

Bangladesh
Private Sector Development
Support Project



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Enhancing Economic Zones

A Strategy for Economic Zones in Bangladesh

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- Why Develop Economic Zones in Bangladesh?
- How Have Bangladesh EPZs and Industrial Estates Performed?
- What are the Key Implications of Our Findings?
- What are the Main Strategic Options Available?
- What are the Key Decisions to be Made?
- Next Steps

Why develop economic zones in Bangladesh?

- International experience suggests two main benefits that apply to Bangladesh
 - **Zones can greatly accelerate FDI inflows and upgrade exports** if they succeed in establishing investment conditions superior to what is available in Bangladesh – and in existing zones
 - **Zones can benefit the entire economy** through economic linkages and the “demonstration effect”
- But zones are only **one tool** to support economic growth
 - Aimed at FDI and large domestic investments
 - Seek to promote large-scale, integrated operations
 - Zones need to be supported by complementary policies including land use, zoning, small-scale industries, infrastructure, transportation, etc.

Have these purposes been achieved by existing zones?

- While economic performance appears to be significant, true potential of both EPZs and IEs have not been realized
- BEPZA zones
 - 150,000 jobs and \$1.5 billion in exports 25 years after establishment
 - Have attracted FDI only in labor-intensive, first-generation industries
 - Real advantage is that they offer serviced land; foreign investors have few other attractive alternatives
 - Few linkages or spillovers with the rest of the economy
- BSCIC industrial estates
 - Not suitable for FDI or large domestic investors
 - Poorly maintained and managed (heavily subsidized)
 - Many locations chosen due to political considerations

International experience: Bangladesh is not unique!

Worldwide, most governments have turned to private zones and industrial estates (80% are in private hands)

Some examples of countries have made the transition to successful private zones include:

- **Dominican Republic:** Started with public EPZs but now private zones dominate (33 private) and command as much as 3X higher rents for their superior facilities and services
- **Kenya:** Switched to private zones in 1991 (now 37 private, 2 public), transformed KEPZA into investment promotion and facilitation body
- **Philippines:** PEZA reinvented in 1990s—halted all new public zones, and promoted private zones and industrial estates—today, 61 private zones generate \$30 billion in exports, employ 1.3 million, and attracted \$1.4 billion in FDI in 2005 alone

How did they do it?

- Clear policy decision and commitment from the highest levels of government
 - Clear definition of modern economic zones and industrial estates
 - Separation of concept from IEs for small-scale industries
 - Priority to private zone development and/or prohibition on further public zones
- Development of new economic zone legal and regulatory framework supportive of PPPs
- Reinvention of EPZ authorities or establishment of new bodies that regulate and promote but do not develop or operate zones
- Re-use of existing infrastructure for new zone development
- Upgrading of landuse and zoning policy frameworks

Implications of findings for an economic zones strategy

- Bangladesh's public-sector dominated, subsidized, enclave zones are unable to make the transition to private participation
- Not because it is a new concept, but because
 - Current legal and regulatory framework does not fully support them
 - Institutional structures are aimed at development and operation and lack skills and other resources to promote partnerships
 - Other policies are not fully developed or adequately enforced (e.g., land use, zoning) that undercut the market for private projects
 - A clear policy position is lacking
- Land is a major issue
 - Scarcity of land means that zones will require a public-sector champion who can proactively assemble land and package projects for private zones
 - Inadequate land use and environment policy and enforcement undercuts private initiatives

Main strategic options to go forward

- Option 1: Rehabilitate and commercialize existing properties
- Option 2: Privatize existing zones and implement new projects on PPP basis under existing regime
- Option 3: Option 2 plus modernization of legal, regulatory & institutional framework
- Option 4: Introduce a large-scale, contiguous SEZ
- Option 5: Introduce regional economic zone area with multiple projects

Option 1

Summary	Rehabilitate and commercialize existing properties
Policy Framework	No change
Institutional Framework	No change
Legal/Regulatory Framework	No change (would have to accommodate management contracting, probably through internal rule-making)
Physical Development Framework	Development responsibilities retained by government Operation/maintenance provided by private contractor(s)
Advantages	Low-risk strategy; possible improvement of management practices in existing zones
Disadvantages	Few tangible benefits, little economic development impact Lacks sustainability (maintenance)

Option 2

Summary	Privatize existing properties and implement new PPP projects under current regimes
Policy Framework	No change
Institutional Framework	No change
Legal/Regulatory Framework	No change (would have to accommodate privatization and PPP transactions, probably through internal rule-making)
Physical Development Framework	Projects identified and packaged by BEPZA and BSCIC Rehabilitation/development/operation/maintenance by private sector
Advantages	Harnesses private capital for zone development, management and services Quick win pilot projects as broader reform effort underway
Disadvantages	Public sector drives project identification Private participation deterred by legal/regulatory framework

Option 3

Summary	Modernize existing regime and privatize existing properties and implement new PPP projects under current regimes
Policy Framework	<p>Harmonize zone policy framework with international norms</p> <ul style="list-style-type: none">• Remove mandatory export requirement• Upgrade labor and environmental policies• Rationalize investment incentives• Streamline customs controls and licensing policies• Introduce robust zone site selection & designation criteria• Develop transaction framework for PPP zones
Institutional Framework	<p>Separate zone regulation from development & operations functions</p> <p>Create new zone regulatory body (or restructure BEPZA)</p> <p>Create new development corporation (or identify appropriate body) to hold public sector assets and identify land and package zone projects for private sector</p> <p>Eliminate Executive Cell</p> <p>Clarify BSCIC role in this and restructure</p>

Option 3 (continued)

Summary	Modernize existing regime and privatize existing properties and implement new PPP projects under current regimes
Legal/Regulatory Framework	New framework to unify public and private zones and enable new policy and institutional framework
Physical Development Framework	<p>Government responsible for identifying and packaging sites for private developers or facilitating identified sites</p> <p>Private sector can identify sites and seek zone designation based upon transparent criteria</p> <p>Privatization of existing zones is secondary priority</p>
Advantages	<p>Harnesses private sector for zone development</p> <p>Accelerates availability of suitable land</p> <p>PPPs enabled through appropriate framework</p>
Disadvantages	<p>Ambitious, requires longer time and focused implementation</p> <p>Requires strong and consistent government commitment</p>

Option 4

Summary	Introduce a large-scale, masterplanned, contiguous SEZ
Policy Framework	Requires same changes as Option 3, but focused on single zone (1,000 hectares)
Institutional Framework	Could operate under Option 3, but would require additional capacity in regulatory body
Legal/Regulatory Framework	Could operate under Option 3, but would require additional regulatory development
Physical Development Framework	Single Master Developer for large-scale SEZ; sub-developers for specific facilities
Advantages	Harnesses private capital for zone development Creates integrated complex with synergies & scale
Disadvantages	Few potential sites are available Potential developer interest in zone of this size is unknown Not enough competition created

Summary	Introduce a regional, multi-project zone program
Policy Framework	Significant policy liberalization including decentralization of some national functions to a regional SEZ agency
Institutional Framework	Requires new super-agency to regulate and administer the SEZ
Legal/Regulatory Framework	Requires new SEZ law and rules, much more encompassing in than other options
Physical Development Framework	Designate a very large scale area (hundreds of km ²) Undertake major pre-investment analyses Can host multiple masterplanned communities
Advantages	Most ambitious approach with greatest potential economic impacts and policy demonstration effects
Disadvantages	Requires major government understanding and commitment Significant analyses and longer implementation

Summary of options

- Rehabilitating existing properties is a low-risk strategy that also yields few tangible benefits (mainly focused on existing zones)
- Privatizing existing properties and developing PPP projects under the current regime unlikely to be successful, but focus on or more pilot PPP projects may show example of new approach
- Modernizing the policy regime while enabling new privatization and PPP transactions offers significant economic potential, but requires substantial government commitment
- Development of a master-developed contiguous SEZ may offer important advantages but has significant implementation requirements
- A regional, multi-purpose SEZ program would require sweeping administrative reforms that may not meet immediate objectives

Strategic objective: selecting an effect

Option 3, an aggressive development of new PPP projects under a revised zones policy regime, may strike the right balance between aiming at the kind of development that the PSDSP envisions while remaining sensitive to the difficulties inherent in pursuing economic policy reform in Bangladesh.

Option			Feasibility
1. Rehabilitate existing properties			
2. Privatize existing properties and implement new BOT projects under current regimes	Medium	Medium	Medium
3. Modernize regime and implement privatization, PPP, and private-sponsored projects	High	Medium	Medium
4. Introduce a master-developed, contiguous SEZ regime	High	High	Low
5. Introduce a regional, multi-project SEZ program	High	High	Low

How can the new regime be implemented?

- Government decision at the highest level and full commitment to reform actions
- Degree of success depends on ability to:
 - Carry out required policy and legal reform
 - Improved and re-engineer public administration
 - Invest in public infrastructure
 - Harness private sector efficiencies in development and operations
- Degree of success depends on degree of commitment
- Specific strategies for:
 - Policy development
 - Institutional framework development
 - Legal and regulatory development
 - Physical development
- Detailed, time-bound action plan

- Make decision in favor of new policies at the highest level
 - Priority on promotion of privately developed and operated zones and prohibition on new public zones
 - Restructuring of the zone and industrial estate institutional structures
 - Clarity on role of BSCIC and IEs for small-scale and cottage industries
 - Liberalization of zone regime with international norms
- Assemble a broader public-private zone coalition to fine-tune and implement strategy
 - Reach consensus on a new zone/IE incentive and market access, licensing, customs, labor, environmental, zone selection/designation policies at core of new legislation
 - Quickly resolve the pending Korean EPZ issue
 - Design PPP transaction framework for implementing pilot private projects
 - Identify a mechanism for implementing one or more immediate pilot projects
 - Define transition plan and develop a supporting communications campaign

Institutional framework strategy

- Establish new zone regulatory agency
 - Carry out a financial assessment of BEPZA and its properties
 - Make a decision on restructuring BEPZA or creating new body
 - Develop organization structure, functions, staffing and other parameters of new zone regulator
- Establish new economic zones development corporation
 - Develop organization structure, functions, staffing and other parameters
 - Facilitate transfer of zone properties and related assets
 - Provide support in land identification and management
 - Provide support in packaging PPP zone projects
- Provide support to restructure BSCIC in line with its role
- Develop and institutional transition plan
- Implementing a capacity building program

	Current Regime	New Regime
Regulator	<ul style="list-style-type: none"> ▪ BEPZA ▪ Executive Cell ▪ BSCIC 	<ul style="list-style-type: none"> ▪ Economic Zones Agency
Landlord	<ul style="list-style-type: none"> ▪ BEPZA ▪ BSCIC ▪ Private EPZ owners 	<ul style="list-style-type: none"> ▪ Economic Zone Development Corporation ▪ Private property owners
Developer	<ul style="list-style-type: none"> ▪ BEPZA ▪ BSCIC ▪ Private EPZ owners 	<ul style="list-style-type: none"> ▪ Private concessionaires (BOT, etc.) ▪ Private developers
Operator	<ul style="list-style-type: none"> ▪ BEPZA ▪ BSCIC ▪ Private EPZ owners 	<ul style="list-style-type: none"> ▪ Private concessionaires (BOT, etc.) ▪ User cooperatives ▪ Private developers ▪ Management contractors
Tenant	<ul style="list-style-type: none"> ▪ Private enterprises 	<ul style="list-style-type: none"> ▪ Private enterprises

Legal and regulatory strategy

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- Draft a new Economic Zones Law of 2006
- Draft implementing rules pursuant to the Economic Zones Law
- Develop mechanisms to package and develop zone properties on a PPP basis
- Draft transaction documents for pilot projects

- New zones
 - Carry out a market demand analysis for new zones and prospective developers
 - Identify areas best suited for new zone development and inventory lands
 - Develop zone selection and designation criteria
 - Develop landuse planning, zoning, design, environmental standards for these areas
 - Design a medium-term infrastructure development program
 - Carry out a feasibility assessment for pilot projects
- Existing zones/estates
 - Evaluate financial position and commercialization/privatization scope
 - Determine whether the existing industrial estates should be upgraded or expanded

- Finalize draft strategy
- Develop **Action Plan** for each Strategy Area, clearly defining:
 - Actions to be undertaken
 - Responsible party for completing each action
 - Timing of initiation and completion for each action
 - Concrete indicator that each action has been achieved



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