The Ethiopia Investment Commission (EIC) is the government institution tasked with driving the country's investment agenda, including attracting FDI. Part of this drive is premised on the development of industrial parks and SEZs. The broad-based strategy is to develop world-class sustainable eco-parks ready for 'plug & play' as EIC put it (EIC, 2015). These parks will be dedicated to specific sectors such as textile & apparel, leather & leather products, pharmaceuticals, agro-processing etc. and aimed at coordinated production along value chains. EIC is counting on strong government support & investment policy led by Ethiopian Investment Board (EIB) which is chaired by the Prime Minister. Further, EIC (2015) plans that these parks or SEZs be located along key economic corridors & connected to ports, and must be surrounded by appropriate Infrastructures such as airports, railway lines, dry ports, universities etc. The Ethiopian SEZ development programme is premised on export promotion and attracting FDI. Taking examples from the Eastern Industrial Zone (Chinese owned) and the Bole Lemi 1 Industrial Park (government owned), a UNDP study on African SEZs (UNDP, 2015) highlighted the following challenges to development of SEZs in Ethiopia.

Delays in infrastructure development and utility services provision, including access to power and water. This is like the LSMFEZ experience.

Delays in availability of infrastructure funding due to upfront investment and challenges in disbursement of funds, resulting in (1) above. This may be like the experience of LS-MFEZ, but the big difference is the level of government commitment. Ethiopia has demonstrated greater resolve to ensure completion of zone infrastructure. High transportation costs, shortage of containers and lengthy cargo dwell-time at the port of Djibouti are a burden for both zone developers and investor companies in the Ethiopian SEZs. Like Ethiopia, Zambia is a landlocked country with high transportation costs, which may affect competitiveness of the LS-MFEZ.

2.3.3.3 Sub Saharan Africa – Rwanda

Rwanda's SEZ program is designed to address some of the domestic private sector constraints such as availability of industrial and commercial land, availability and the cost of energy, limited transport linkages, market access and reduced bureaucracy and availability of skills. Designated, serviced land is provided for small- and large-scale industrial development, as well as reliable, quality infrastructure, competitive fiscal and non-fiscal regulations and streamlined administration procedures. In 2010, the SEZ regulatory framework was developed into the SEZ policy and in the year 2011, the Special Economic Zones of Rwanda Law was enacted. This law spells out all the guidelines for SEZs to operate, the structures and the roles of key players. Rwanda operates Special Economic Zones that are focused on growing exports. The operationalization and regulation of Special Economic Zones is a function of the RDB under the Economic Cluster Department. This operationalization is carried out through a PPP model which allows for Joint Ventures between RDB and private investors. (This is also a source of funds for RDB). All SEZs in Rwanda are government owned. Land in the SEZ is sold and title deeds issued to investors. There are no special incentives for firms operating in the SEZs, but there are general firms applicable to investors in Rwanda. Road infrastructure in the KSEZ is developed by a private sector partner under a PPP arrangement with the government. Regarding the LSMFEZ, road infrastructure is financed by government and constructed by a state-owned entity known as the Road Development Agency (RDA). Electricity and water in the KSEZ are provided by state-owned utility companies. This is like the LSMFEZ position where ZESCO supplies the power

to the zone (RDB, 2020). The Investment Promotion Law (2015) of Rwanda provides fiscal and non-fiscal incentives to investors in priority sectors, including export-oriented activities and industrial manufacturing. Incentives are given after an investment certificate or license is obtained, usually within two days from application date. These incentives include preferential income tax rate (at zero, or 15%); a corporate income tax holiday of up to seven years; exemption from customs duty payments for products or inputs to be used in export processing zones; exemption from capital gains tax; value-added tax refunds; accelerated depreciation at a rate of 50% for new and used assets in the first year; and immigration incentives such as issuance of residence permits to investors and their dependents (Calabrese et al, 2017).

This section reviewed some of the literature on SEZs from China, the Western Balkans, Poland, Russia, and three African countries being Ethiopia, Rwanda, and South Africa.

The review has also examined factors and other reasons behind China's success with SEZ, and seemingly apparent challenges faced by African SEZs. China and European countries ensure high quality infrastructure is in place to attract investors. In Africa, fiscal space is limited in many countries other than South Africa, and financial resources allocated to zone infrastructure development are usually insufficient. This is true for the LSMFEZ. In addition, the review has shown that a good business environment supported by stable government policy will be preferred even over fiscal or other related incentives. Further, Zambia and several other economies pursuing the SEZ programme employ other State-Owned Enterprises (SOEs) or similar institutions to manage SEZs, which deviates for the recommended model of encouraging private sector management.

3 Evaluation of the Lusaka South – Multi Facility Economic Zone

This article which looks at the problem of the low uptake of investment space in the Lusaka South -Multi Facility Economic Zone (LS-MFEZ), is premised on the theory that a Special Economic Zone (SEZ) is a geographical area within a country, where trade and business regulations or laws differ from the rest of the country. There has not been a dedicated study to find out why this is so, although many unresearched statements have been issued on the problem. This research sought to provide answers to this problem and come up with recommendations to all key stakeholders of the Zone. For all intents and purposes, the LS-MFEZ has strived to overcome barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure, and problematic access to land. In addition, the LS-MFEZ gives export investors distinct advantages in comparison with the rest of the domestic investment environment.

The LS-MFEZ by and large acknowledges some of the propositions by Aggarwal (2010) that the rapid pace of globalization and trade liberalization has stimulated a much broader view of SEZs and their development objectives. The objectives for setting up zones have encompassed trade-promotion and employment-creation attracting advanced technology, stimulating economic activity, and diversifying the export product basket.

The Conceptual Framework of this study depicts the dependent and independent variables in the investment decision on the part of the would-be investor in relation to offerings in the LS-MFEZ. As a result of an extensive literature review and establishment of theoretical justification of research factors, the following factors came to the fore as determinants of decisions by investors to invest in the LS-MFEZ. These Variables include: Zone infrastructure; Government policy and regulatory environment; Zone management and administrative procedures; and Fiscal and non-fiscal incentives. the dependable variable is the Investment Decision by prospective investors. The moderator variables are the depth of knowledge of LSMFEZ by government officials charged with the responsibility of Zone development; Proximity of input sources and markets; Zone location; and Availability of skilled and unskilled labour within or around the locality of the Zone.

The Lusaka South Multi Facility Economic Zone (LS-MFEZ) was established through Statutory Instrument No. 47 of 2010, under the ZDA Act No. 11 of 2006 as a government-led investment zone initiative for private sector participation (MCTI, 2017). A special purpose vehicle (corporate body) known as the Lusaka South MFEZ Limited was created in 2012 as a state-owned enterprise under the Ministry of Finance. The first author/ researcher

of this article was appointed as its first Chairman of the Board whilst then serving as Permanent Secretary of the MCTI. In December 2013, a new corporate entity known as the Industrial Development Corporation (IDC) was created to superintend over all state-owned enterprises (SOE) on behalf of the Ministry of Finance. Thus, IDC took over the supervision of the LS-MFEZ Limited.

The LSMFEZ Master Plan was financed by the Japanese government through JICA, who contracted two Japanese Companies, Yachiyo Engineering Company Limited and Oriental Consultants Company Limited to design and produce the Plan (MCTI, 2009). The two companies were assisted by a consultancy team from a Malaysian company, Kulim Technology Park Corporation BHD who were entrusted with making the whole concept of the LS-MFEZ which enabled the Zambian government put the Zone into operation (MCTI, 2009).

In the LS-MFEZ Master Plan, the JICA Study Team asserted that the Zambian economy symbolizes that of any developing country that is characterized with raw material exports. This exposes the country to fluctuation in prices of commodities (in this respect copper and cobalt) which in turn impacts the nation's economy directly. To reduce this effect of global commodity prices, the JICA Study Team recommended an industrialization strategy that focuses on value addition to natural resources including minerals (MCTI, 2009). The LS-MFEZ has enormous potential to contribute towards national economic development and diversification, as it does not only provide a manufacturing and service geographical site, but also shares borders with the Lusaka National Park which is managed by the Department of National Parks and Wildlife (DNPW) under the Ministry of Tourism and Arts. This comparative advantage creates opportunities for investment in the hospitality and related service industries in the Zone, to service the National Park as well.

The operations of the LS-MFEZ among other things are partly a solution towards the realization of the goals of Zambia as a country of becoming a prosperous middle-income nation. Overall, the LS-MFEZ complements the development strategy of the Greater Lusaka City in some ways. Firstly, its development was to boost growth of the city because of its special role in the context of industrial and business development; a catalyst for other growth parameters. Secondly, the LS-MFEZ is an asset to a new centre (South-East Core) as it serves as an impetus in the growth of local and export-based manufacturing. Thirdly, it is a planned growth Centre to stimulate other related activities such as business retailing, financial institutions, real estate, a place for meetings, incentives, conventions, and exhibitions. Finally, independent companies that set up in the LS-MFEZ provide a source of employment in the city (MCTI, 2009).

The earmarked sectors for the Zone include agribusiness, packaging and printing, palm oil processing, pulp and packaging boards, pharmaceuticals, electrical and electronic appliances, ICTs, education and skills training, R&D, professional, medical, scientific and measuring services, among others.

The LS-MFEZ currently houses both international and domestic businesses. By end of September 2019, multinationals in the LS-MFEZ included: British American Tobacco (BAT), Mylan Laboratories, the Zambian Breweries Group (part of the Anheuser-Busch InBev, the largest brewer in the world), Zambian Fertilizers Limited (part of the ETG Group). In addition, local companies with regional presence included the Roland Imperial Tobacco processing company, the Trade Kings Group (renowned manufacturer of domestic hygiene and food products), and the Citizens' Economic Empowerment Commission (a statutory body under the Ministry of Commerce, Trade and Industry which has been constructing SME industrial yards in different parts of Zambia including the LS-MFEZ).

The LS-MFEZ Master Plan has the following seven development and investment objectives: (a) To be a Centre of Excellence for business and investment; (b) To act as a catalyst for Zambian research and development; (c) To act as a home for new government research and development institutions; (d) To act as a place for new business formation and commercialization of research and development; (e) Promote medium, small and micro enterprises (MSME); (f) To promote innovation, incubate new technology-oriented businesses; and (g) to promote the establishment of links between industry, government, research institutions and universities.

3.1 LS-MFEZ Infrastructure

Key infrastructure in the LS-MFEZ includes energy (mainly electricity or power distribution), fiber optic connection, roads, storm water drainage, water and sanitation, and appropriate provision for business, support, and social infrastructure.

3.1.1 Energy Infrastructure

Reliable and stable electricity supply is essential to successful implementation of the LS-MFEZ. In this regard, the Zone has been developing an energy infrastructure to ensure provision of high-power reliability both in terms of availability and stability. In partnership with the Zambia Electricity Supply Corporation (ZESCO – a state owned power utility company), a 600MVA sub-station and distribution network from the sub-station was developed and constructed. The sub-station steps down power from 330kV to 132kV, and from 132kV to 33kV on the southern end of the Zone. Both LS-MFEZ and ZESCO were to share and contribute 50% each towards the total project cost of US\$37 million. The sub-station was completed and fully connected as of mid-2018.

3.1.2 Road Infrastructure

In the LS-MFEZ Master Plan (MCTI, 2009), the JICA Study Team proposed four (4) access roads to the LSMFEZ to serve stated functions. These include: 1. Access road between Leopards Hill Road and the LS-MFEZ which involved tarring part of what is known as Chifwema Road into the Eastern end of the LSMFEZ. This road handles the main commuter and cargo traffic from Lusaka, including servicing the Kenneth Kaunda International Airport (KKIA); 2. Access road between the Central Business District of Lusaka and the LS-MFEZ to take commuter, cargo and business traffic into the LS-MFEZ as well as serve as a side route to the KKIA; 3. Access Road from Kafue Road to the LS-MFEZ, to service international and domestic cargo into the MFEZ to facilitate connection to all Southern routes servicing Zimbabwe, South Africa, Botswana, Namibia and Mozambique; and 4. The outer Ring Road connecting Kafue Road with ramp to the LS-MFEZ, onwards to the Great East Road and the KKIA, this route was planned to facilitate inputs supply and export of products manufactured in the LS-MFEZ. (MCTI, 2009).

3.1.3 Water supply and Sewerage service

The according to the LS-MFEZ Master Plan (MCTI, 2009), the estimated groundwater volume of the LS-MFEZ was 96 million cubic metres, with a recharge of the Southern side of LS-MFEZ being 15.4 million cubic metres per year. With an estimated total consumption of 10,000 cubic metres per day in the LS-MFEZ at peak of activities when all phases are operational, it was assumed there shall be sufficient water to keep the Zone alive for many years.

As of mid-2019, the LS-MFEZ had developed water supply and sewerage service for the whole of Phase 1 and part of Phase 2 of the Zone. The Zone had developed a 20km water reticulation network for Phase 1 and 1.5 km for Phase 2 (LSMFEZ, 2019).

3.1.3 Telecommunication Infrastructure

The LS-MFEZ has developed a core fibre optic line running from East to West across the Zone, at a cost of US\$180,000 (LSMFEZ, 2019). The Zone has a contract with the Zambia Telecommunications Company (ZAMTEL) to run a back borne fibre optic line. The expected demand for this service may necessitate the installation of additional fibre network capacity that should be developed in the residential and industrial sub-zones to meet the communication needs of all investors. It was estimated that a total of US\$2million may be required to develop the fibre connectivity network as stipulated in the Master Plan.

3.1.4 Waste Management Facility

A 33ha site outside of the LS-MFEZ was secured for construction of a waste management plant. This was later allocated to a company called Global Green for development of a waste to energy plant. Due to non-payment of lease fees and absence of a Power Purchase Agreement with ZESCO for power offtake, Global Green have failed to develop the site.

3.1.5 Other Physical Infrastructure

Other infrastructure developed or under development in the Zone include erection and electrification of boundary fences, especially on the Northern border where there are some squatters on the opposite side who pose danger of encroachment. Other infrastructure development include construction of gates on exits and entrances to the Zone, building guard houses, design for housing developments, construction of police stations and other support infrastructure (LS-MFEZ, 2019).

3.2 Mixed Land use

The LS-MFEZ was planned and designed for mixed land use to ensure optimal utilization of the available land.

3.2.1 Industrial Development

To enhance and foster manufacturing and industrialization, the Zone has set aside 680 hectares of land for industrial development for sustainable growth of the economy. The targeted industries in the Zone are; Research and development institutions, high technology industries, information and communication technology, commercial institutions, agriculture and agro based industries, packaging and printing industries, palm oil production and their derivatives, processing of gemstones, pulp and packaging boards. The Zone had over 30 companies approved to set up in the Zone for manufacturing purposes, as at end of September 2017. At the time of the study, 7 companies listed out of the 30 as below are on the ground in the Zone. These were Zambian Breweries, British American Tobacco, Zambian Fertilizer, Mylan Pharmaceuticals, NRB Pharma, Roland Imperial Tobacco and Elite Probuild.

3.2.2 Residential Development

LS-MFEZ has allocated 292 hectares for residential housing units which are divided into 4 neighborhoods. Furthermore, the neighbourhoods were planned to have housing units, link houses, apartments, and single units. The Master Plan for the LS-MFEZ was designed with the capacity to provide housing accommodation to people that would reside in the area, such as entrepreneurs running business and industrial operations, management, tenants, workers and employees as well as families and employees involved in the LS-MFEZ activities. With the proposed development of LS-MFEZ, the housing situation was expected to improve because the supply of housing stocks within the Greater Lusaka City would increase due to planning and development of satellite townships.

3.2.3 LS-MFEZ – Land Use

The LS-MFEZ covers a total land area of 2,100 hectares, with planned multiple land use as proposed in the LS-MFEZ Master Plan. The table below shows the planned land use.

Table 3.1: LS-MFEZ Land Use Plan

| LAND USE | AREA (Ha) | % |
|----------------------|--------------|-------|
| Industry | 546.67 | 26.13 |
| Industry (High-tech) | 130.94 | 6.24 |
| Inland Port | 15.35 | 0.73 |

| | | |
|--|----------------|---------------|
| Research and Development | 100.57 | 4.79 |
| Business Core | 62.29 | 2.97 |
| Commercial | 10.14 | 0.48 |
| Residential (Mixed Density) | 160.78 | 7.66 |
| Residential (Low Density) | 103.78 | 4.94 |
| Residential Housing for Workers | 27.00 | 1.29 |
| Open spaces | 70.92 | 3.38 |
| Golf Course | 92.84 | 4.48 |
| Parks (Including Miombo Forests) | 308.26 | 14.68 |
| Institution | 166.00 | 7.90 |
| Community Facilities | 36.29 | 1.73 |
| Transmission line | 23.84 | 1.14 |
| Road Reserves (including site areas and reticulation for Infrastructure and Utility Systems) | 242.3 | 11.54 |
| TOTAL | 2100.00 | 100.00 |

Source: LS-MFEZ

4 Methods

The mixed-methods model has been adopted for this active study. These comprise the quantitative and qualitative research methods.

4.1 Quantitative method

In the quantitative approach, the researchers have adopted administration of a questionnaire to key personnel of corporate entities operating in the zone and those who have capacity and expressed interest to invest in the zone.

4.2 Qualitative method

The Qualitative approach was employed to get views of the purposively selected respondents. The interview guide was used to gather the information on the performance of the multi facility economic zone in terms of investment uptake. The qualitative data was necessary to collaborate other information that the researchers collected using the questionnaire on the LS-MFEZ. This method focuses on the respondents' views on the Zone, in relation to the factors contained in the study objectives being policy and regulatory issues, Zone infrastructure, institutional management structure and capacity, and incentive package; and how these relate to the decision to invest in the zone.

4.3 Sampling procedures and Respondent Characteristics

Two sampling techniques are being used for this active/ongoing research. These are the 'purposive sampling method' and snowballing. These methods fall under the umbrella of non-probability sampling methods the implication is that the participants from the population do not have an equal chance of being included in the sample. The sample cases are selected based on availability or convenience of the researcher.

The lists of investor companies obtained from the Patents and Companies Registration Agency (PACRA) and the Zone Management company constituted the sampling frame, the lists were used to identify the foreign companies and the key respondents. The purposive sampling method was to include only those respondents that are relevant to the study and with the potential to provide rich information for the study. The reason for using purposive sampling was to select the foreign companies is because they are known entities to the public, therefore one can make an informed decision on whether to include them in the sample or not.

Snowballing sampling method was used in the selection of the local companies. This method is a chain referral where research participants recruit future participants from among the players. This method is used when the participants are hard to find or when the researcher is not privy to their information (Johnson, 2014). The method starts by identifying one person of interest who then recommends another, and a chain is formed which may give one the required sample size. In other words, it can be said that the participants recruit future participants from among their acquaintances because of their social interactions - they know each other. To make the sample representative because the researcher has no control over the participants' eligibility status, three persons from different industries were approached to kick the ball rolling. The method was administered on the selection of local companies because information about their financial strength was not known to the researcher. This is because it is not captured when registering a company with the PACRA and financial records (even revenues only) are not readily available in Zambia, therefore it was not easy to identify who has the capacity to meet the investment threshold stipulated by the zone but amongst the players they were able to do so by themselves.

4.3.1 Sample Size

A sample size of 46 participants was drawn. The composition was 14 foreign companies, 17 local companies and 15 key informants. The qualitative method had 15 participants and this number was optimal, given that the approach does not necessarily need many participants to be included in the sample. However, the figure was arrived at based on the principle of data saturation which refers to a situation where adding more participants to a study would not result in generation of new information or themes (Glasser & Strauss, 1967).

4.4 Research design

The research design adopted is one of the six designs that were postulated by Creswell (2013). Being an active study (ongoing), the Concurrent triangulation research design is being used to collaborate and confirm the data gathered from the two different research approaches. The data obtained through the questionnaire is being collaborated with that collected using the interviews with the help of the interview guide.

5 Results

The research findings relating to the problem of low uptake of investment space in the Lusaka South -Multi facility Economic Zone are highlighted in the sections below.

In terms of the suitability of the economic zone infrastructure as a vehicle for attracting investment in the economic zone, interim results according to participants responses show that there are some inadequacies with basic infrastructure. There are persistent power outages in the zone, which have a detrimental effect on machinery used for manufacturing goods for both the local and export markets. Power fluctuations also adversely affect reliability of water supply by the Lusaka Water and Sewerage Company, the authorized water utility service provider in the zone. The road types leading into and out of the zone are all single-lane types, resulting in traffic congestion even before the zone is at full operational capacity. There are currently no plans to expand the two main excess roads namely, the Leopards Hill Road, and the "Tokyo way", with the latter already showing signs of deterioration from the light traffic currently using it.

Preliminary findings point to policy inconsistency. When the Multi Facility Economic Zone concept was mooted, incentives were announced as to what were to be the benefits of investing in the LS-MFEZ among other zones in Zambia. The findings indicate that these have been eroded over time, with each annual budget address by the Finance Minister coming up with policy changes. Findings indicate that the LS-MFEZ incentive package is inadequate to support investment in the zone. Furthermore, the award of incentives to investors in the LSMFEZ appears to be a source of conflict between the Ministry of Finance on one hand, and the Ministry of Commerce, Trade, and Industry on the other.

Results show that the current management of the company running the economic zone does not have sufficient prior experience of managing special economic zones. In addition, according to the findings of the study, there does not seem to be in place any deliberate plan to second any of the staff to countries that have more successful SEZs, for training purposes. The results also show that the economic zone is not well marketed.

6 Discussion

There has not been a dedicated study to find out why there is low uptake of investment space in the LSMFEZ. This research seeks to provide answers to the problem and make recommendations for the benefit of all key stakeholders.

The hypothesis that zone infrastructure is important in deciding to investment in the Multi Facility Economic Zone can be supported. The inadequacies in basic infrastructure in the economic zone that were revealed by the findings ranging from persistent power outages, unreliable water supply as a consequence of power fluctuations, limited and poor state of access roads (single lanes) into and out of the zone, all these factors have the potential to discourage would be investors.

The hypothesis that government policy and regulatory instruments play a vital role in making the decision to invest in the Multi Facility Economic Zone can be supported. Policy inconsistency as indicated in the findings have caused many policy changes. Apparently, as revealed by the findings the policies and regulations have been changing over time by successive annual parliamentary pronouncements by the Ministry of Finance. These pronouncements come with major policy changes and these make it difficult for investors to make long term plans. Modern SEZs go beyond offering attractive incentives to would-be investors, adding world class infrastructure, services, reduced land cost, good industrial and labour policies, and reduction in corporate tax. The range of facilities, services and amenities in the zone has also been widened, with most of them now offering business support services and specialized facilities beyond what a traditional SEZ can offer. Most zones have also evolved from stand-alone industrial estates to integrated industrial townships, thereby becoming more comprehensive in economic activity (Aggarwal, 2010).

The hypothesis that Zone management and administrative procedures can adversely or favourably affect decisions to invest in the Multi Facility Economic Zone holds true. According to the findings the economic zone management company most of the management staff lack prior experience of managing special economic zones. This situation requires a deliberate plan to second some of the personnel for training to renowned successful SEZs in other countries. The LS-MFEZ also lacks an integrated management system that should enable it to operate effectively and provide the required service, including One-Stop-Operation services to current and would-be investors. The revelation from the findings that no marketing activities are undertaken to market the zone is a major concern and require some form of action from the zone management company.

The hypothesis that fiscal and non-fiscal incentives are needed to attract investors to invest in the Multi Facility Economic Zone can be supported. Successive annual parliamentary pronouncements by the Ministry of Finance have eroded the incentives that were initially conferred on investors in the zone. The findings revealed that a global company that produces alcoholic beverages was discouraged from setting up a plant in the LS-MFEZ due to mandate disputes between the Ministry of Finance, and the Ministry of Commerce, Trade, and Industry. The former is responsible for awarding of incentives to companies wishing to invest in the zone and according to the findings refused to give approval to the alcohol based products manufacturing company to set up operations in the LS-MFEZ. Farole and Moberg (2017) argued that many African SEZs have seen poor performance because of conflicting interests across official institutions. This development may complicate the work of building the authority, capacity, and communications between people that an SEZ scheme needs, thus hindering coordination across government bureaucracies. The resulting coordination failure among institutions can sometimes result in the creation of multiple, overlapping SEZ regimes.

7 Conclusion

The Lusaka South - Multi Facility Economic Zone has great potential to attract investment and create employment opportunities for citizens in various skill areas, considering that it is a government owned facility. At this stage of the study findings indicate that investments worth USD 274.548 million in total have been made by companies that have set up operations in the Zone. These companies have also created a total of 2,133 jobs during the construction and operation phases.

It can be concluded that zone infrastructure is important in deciding to investment in the Multi Facility Economic. Therefore, it is recommended that the inadequacies in basic infrastructure in the economic zone that have been highlighted by the study should be addressed. There ought to be stable and reliable power sources coupled with sufficient power back up arrangements. Reliable water supply should be established. There should be in place a good network of all-weather access roads into and out of the zone, all these factors have the potential to discourage would be investors. Any factors related infrastructure that pose challenge to investors' productivity require resolving if the zone is to be attractive to would be investors.

The conclusion is that government policy and regulatory instruments play a vital role in making the decision to invest in the multi facility economic zone. The recommendation is that policy inconsistency should be paid attention to. The policies and regulations changes should not disadvantage investors and would investors in the zone. Any successive annual parliamentary pronouncements by the Minister of Finance improve on the conditions and not rather making things difficult or discouraging the investors. As revealed in the findings modern SEZs embrace more than just offering attractive incentives to would-be investors, but should all-encompassing covering a range of facilities, services and amenities, infrastructure, and fiscal and non-fiscal incentives.

It can be concluded that zone management and administrative procedures can affect decisions whether to invest in the multi facility economic zone. Therefore, it is recommended that zone management company should be have adequate prior experience of managing special economic zones. To this end deliberate plans should be made to second some members of staff to renowned successful SEZs in other countries for training purposes. The LS-MFEZ should also put in place an integrated management system that should enable it to operate effectively and provide the required service, including One-Stop-Operation services to current and would-be investors, and should embark on marketing activities to market the zone to prospective and would be investors.

The conclusion is that fiscal and non-fiscal incentives are needed to attract investors to invest in the multi facility economic zone. The recommendation is that successive annual parliamentary budgetary pronouncements should not annihilate existing incentives but should reinforce what has already granted. Furthermore, the two ministries involved, the Ministry of Finance, and the Ministry of Commerce, Trade, and Industry should speak with one voice on an agreed position instead of issuing conflicting decisions that only work to discouraged investors from setting up operations in the zone. There ought to be clear communication and coordination among government institutions to avoid overlapping decisions that adversely affect the operations of the zone.

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