



Sustainable Industrial Areas
INTERNATIONAL CONFERENCE

Addis Ababa | Ethiopia | 8th - 10th of April 2019

Planning & Financing Industrial Parks

International Conference

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Industrial parks are now one of the most popular tools for governments to accelerate economic transformation

- Globally, use of Special Economic Zones has boomed – from 176 in 1986 to around 4,300 in 2015
- There are now at least 60 major industrial parks being in concept, planning or development in East Africa
- Increasingly ambitious in scope, scale and industrial sophistication

The construction of so many large-scale parks carries great promise, but also some risks

- Strain on public sector balance sheet
- Failure to reach full occupancy of parks
- Unsustainable commercial models
- Operational and environmental issues around utilities
- Social issues
- Confusing policy and regulatory arrangements

How do African Industrial Parks thrive in an era when they are no longer so ‘special’?

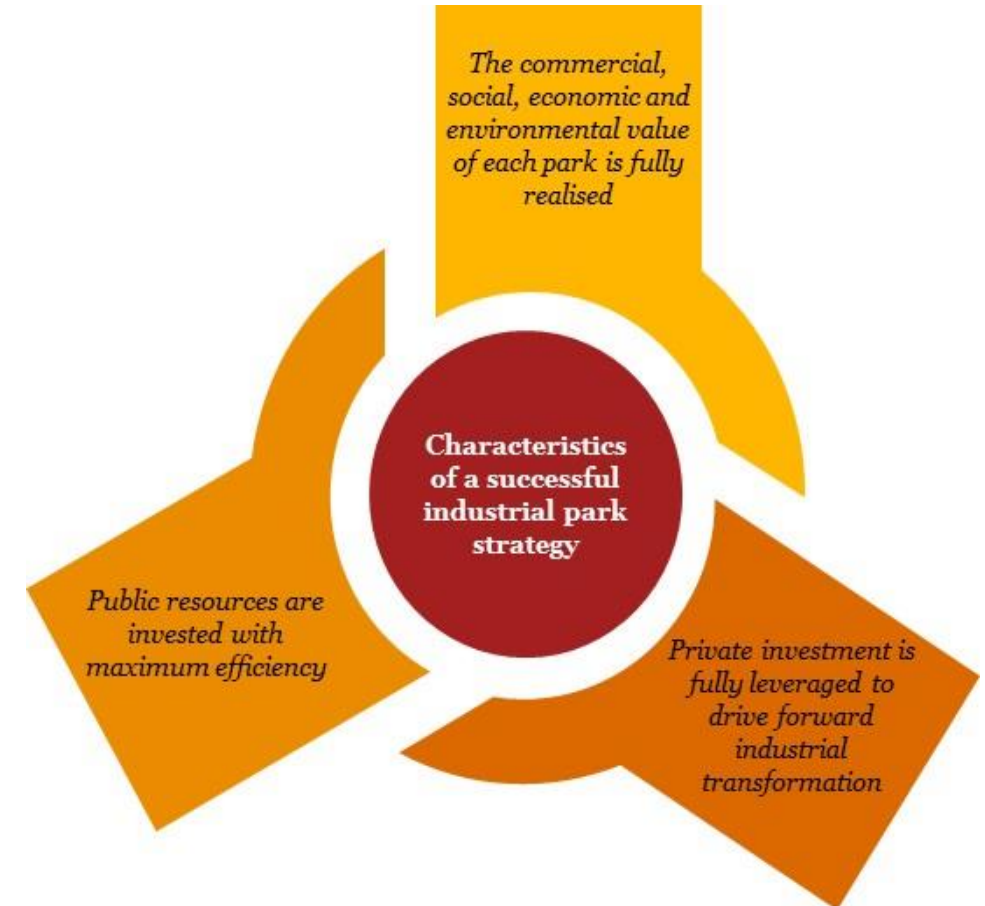


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Our report set out to provide practical guidance to achieve three main policy objectives for governments

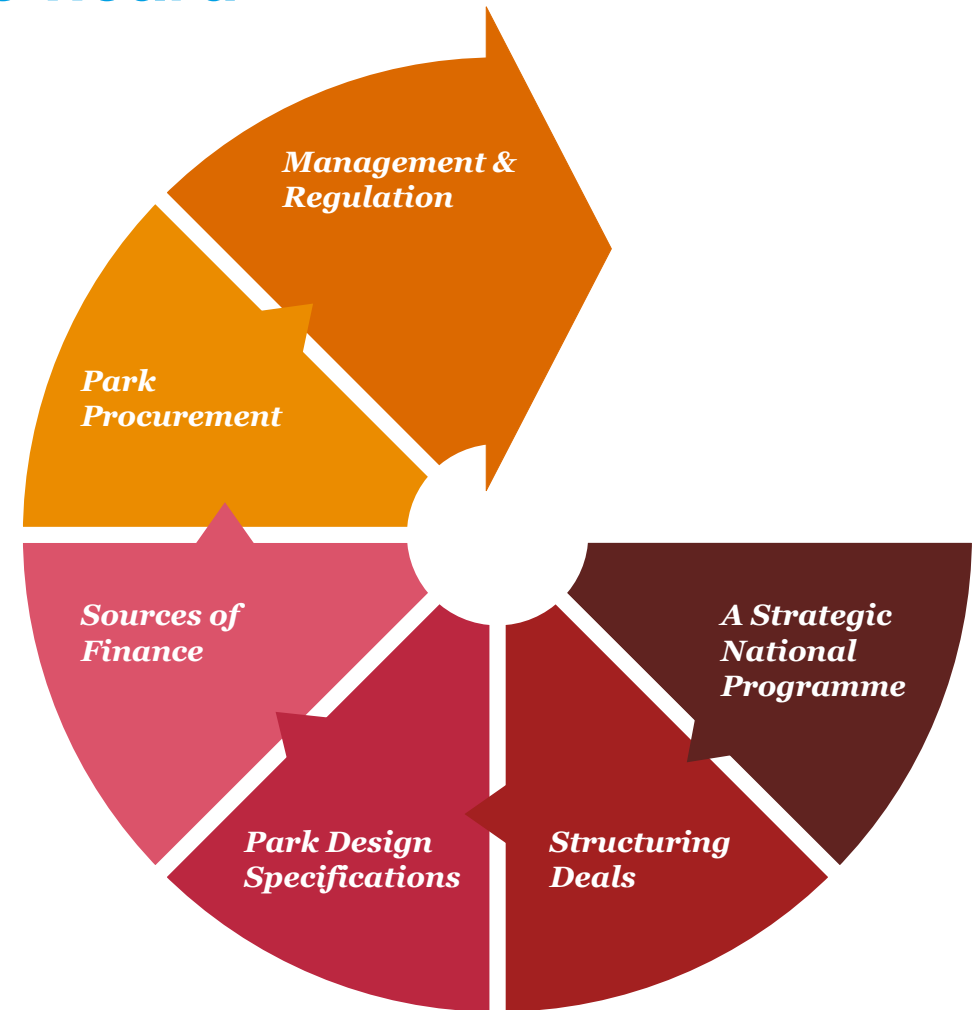
- Maximise the development potential of industrial parks
- Make best use of public sector finance – get the best deal for the state
- Leverage the full potential of the private sector to finance development of parks





The report focusses on practical recommendations for policy officials, drawn from what we heard

- Highly practical non-academic approach – listening
- Reflected wide variety of views but with private sector emphasis
- Asking ‘how’ to do it well – not revisiting the ‘why’
- 20 concrete recommendations for future park development





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A strategic national programme

Developing a strategic national programme of industrial park development



Park development should be grounded in an agreed, cross-governmental strategic national programme

Governments should have or develop an agreed national programme for industrial parks

The programme should catalyse wider reform efforts and situate parks as one tool among many

Cross-government and private sector consultation groups are needed to co-ordinate implementation

Government should set out its thesis about the respective roles of the public and private sectors

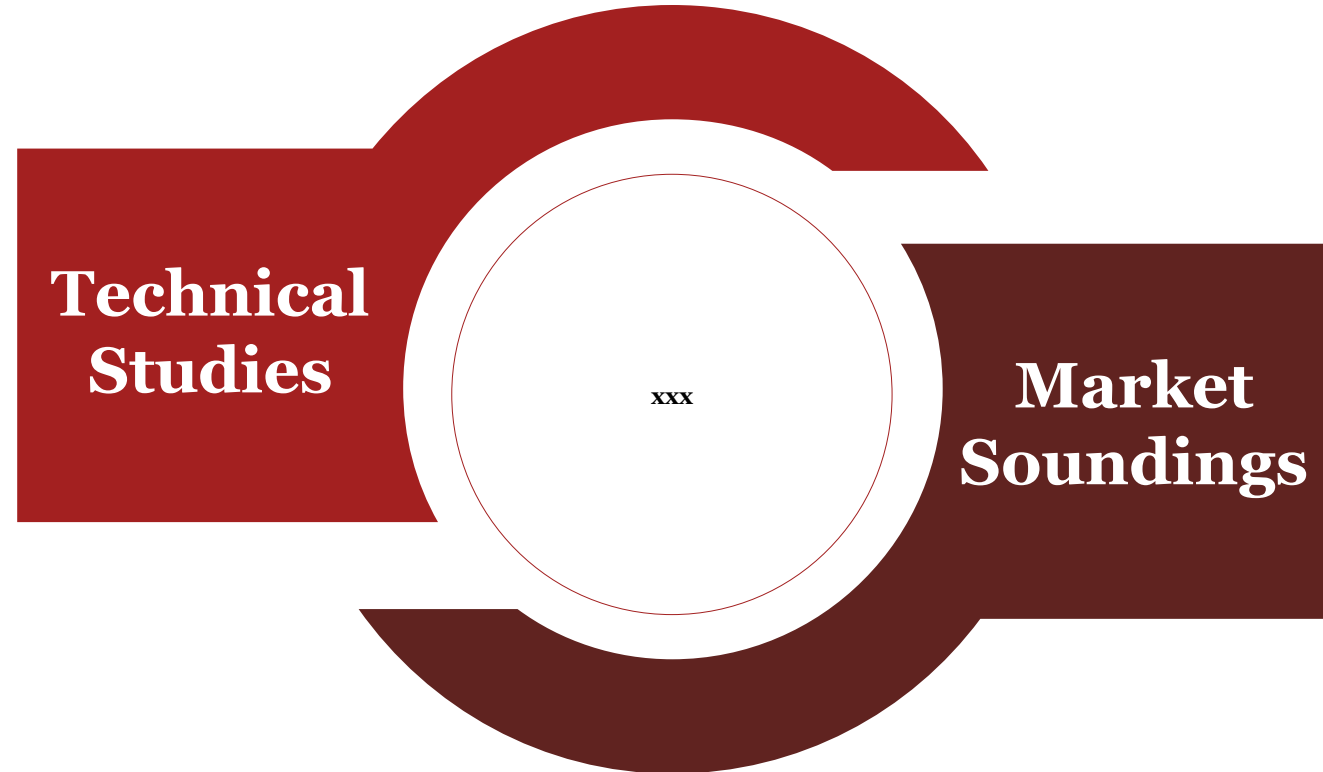


There is a serious risk of creating an oversupply of serviced industrial land on current plans

- Development plans should be grounded in credible forecasts of demand for serviced industrial land
- This is difficult, because governments must consider a range of political and regional issues
- Nevertheless our very high-level analysis suggested a high risk of ‘white elephant’ parks

	Risk of oversupply
Country 1	<i>Moderate</i>
Country 2	<i>High</i>
Country 3	<i>High</i>
Country 4	<i>Very High</i>

Minimum requirements at the pre-feasibility stage help to filter out poor quality projects from the national plan



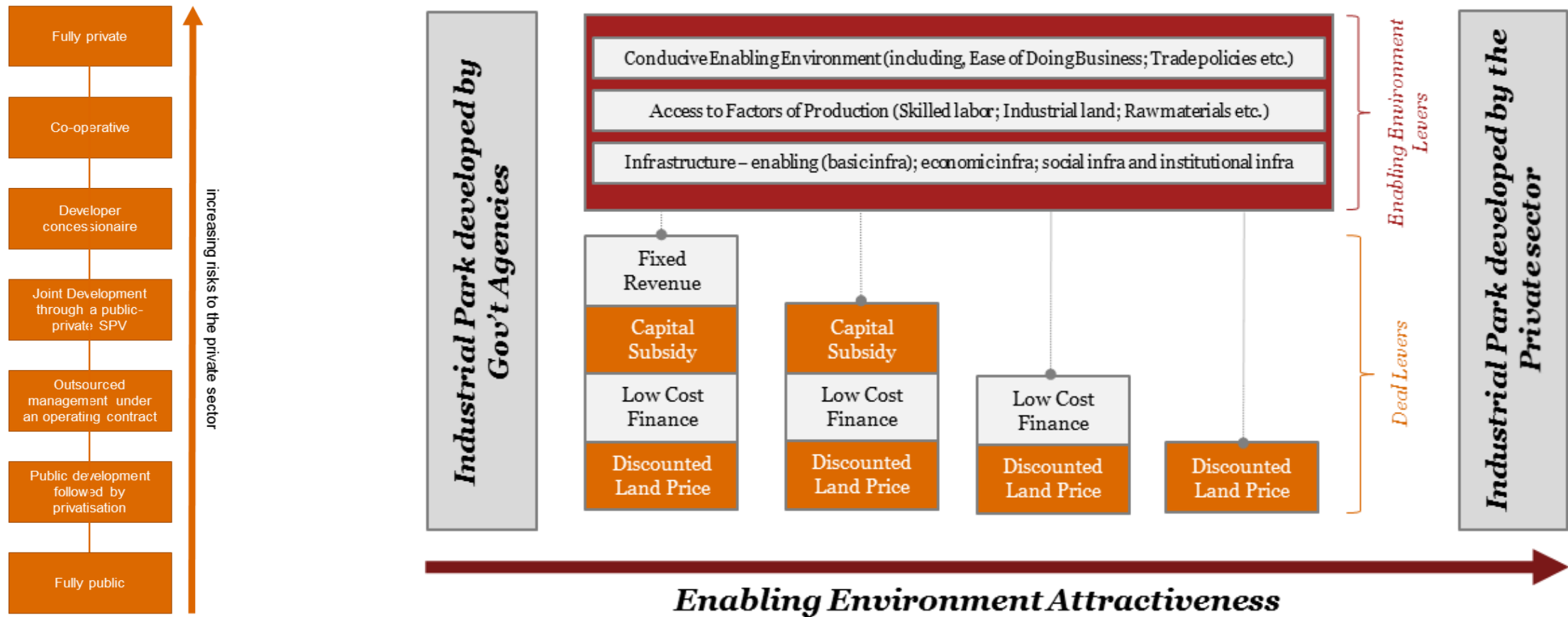


Structuring park projects

Selecting the right industrial park development structures and optimising the public-private partnership



There is no single 'correct' model for parks – economic rationale and transparency are what matter





There are numerous advantages to phasing and subdividing large-scale park developments

- A majority of industrial parks surveyed across Africa used phasing over very extended development periods
- Rapid roll-out parks like Hawassa should be seen as the exception, not the rule
- Phasing helps balance cash flows, focus on quality not quantity, and be demand-led instead of supply-led
- Investor confidence critical – and fragile
- Parallel plot development useful to drive competition



Park design specifications

Developing a park fit for occupation



Finding an anchor investor is more important than specialisation in attracting tenants to occupy the park

- Specialisation rarely necessary – in particular various light manufacturing can be combined
- Anchors matter more and specialisation can be built around them
- Exclusionary approach may yield better results



Developers should focus on a range of ways in which they can enhance the operating environment for tenants

- Reducing factor costs
- Technical and soft skills training
- Maximising integration with the local economy
- Quality affordable housing
- Better co-ordination with off-park municipal authorities particularly around utilities
- Location is key

Pre-built sheds should be as limited as possible, designed in consultation, and contracted smartly

- Found four main categories of ‘shed strategy’
- Where pre-build required, design in consultation with intended private sector occupants

High environmental and social standards are a market differentiator for international investors and tenants

- High standards are increasingly critical to differentiate a park in what is becoming a 'crowded market'
- Report summarises a variety of frameworks including the Eco-Industrial Parks framework and handbook
- Need to go beyond zero liquid discharge!
- Monitoring is critical



Governments should stipulate minimum requirements for a Feasibility Study (and Business Case)

- Bringing it together – requires a ‘template’ approach to carrying out feasibility stage planning and design
- Recommend governments stipulate minimum requirements to ensure consistency
- Report details what we think should be included
- Recommend establishment of a dedicated PMO for each park at pre-feasibility stage because of complexity
- Don’t underestimate cost of doing it well



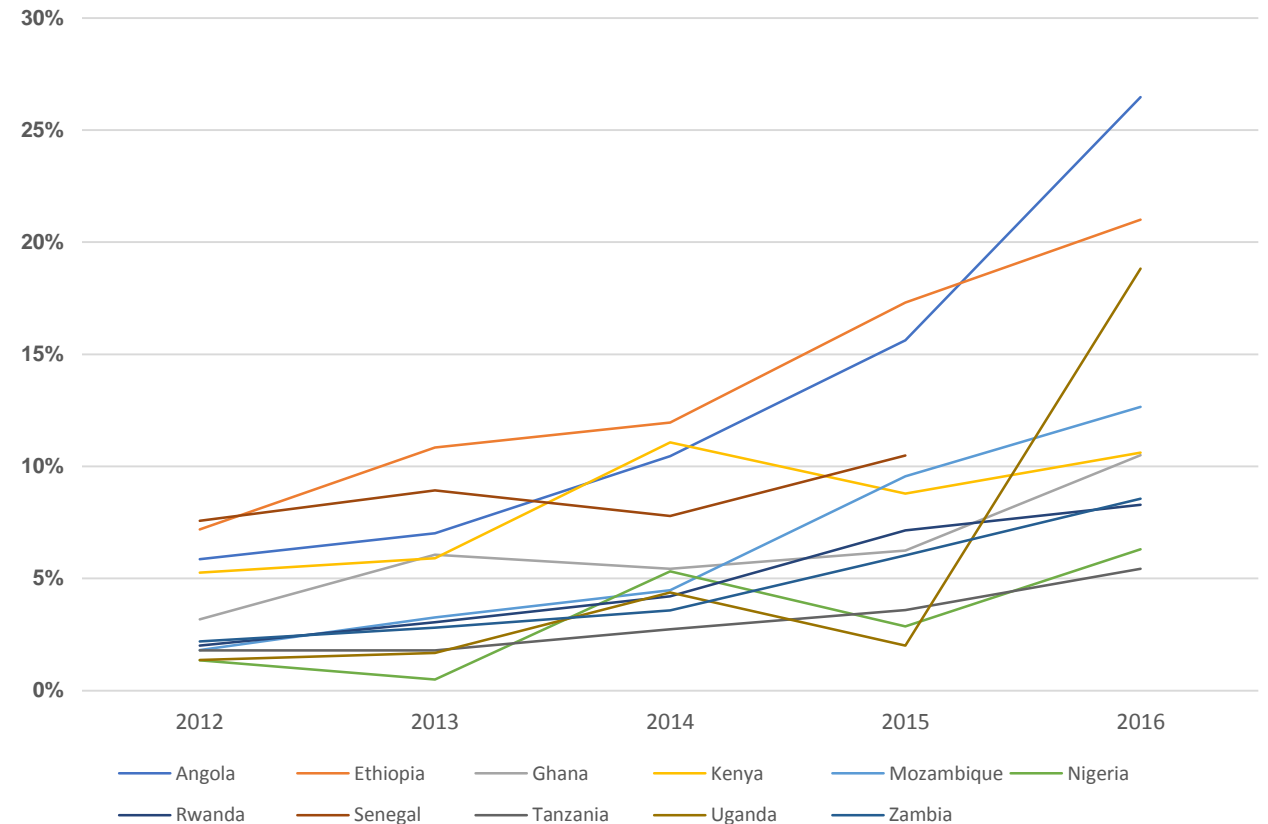
Sources of finance

Unlocking the right development finance at the right price



Parks development is expensive and risky, and many governments are at or near their debt capacity limits

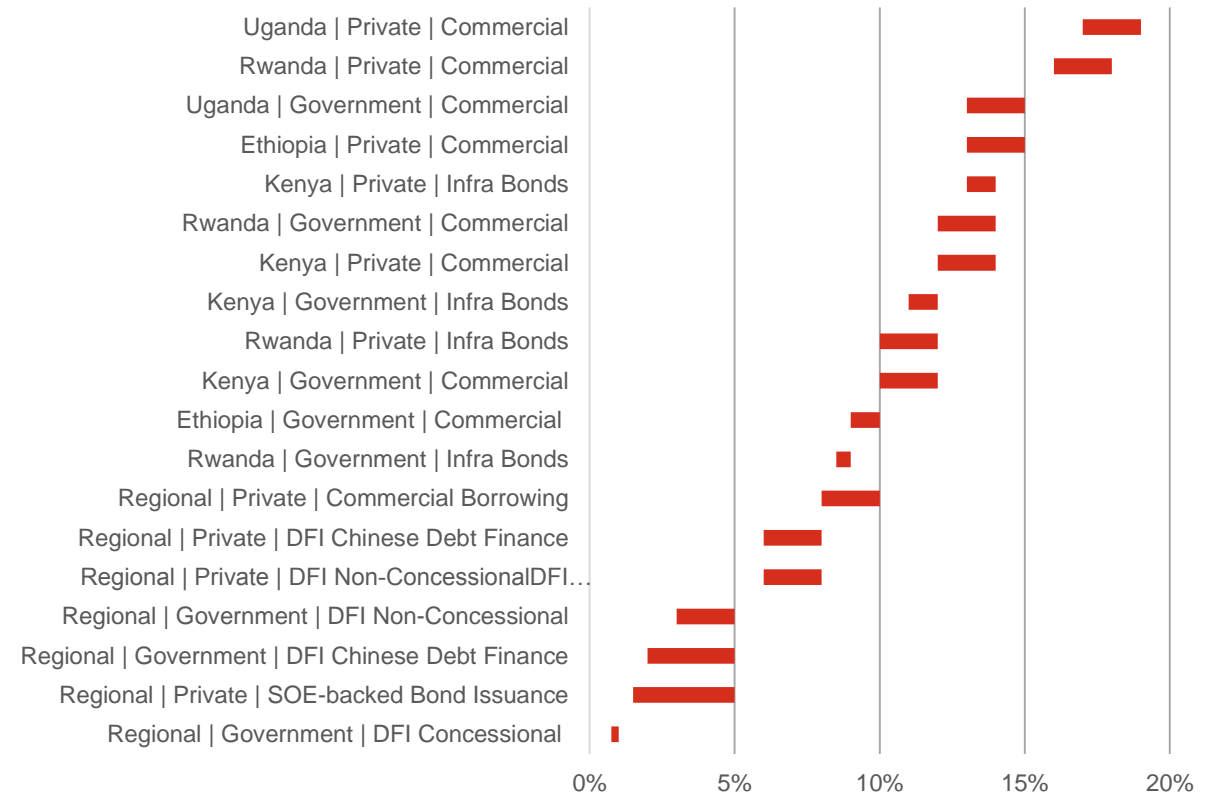
- Park development is expensive
- Due to debt constraints, financing parks is increasingly unattractive for governments
- So governments turning towards private investment as the answer





Private sector investment has advantages but investors are sceptical and commercial viability is unproven

- Investors have been ‘burned’ by high profile park investments in the past
- Even DFIs are very wary of investing into this asset class
- One of the reasons it is so hard is the differential in financing costs





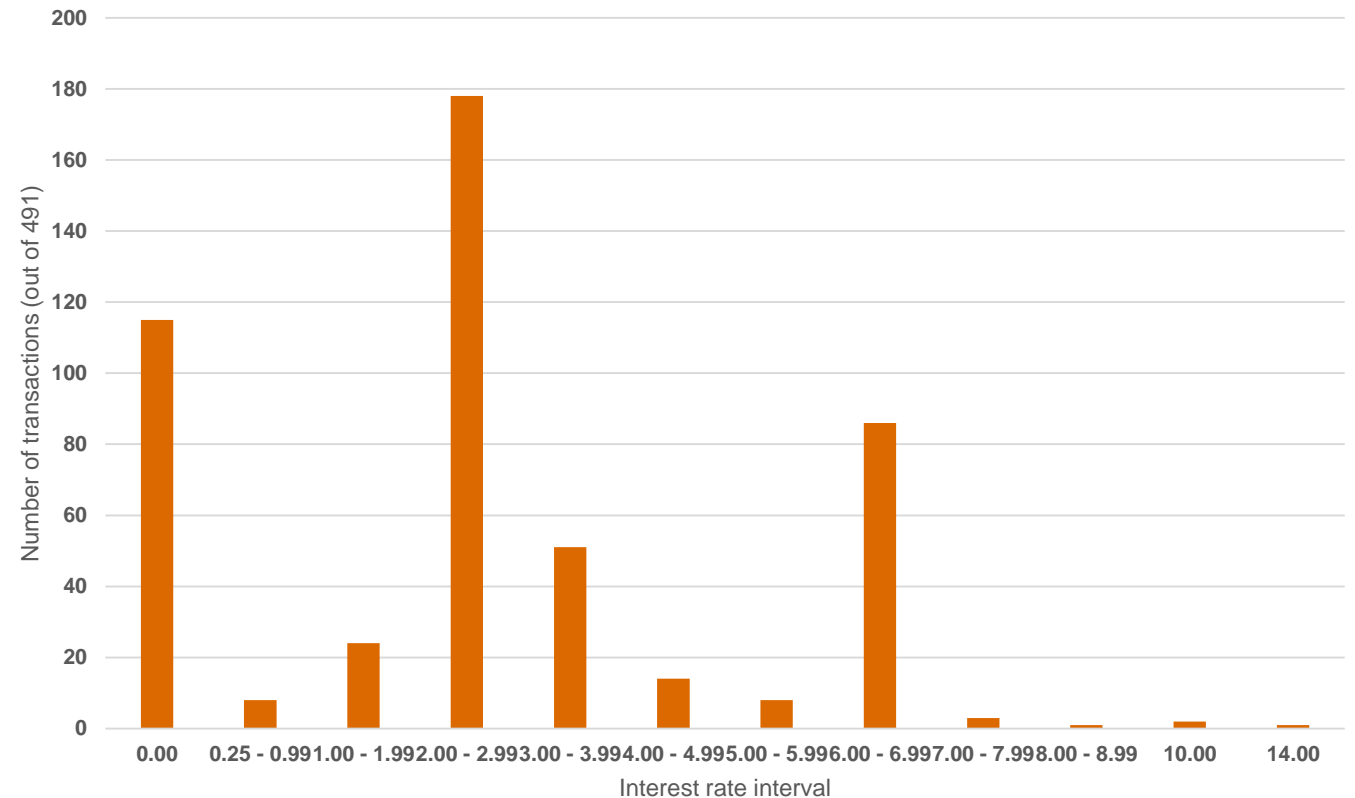
This is why a range of financial models is required to sustain private sector investment into industrial parks

- Absorption of high-impact, standalone infrastructure costs through grant finance
- Blended finance structures that combine concessional finance with commercial finance
- Corporate balance sheets of major multinationals and Chinese SOEs
- Deepening local currency pools of capital e.g. national development banks, stock exchanges
- Enterprise-led park development



What about Chinese finance?

- There is not ‘one story’ about Chinese financing of infra in Africa
- Deals clearly range from the strategic to the commercial
- Similar variation in other terms and approaches to default





An effective way to reduce financing costs is to reduce non-financing costs and increase returns...

- Benchmarking of costs against available data
- EPC participation in the final SPV structure
- Shared participation in land value appreciation
- Mixed use development
- Sustainable revenue models



Procuring parks

Deriving best value through the key procurement processes for the preparation and development of the park



...the best way to do this is to invest time and resource upfront to get the planning and procurement right

- Report lists the key stages of planning and procurement and indicative cost ranges
- Competitive procurement of developers and EPC contractors is critical – as is transparency
- Recommend the adoption of SDAs
- Continuous co-ordination and consultation



Managing and regulating parks

Finding the optimal institutional arrangements for ongoing management and regulation of parks after construction

We are seeing a trend away from state-led management of industrial parks in Africa



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- Seeing a trend away from state-led management of parks
- Overall this is to be welcomed – a market of professional real estate developers likely to deliver better results

There is significant variation in approaches to institutional arrangements across African economies

- Four countries, four models
- No single answer, but three principles
- Dedicated PPP units

Role	Rwanda	Uganda	Kenya	Ethiopia
Industrial Park Policy	MINICOM	Ministry of Trade, Industry and Co-operatives	Ministry of Industry, Trade and Co-operatives	Ethiopian Investment Board
Investment Promotion	RDB	UIA	KenInvest	EIC
Public Park Development	MINICOM District Councils PEZ	UIA (Industrial Parks) UFZA (EPZs)	EPZA (Athi River only)	IPDC
Regulatory Agency	SEZAR (within RDB) (Industrial Parks)	UIA (Private Parks) UFZA (EPZs)	SEZ Authority EPZ Authority	EIC



What next?

Making best use of the findings of the report

There is now an opportunity to maximise learning between governments, building on this report

- Sharing the report
- Sharing the accompanying financial models
- Participating in a peer-to-peer learning forum for park agencies and developers
- Health check of national and park strategies

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Thank you!