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International Lessons on Industrial Zone Development: Public Private Partnerships

PPP Workshop Ain Sokhna, Egypt

**Private Sector Participation on Industrial
Parks and Special Economic Zones**

May 26-27, 2008

**Sub-Component E.6: Facilitating
Services to the Private Sector**

Jose M. Ceron



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Overview



- Genesis of Industrial Zone (IZ) Development
- Menu of private participation in IZ development
- IZ PPPs stages, project preparation and roles
- Lessons learned



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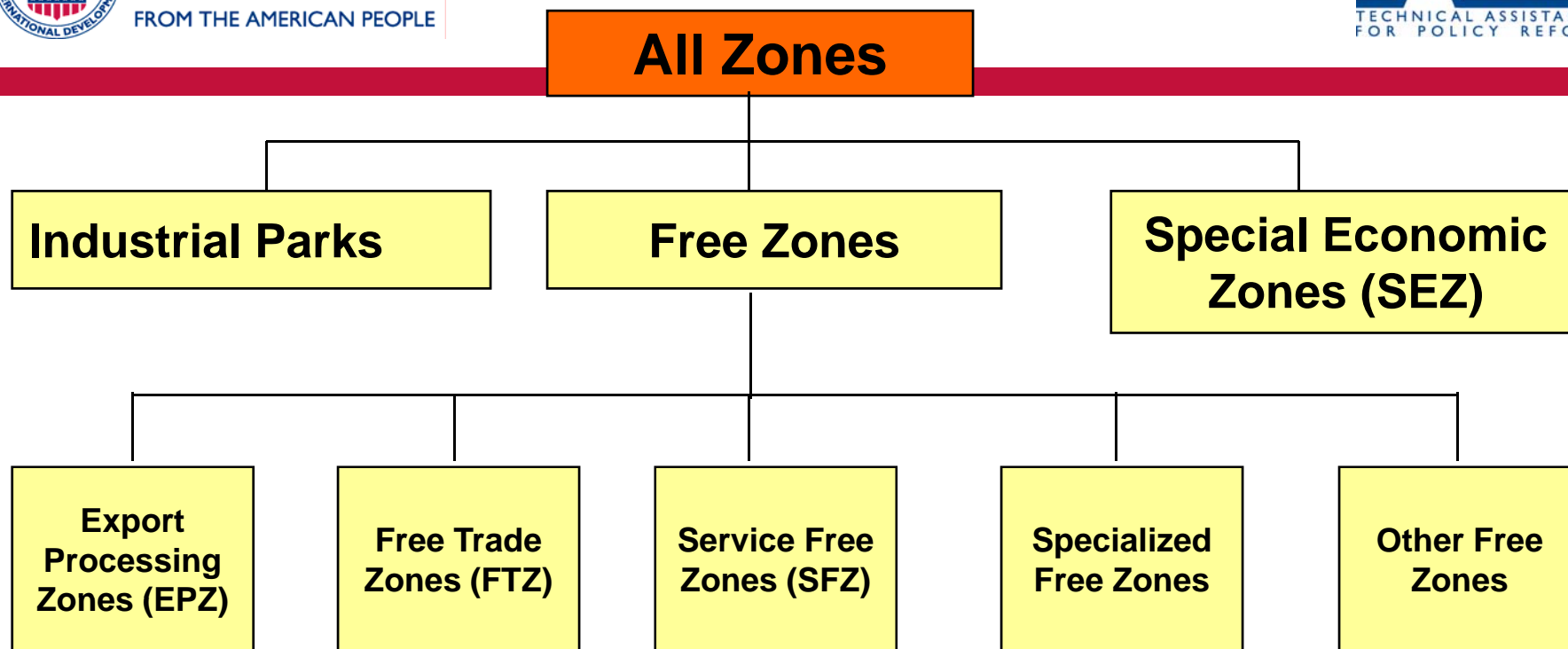


Genesis of Industrial Zone (IZ) Development

Menu of private participation in IZ development

IZ PPPs stages, project preparation and roles

Lessons learned



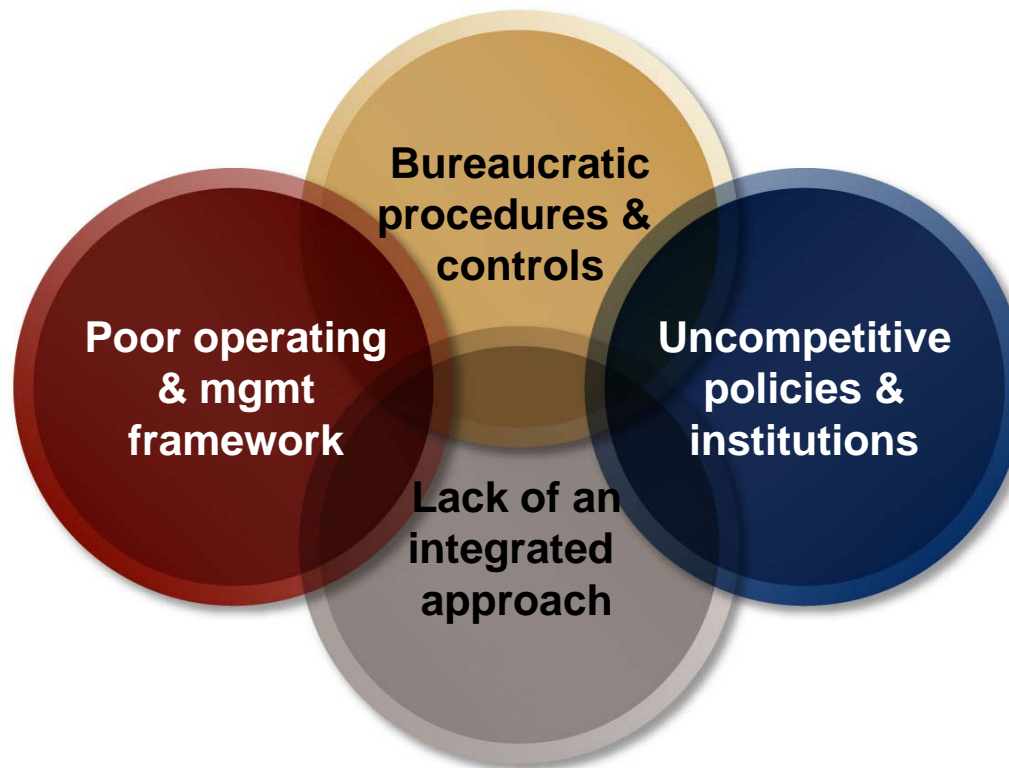
Common Denominators

- Geographically delineated areas
- Common infrastructure
- Single administration
- Pre-built, built-to-suit or build-your-own facilities
- Value added services

Many Government-run IZs failed or under-performed

- Weak management
- Physical development not phased
- Subsidized land and facilities
- Poor locations, bad design
- Lack of funding (maintenance, services, promotion, crowded facilities)

- Too many approvals
- No single authority



- Tax holidays
- Rigid eligibility requirements
- Poor labor policies
- Too many bodies involved
- Weak regulatory authorities

- Poor offsite infrastructure planning
- Lack of partnership approaches



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New Framework for Zone Development



...Current international experience shows that the new worldwide framework for zone management tends to rely more heavily on the private sector...

Old Framework

- Zone Authority would develop, own, operate and regulate the zone
- Zone Authority has little power over other government bodies
- Zone funded by government; typically subsidized services & facilities
- Public sector development and operation of zones

New Framework

- Zone Authority only regulates activities within the zone
- Private developer develops, owns and operates the zone on a cost-recovery basis
- Outsourcing of core functions to private sector
- Zone enterprise designation extended to developers and service intermediaries

The primary leading practice trends in the World are to utilize the private sector to create additional value and speed up growth...



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Growth of Modern Zones



1970s

- 30 countries
- 80 free zone projects
- No private zones
- Total trade: \$10 billion
- Total jobs: 1 million



Today

- 100+ countries
- 1000+ free zone projects
- 80% private zones
- Total trade: \$400 billion
- Total jobs: 50 million

Competition: Service, Branding, Flexibility



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Traditional Zones Organization Structures



- Many Zones were developed, operated and regulated by the same body. Examples include:
 - UAE: Jebel Ali Free Zone and other zones
 - China: provincial governments
 - Sri Lanka: Board of Investments
 - Jordan: Industrial Estates Authority
- Other countries separated the development and operation of zones from regulation, putting these in separate government bodies. Examples include:
 - Taiwan: operation by EPZA, regulation through the Industrial Development Bureau
 - Korea: operation by KEPZA, regulation through an inter-ministerial committee
 - Central America/Caribbean: Autonomous entities regulate & assign regime to private entities



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Traditional Organization Structures are Changing



- Traditional approaches to zone development/management and regulation are changing because:
 - Drawbacks of government management and regulation of zones
 - Rise in local and multinational private companies for development and/or management of zones
 - Increasingly sophisticated demands from users and tenants
- Drawbacks of government management and regulation of zones include
 - Large government expenditures on infrastructure development and operation (especially if these are subsidized)
 - Difficulty in recruiting staff with required skills and experience
 - Lack of autonomy and too much red tape (due to civil service regulations on salaries, staffing structures, procurement, budget approvals, etc)
 - Conflicts of interests: ownership vs. regulation



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New IZ players accelerating changes



Changes are also driven by the emergence of private developers and operators. These are typically:

Engineering, Construction and , Project Management Companies (EMCs)

- Bechtel, Dragados, Fluor Daniel, Bouygues, Groupe Vinci
- Government-linked companies
 - JTC-Ascendas, Singapore
 - Central Trading, Taiwan
 - Jebel Ali, UAE
 - Qatari Diar. Qatar
- Trading & financial groups
 - Marubeni, Sumitomo, Mitsubishi, Itochu, Nomura Securities, AIG

- Construction companies
 - Kajima, Balfour, Turner, Hyundai
- Property developers
 - SembCorp, Trammel Crow, Portman, Amata, Lippo, Hillwood, National Real Estate Company (Kuwait)
- Management consultants
 - BearingPoint, Chemonics, IDI



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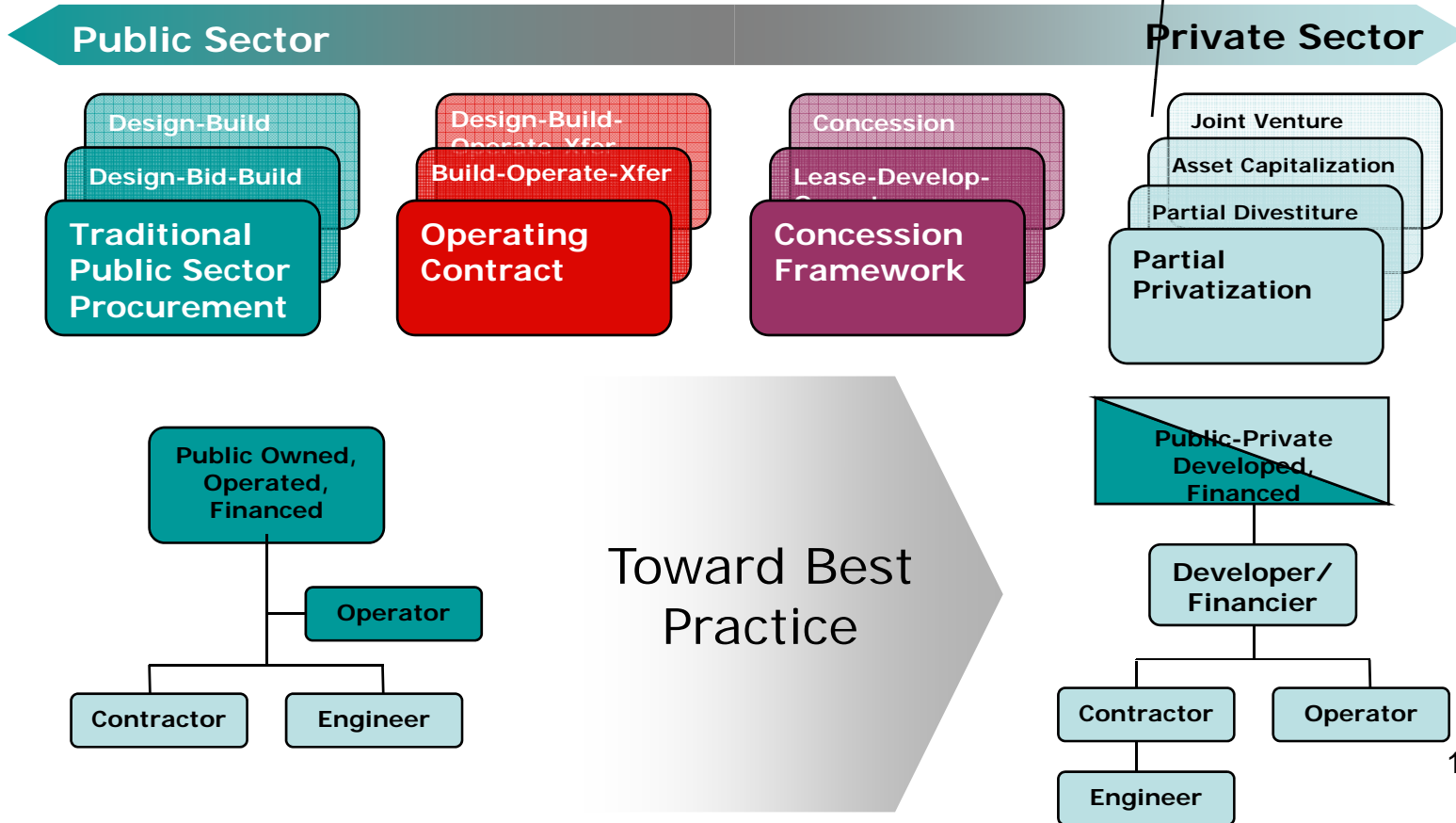


From old to New: IZ Models for Development and Service Provision



- Government configures the roles of developer and service provider in a variety of ways, based on a variety of public and private sector-driven models.

Egypt's New Generation IZ Program: Quick positioning within best practices





Private zone development and operation

- Most common approach worldwide, especially in East Asia (Philippines, Indonesia, Thailand) and Latin America (Dominican Republic, Costa Rica, Uruguay, Mexico, etc)
- Public partner designates/owns/manages IZ regime
- Private developer assumes site development risk

Examples

- In MENA, first examples are Kuwait, Jordan and Turkey

Joint infrastructure development

- Typically onsite (private) and offsite (government)
- Private BOT or LDO for off-site infrastructure
- Infrastructure fund financing for offsite infrastructure
- Private sector provided IT and other utilities

Examples:

- Egypt New Generation IZ Program
- Abu Dhabi
- Morocco

Outsourcing of other functions and services:

- Inventory control for Customs purposes
- Investment promotion and investor services
- Zone maintenance

Examples

- Indonesia
- Vietnam
- China

Management Support Programs

- Assist management to achieve vision and objectives using a “plug & play” management team
- Strengthen operations by integrating leading practices and thought leadership
- Develop assets – with “cradle-to-grave” approach

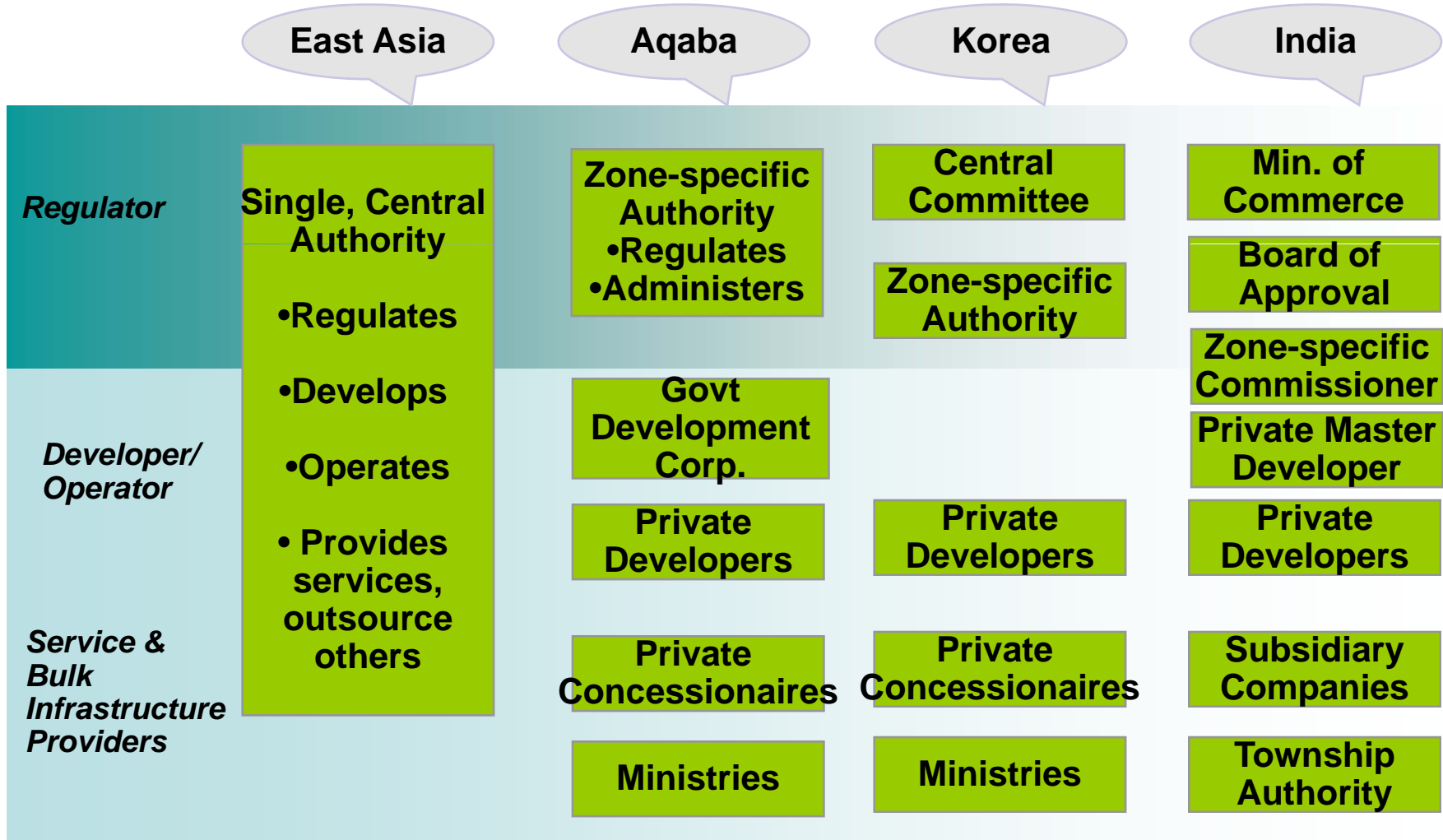
Examples

- Jordan
- Djiboutii
- Turkey



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There are Different Zone Operating Frameworks





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IZ PPP Project Development Principles: Value for host country



Economic-social benefits

- Job creation
- Upgrade industrial base/international value chain
- Increase MVA/exports

Build patrimony/maximize public assets value

Long-term sustainable wealth through implementing program of successful individual IZs

Competitiveness

- World-class IZ business climate
- Test bed for wider reform

Optimize Private Sector Know How

- Improve speed of delivery to end users: buildings/services
- Share risks
- Enable focus on core public-sector delivery requirements

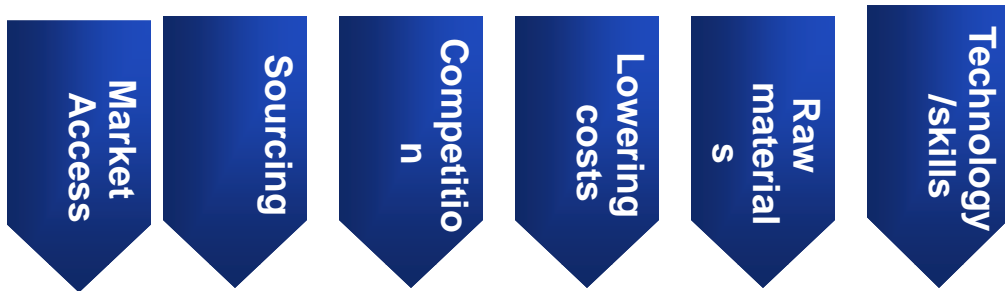
Financial sustainability

- Near-term cash management
- Long-term sustainability, positive cash flows
- Reasonable profits

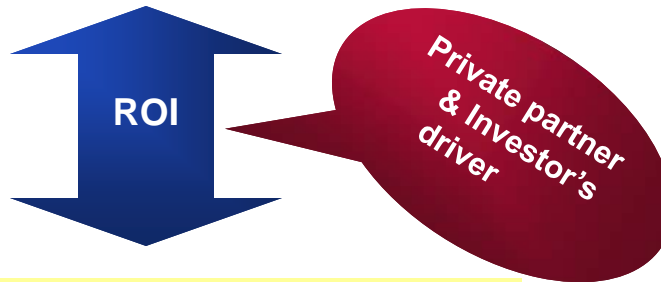


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The Private Partner's business: Investor Site Selection Decision Making



Investors Pull Factors



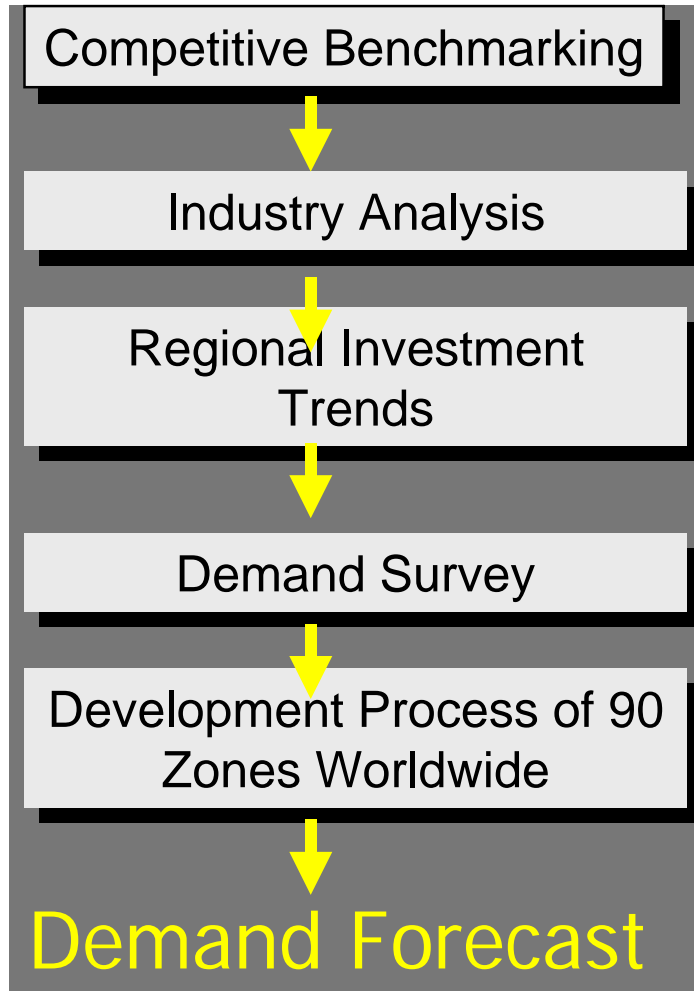
**Host-Country Factors:
Simplify**

- Political & Economic Stability
- Favorable FDI Policies
- Adequate Infrastructure and Services
- Adequate Skill Base Trainable Labor
- Good Supplier Network and Support Services
- Lack of Red Tape Streamlined Procedures
- Quality of life



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Assessing Demand: Understanding private partner's business perspective

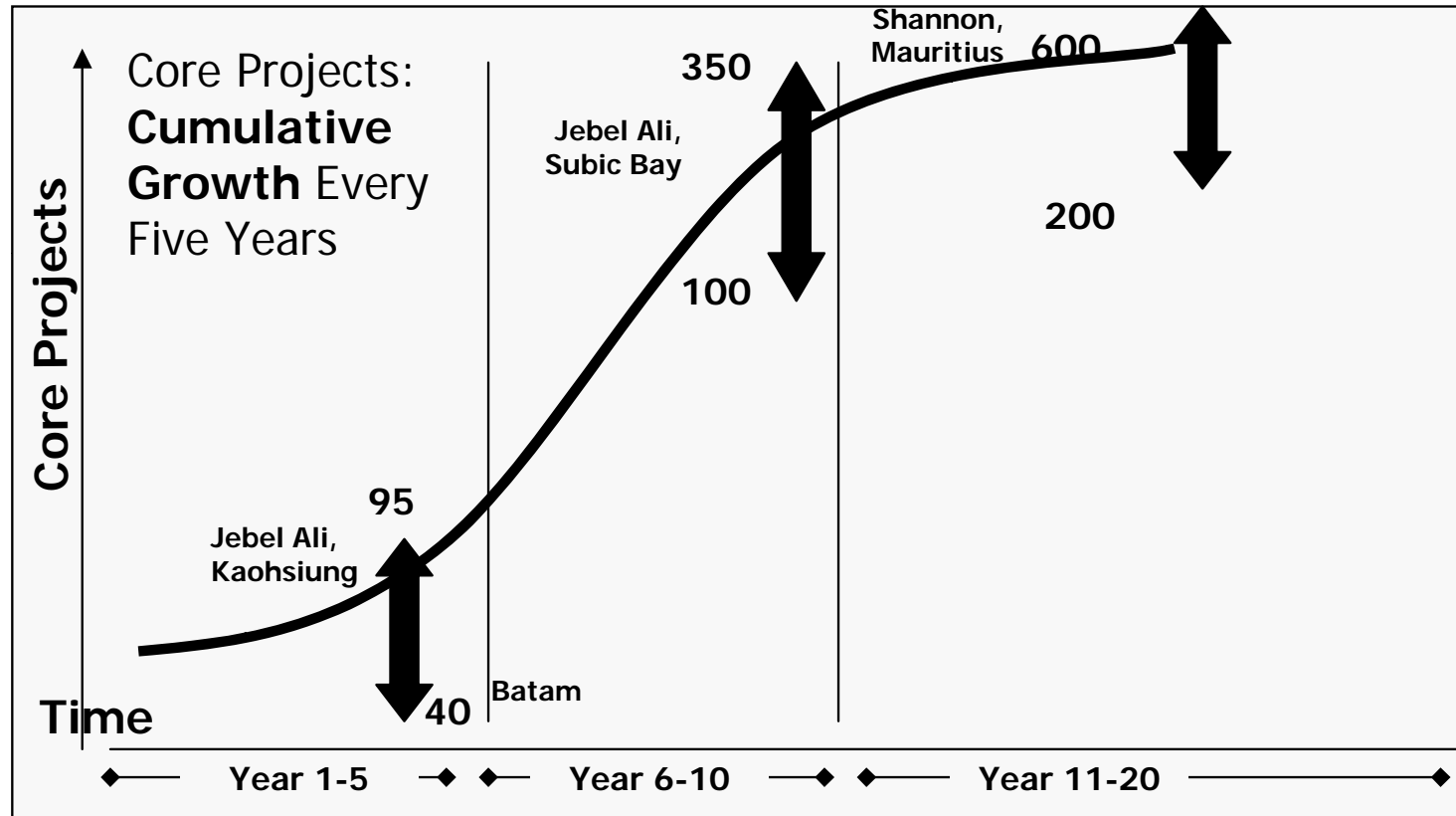


Solid Market Assessment is the Core of any Business Plan:

- Public and Private investors will need to be convinced that demand exists
- Demand based development is essential, over-investment or bad investment timing kills returns
- Diversity in markets reduces risk, increases attractiveness to investors



Calibrate with Normal Growth Patterns





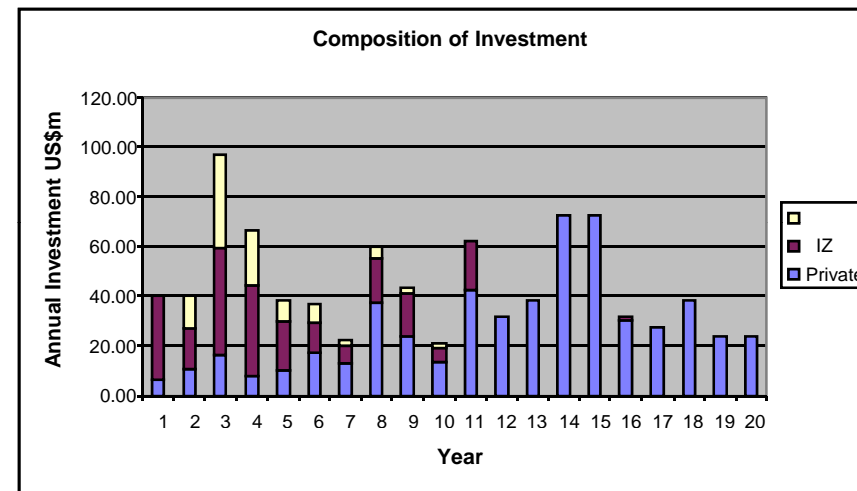
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Servicing Demand Requires Investment...



Estimating Capital Investment Requirements

- Draft a High Level Masterplan that accommodates projected demand
- Cost out the infrastructure/utility requirements
- Assess private/public sector appetite for investment

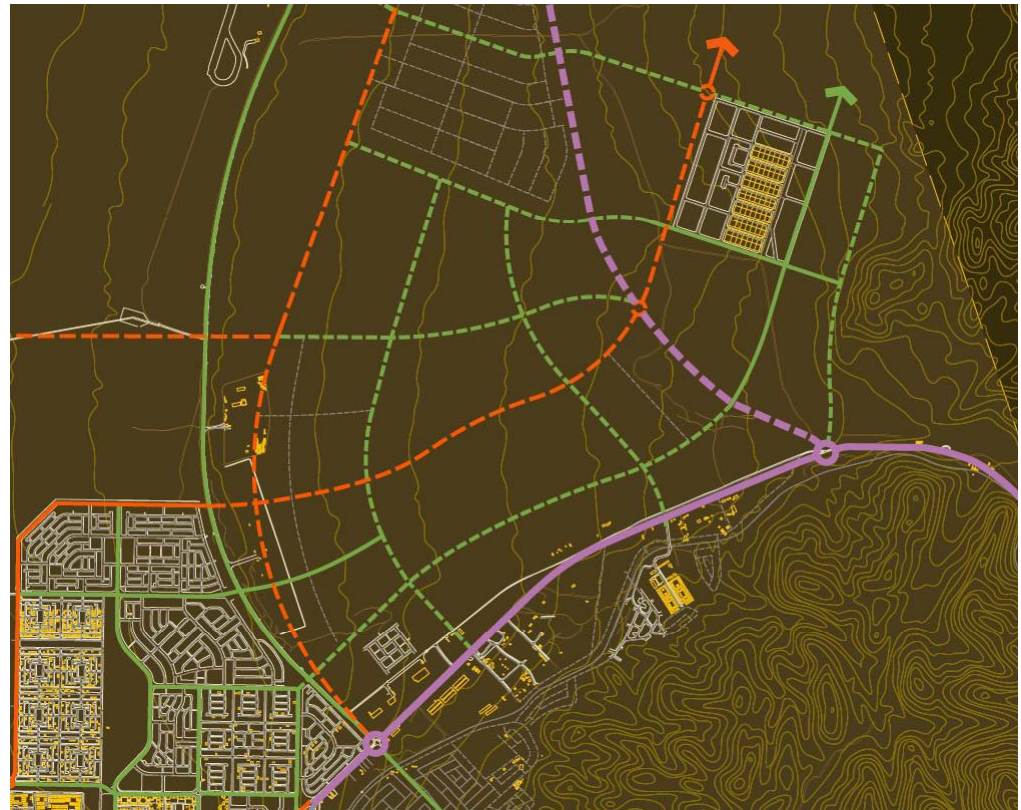


Ref	Project Description	US\$m Total	Capital Invested		
			Private Sector	ZONE	Public (other)
	Highways	112.32	1.24	40.74	70.34
	Stormwater	16.63		16.63	
	Water Supply	178.78	110.71	68.07	
	Sewerage	29.32			
	Land Development	301.86	259.32	42.54	
	Electricity Distribution	110.00	86.21		23.79
	IT Infrastructure	32.45	22.31	10.14	
	Telecoms	64.00	56.88		7.13
	Customs/Border	43.29		43.29	20
	Total US\$m:	888.65	536.67	221.41	101.25



High quality planning to :

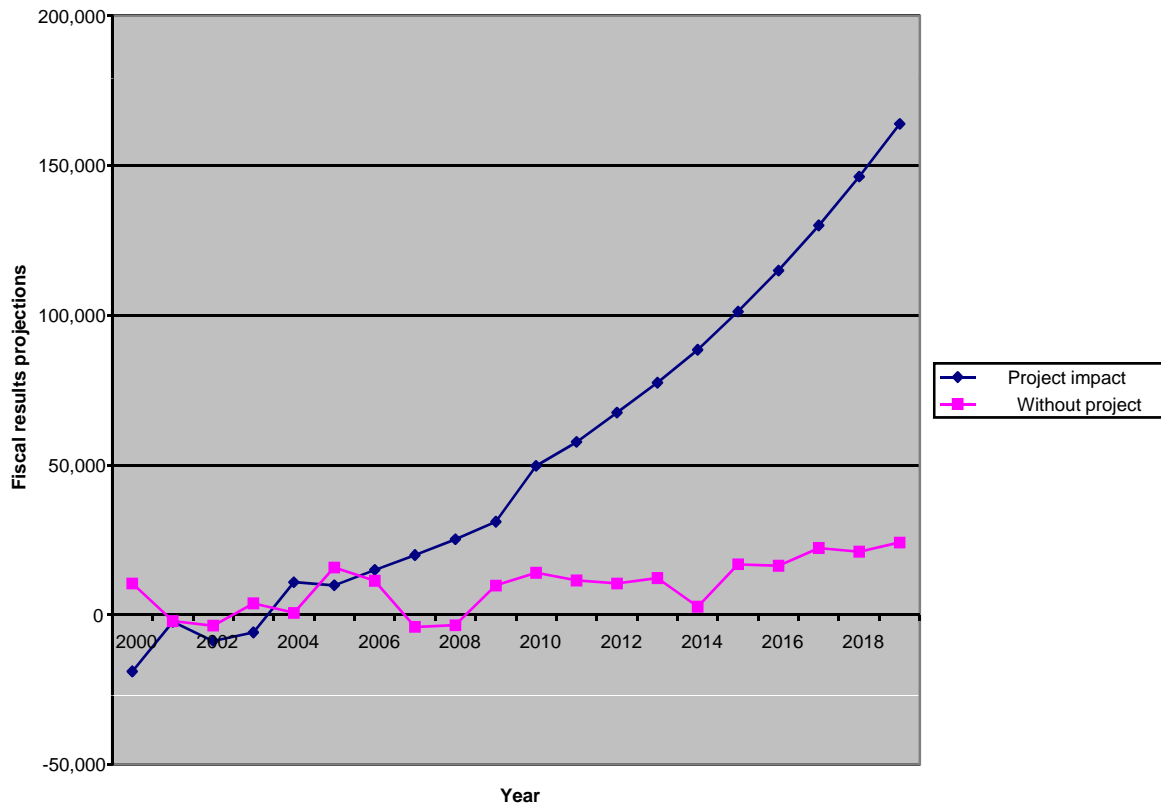
- Optimize land use
- Phase in infrastructure requirements
- Retain overall flexibility to address market or environmental changes
- Add value to planned real estate
- Permit a market-led real estate market to develop
- Create best conditions for private sector participation





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Show How the Project Benefits Stakeholders... Results with/without Project

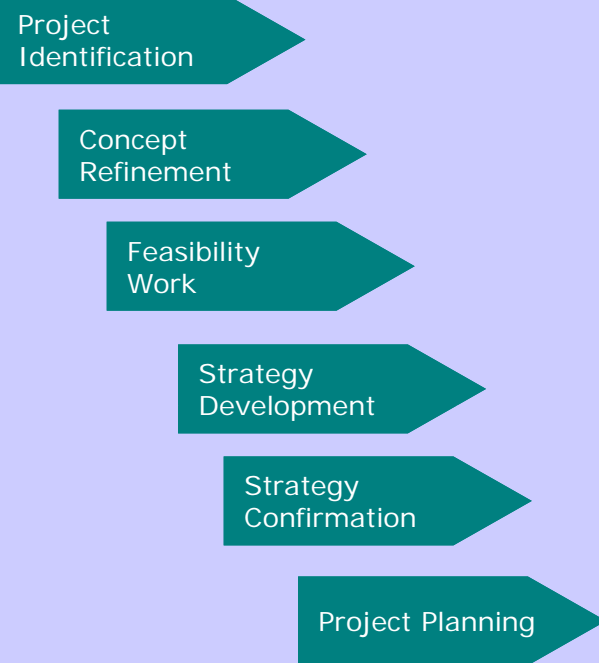


Principles should include:

- A sensitivity analysis that examines various plausible scenarios
- Risk assessment and proposed mitigation measures
- Potential sources of investment, and likely conditions that may be attached
- Conservative and proper accounting assumptions

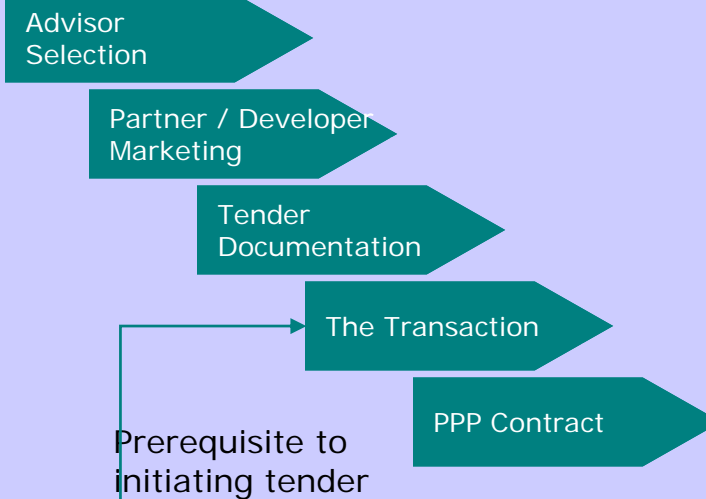
IZ Project Development: Private partner entry points

Phase I: Taking an idea to a strategic decision



Phase II: Enhancing the IZ and securing the private partner

Parallel Track 1: selecting and supporting the private partner



Parallel Track 2: enhancing zone value



Phase III: Executing the partnership



***Zone in Operation;
Project Success!***



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PPP Contract: Examples of roles and responsibilities



Government

- Off-site infrastructure provision
- Consolidation of land for long-term lease
- Financing of some on-site infrastructure
- Development rights on other properties, or related projects
- Tax and other concessions
- Investment promotion support



Private Partner

- Build, lease, sale land/buildings without government interference on prices
- Install on-site infrastructure following established and clearly identified technical requirements of public agency such as:
 - Building codes
 - Set-backs
 - Cabling
- Establish complimentary services for users within the zone at a fee without government interference in prices e.g., customs brokerage, personnel recruitment, supervising constructions within premises, cafeterias, child care centers, transportation of goods and people to and from the zone, security, maintenance, etc.
- On-site customs facility built at the manager/developer cost
- Registering with the authority a copy of standard lease/purchase agreements as well as any governing contracts (maintenance, compulsory/optional services)
- Reporting to authority on each lease/purchase agreement executed
- Ensure the overall environmental compliance of the property



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Partnership Marketing: Roles and Responsibilities



**Public partner/
National IPA**

General Market Penetration

IZ Advantages Presentations

General and Sector Brochures

Outward Promotion missions

General Follow-Up and Inquiries
Response

Site Visit Support

Investment Facilitation and
Aftercare

New Business Opportunities
Research

Private Partner

Project -Based Marketing

Project -Lead Presentations

Project -Specific Advertisements

Outward Mission Participation

Deal -Making Follow-up
Activities

Site Visit Reception

Deal Closing

User Operational Aftercare



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IZ PPP development: Lessons learned



- Publicly developed zones have followed a supply driven approach to development with rigid land release policies
 - Leading to general underperforming zones
- International IZ genesis in past 30 years is towards private sector development as best practice
 - Phased and market-driven development
 - Superior physical planning
 - Clear definition of roles
- PPP models have been successful at the international level in attracting private developers to zone programs:
 - Philippines
 - Thailand
 - Egypt



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IZ PPP development: Lessons learned



- There are advantages and disadvantages to PPPs under different transaction forms which require careful due diligence by the public partner
 - Ultimate platform of “go/no go” decision
- Industrial zone development process allows for private sector entry at different stages depending on combination of:
 - Strategic goals/objectives of public partner
 - Risk appetite of private partner
- Successful IZ PPPs should include:
 - Proper planning,
 - preparation of adequate documentation
 - Clear understanding of developers/users requirements



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Thank you