



## **Alleviating Disparities in LDCs Through Industrial Estates**

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# Agenda

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- About ICD
- LDCs – Macro Economic Review
- What would be the sustainable growth path ?
- What role could SEZs play to start the diversification journey?
- How to start the targeted approach?
- Concluding Remarks



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## About ICD

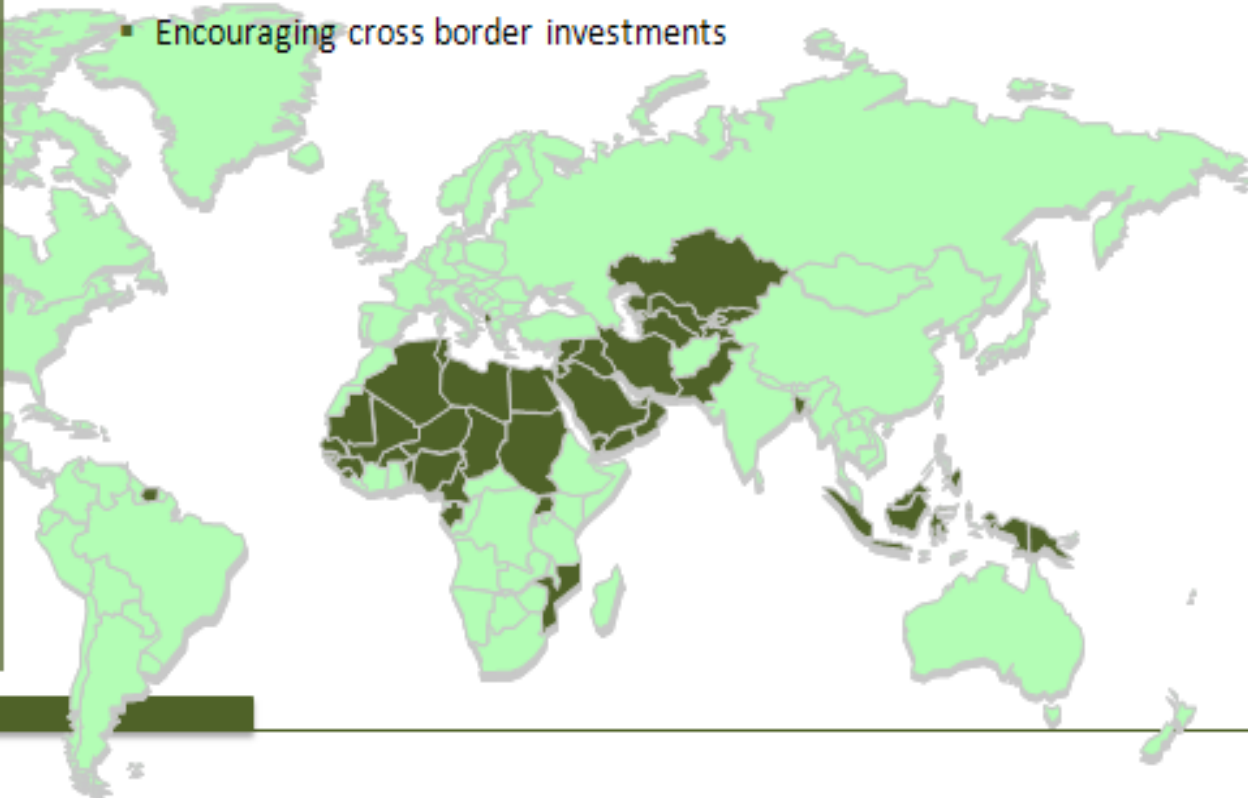
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# Overview: Mission and Vision

- The Islamic Corporation for the Development of the Private Sector (ICD), is the private sector arm of the Islamic Development Bank (IDB), a multilateral development finance institution
- IDB, headquartered in Jeddah, Saudi Arabia, is a USD 50bn+ bank with 56 member countries mainly located in Asia, Middle East and Africa
- ICD was established in 1999 with an authorized capital of USD 2bn and a membership of 49 countries. It is 50% owned by IDB, 20% by public financial institutions and 30% by the member countries

- **The Vision of ICD** is to be a major player in the development of promotion of the private as a vehicle for economic and social growth and prosperity in Islamic countries
- **The Mission of ICD** is to complement the role played by IDB through
  - Providing Islamic financial services and products
  - Promoting competition and entrepreneurship in member countries
  - Advising governments and businesses
  - Encouraging cross border investments



# Strategy: Generate Opportunities Across Product Lines

ICD is leveraging its strength across the member countries through its locally knowledgeable coverage teams to source “good” opportunities across the multiple front-end business lines of ICD

## Channels

- The objective is to develop Islamic Financing Channels by promoting and developing financial institutions
- The focus is to develop the market by establishing and investing in the following type of institutions through control and non-control positions:
  - Islamic Banks
  - Ijara Companies
  - Takaful Companies
  - Mortgage Companies
- ICD will also provide Lines of Financing to institutions in order to meet common business and social objectives

## Direct Investments

- The objective is to fund private sector businesses in order to provide capital to expand and grow companies
- Equity Financing:
  - Musharaka (Equity)
  - Quasi Equity
  - Equity Funds
- Term / Project Financing:
  - Installment Sale
  - Ijara (Leasing)
  - Mudaraba (Profit Sharing)
  - Salam (Deferred Delivery)
  - Istisna'a (Manufacturing)
  - Murabaha (Cost Plus)
  - Purchase and Lease Back
  - Diminishing Musharaka

## Advisory

- The objective is to provide “world class” investment banking services to governments, portfolio companies and other companies through:
  - Merger and Acquisition
  - Initial Public Offering
  - Equity Capital Raising
  - Debt Capital Raising
- ICD provides Technical Assistance to countries and projects through its network of consultants, focusing on:
  - Restructuring
  - Islamic Finance
  - Special Economic Zones
- ICD focuses on structuring, raising and managing private equity funds in partnership with investment teams



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## LDCs – Macro Economic Review

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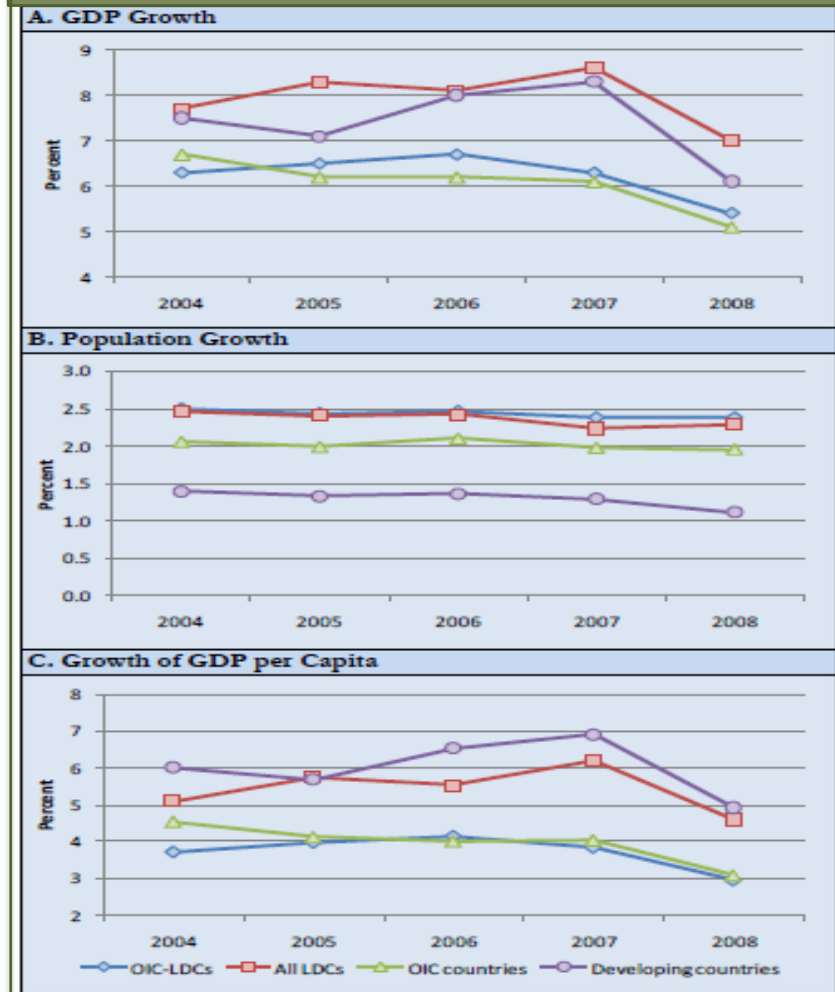


# Over all GDP growth of LDCs is encouraging , but the disparity gap between LDCs at regional level and compared to developing countries is widening

- LDCs were not able to grow enough over the level of their population growth to attain same level of improvement in standard of level of developing countries
- Post crisis growth figure however, reflects a positive recovery with 3.5% GDP growth for SSA and 5.5% for Asian LDCs in 2009
- The difference in African vs. Asian LDCs in past growth and recovery rate, despite similar population growth rates may be due to regional distribution and geographical handicaps.

Source: Economic Problems of the Least Develop and Land Locked OIC Countries, SESRIC , 2009

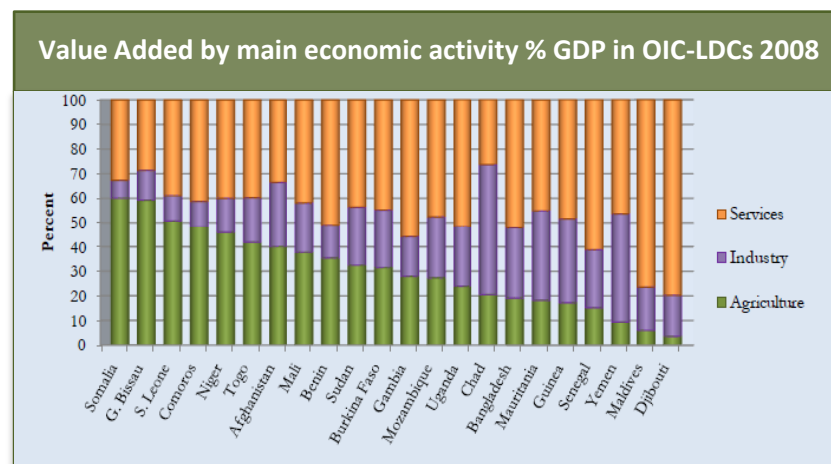
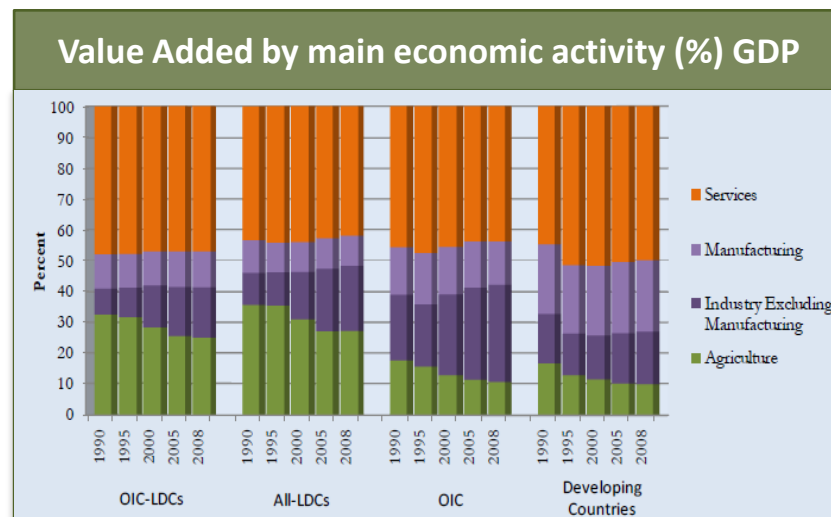
Key growth indicators of LDCs 2004-2008



# A key differentiator between the economic structure of LDCs vis-à-vis DCs is the diversification towards valued add manufacturing

- Compared to developing countries average, agriculture sector remains significantly higher indicating the agricultural activities remains major source of income in LDCs
- With slight reduction in services sector, the main share of agricultural decline went to industrial sector
- Industrial sector growth comes mainly from production of oil, gas and minerals.
- Manufacturing constitutes a minor economic activity that remained almost stagnant over the last decade with 9.8% share in 2008 compared to 23% for developing countries

Source: Economic Problems of the Least Develop and Land Locked OIC Countries, SESRIC , 2009





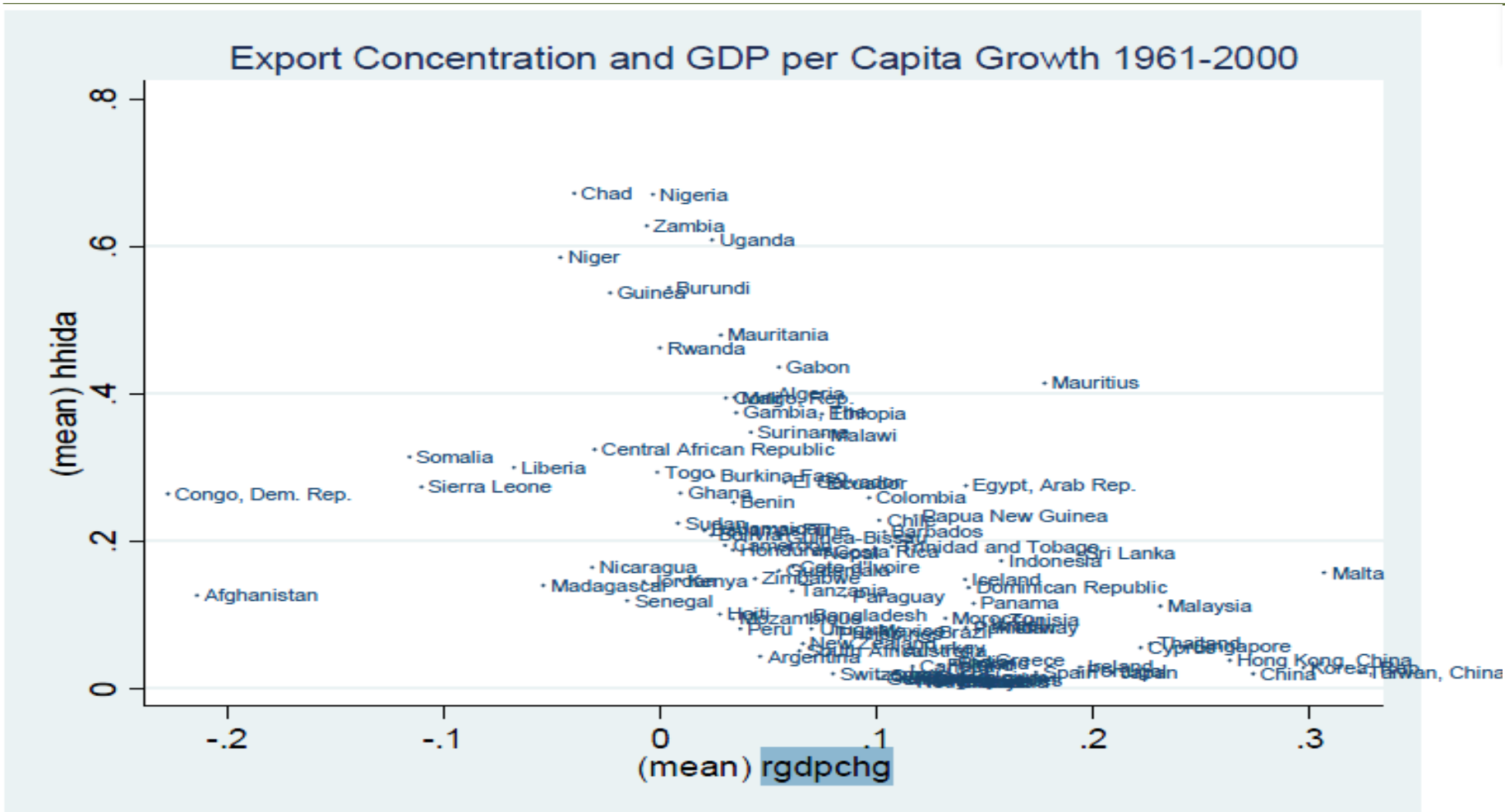
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**What could be the sustainable growth path ?**

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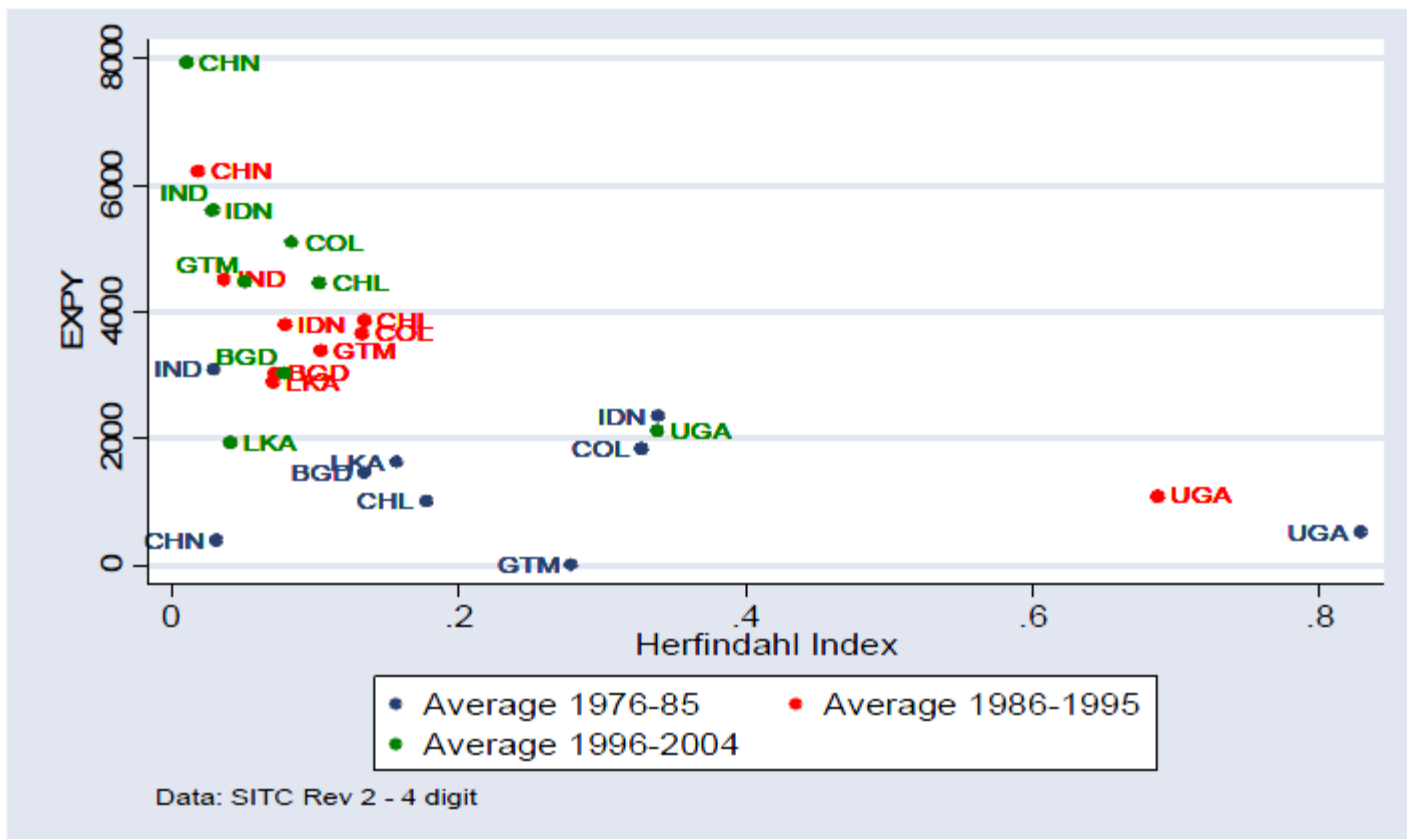
There is a positive relationship between level of diversification and GDP per capita growth. Most LDCs are lagging on both indicators.



Source: <http://www.growthcommission.org/storage/cgdev/documents/GlobalTrends/Presentation%20Hesse.pdf>



# The Cases of Uganda and Chile demonstrates that multiple routes exists for diversification and growth of exports. Services exports is also important.



EXPY is a dollar value score that measures the income level of a country's trade and is broadly consistent with GDP per capita  
 Source: Export diversification and competitiveness in developing countries, V. Chandra, J. Boccardo and I. Osorio, March 2007



# With the increasing global competition, the impediments to exports diversification are becoming more challenging.

The global market is becoming more competitive, demanding and fast paced. LDCs and their international partners need to deal with impediments to sustainable export diversification with urgency and focus on high impact intervention

## Enabling Environment

- Market reforms
- Physical Infrastructure
- Institutional environment
- Access and cost of finance
- Social infrastructure

## Sector Specific

- Comparative advantage
- Skilled Labor
- Technology content
- Cluster support

## Market Access

- Preferences in developed markets
- Protection and subsidies
- Product Standards
- Regional trade agreements
- Regional trade related infrastructure
- Export and investment promotion



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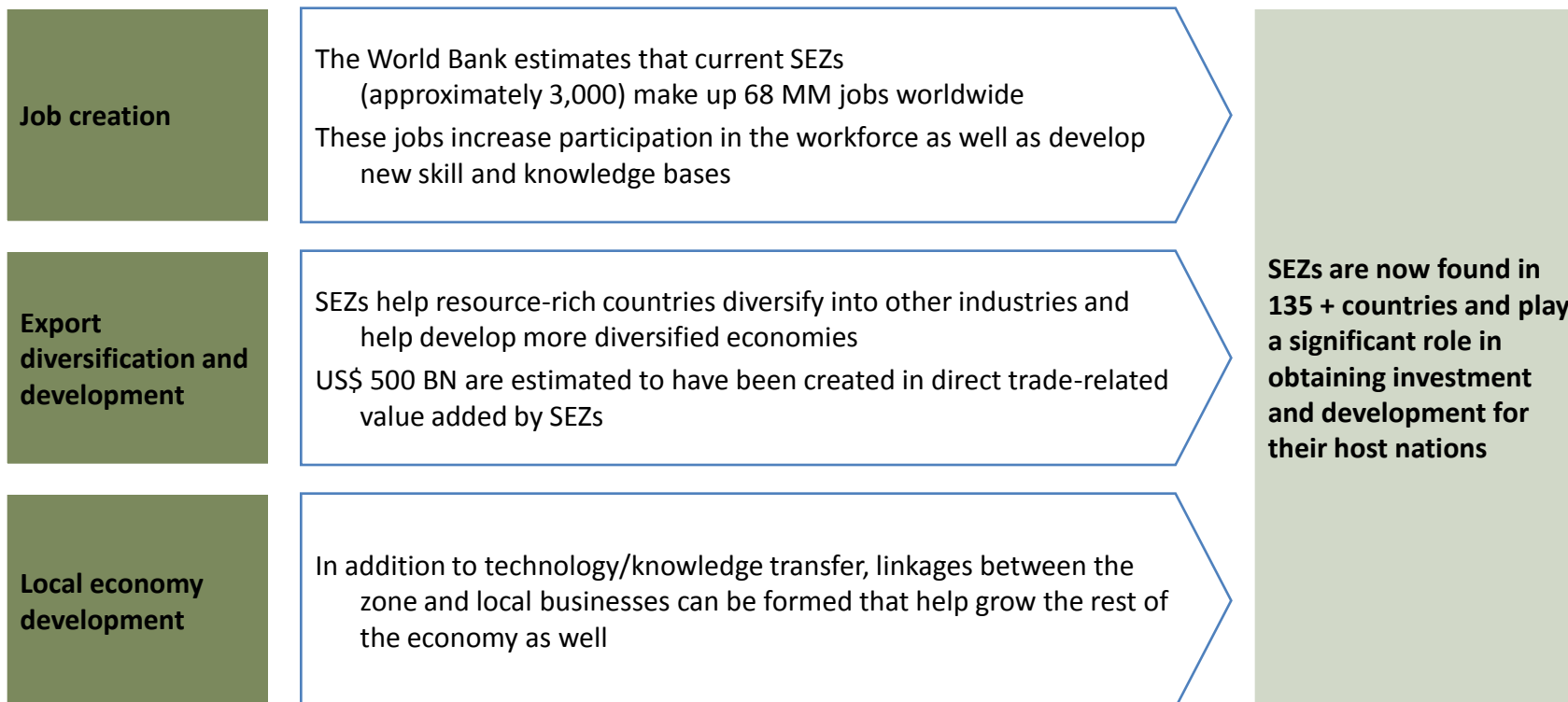
**What role could SEZs play to start the diversification journey?**

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# SEZs are an important strategic tool for LDCs to develop and diversify economies and stimulate foreign direct investment

SEZs have led to significant economic development and value-creation



Source: "Special Economic Zones Performance, Lessons Learned, and Implications for Zone Development" FIAS and World Bank, April 2008



# Studies show that SEZs have a positive impact on the socio-economic development of countries

## History of development of SEZs in Mauritius

**1960s:** Development Certificates Programme launched with almost no success

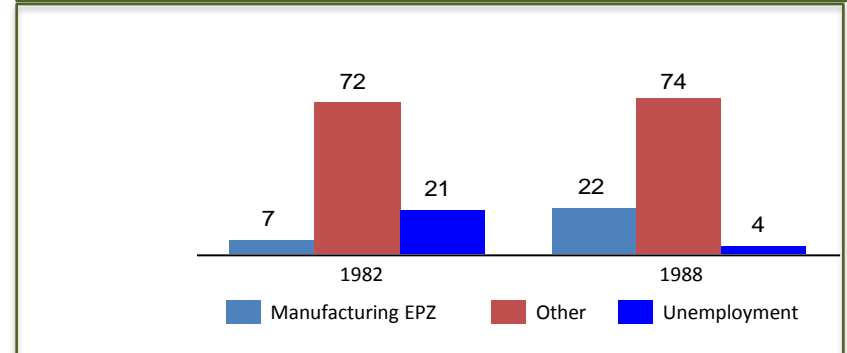
**1970:** Export Processing Zones law passed

**1970s:** Limited success of EPZ because of global downturn and sugar boom focusing resources on this commodity

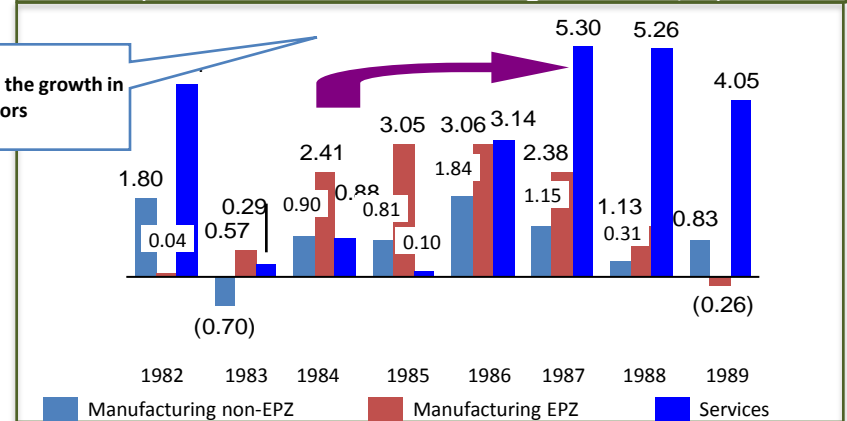
**1980s:** Measures are taken to re-launch EPZs  
 Stabilised macro-economic environment  
 Creation of Mauritius Export Development and Investment Authority (1984)  
 Abolition of men's minimum wages in EPZ  
 Tax holiday extended from 10 to 20 years  
 Infrastructure improvements.

Source: Oliver Wyman, 2010

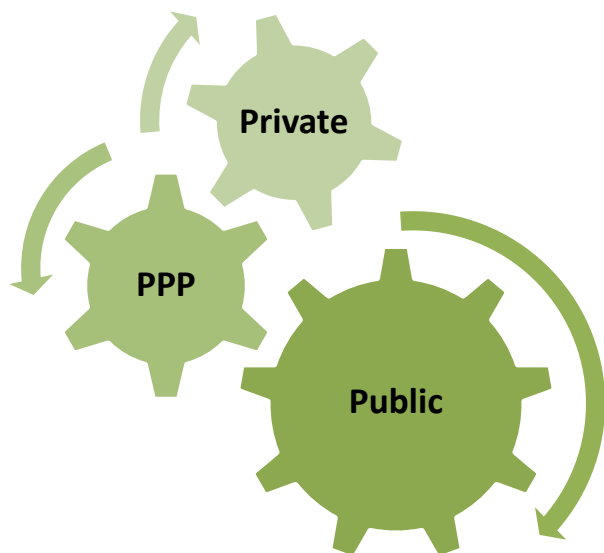
## Reduction of unemployment (Population employment, %)



## Country-wide Economic growth (Sectoral contribution to GDP growth rate, %)



# Targeted interventions such as SEZ projects could provide conducive platforms to address the enabling environment and sector constraints



## Public Generic Interventions

- Typical macro and micro strategies to generate medium to long term programs
- Top down approach trying to improve overall investment climate for private sector and FDIs
- Policy and incentive decisions might change due to political conditions
- Demanding for capacity and integration across broad areas and government agencies

## Targeted PPP interventions

- **Set up of Special Economic Zones is an attractive targeted intervention with high potential impact on export diversification**
- Can be designed as PPP based integrated industrial estate projects to benefit from private sector capabilities and efficiencies
- Capable of creating significant impact due to scale of investment and involvement of public sector
- Capable of mobilizing more sources of financing
- Could have spin off effect on multiple economic sectors

## Private Sector interventions

- Project based interventions by local entrepreneurs, business groups or foreign investors
- Opportunistic in nature and hence may not align with country's industrialization agenda in priority sectors.
- Target short term investment horizon especially in countries with high political risk and poor investment environment
- Seek privileged access to senior public officers to secure government support and facilitation





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**How to start the targeted approach?**

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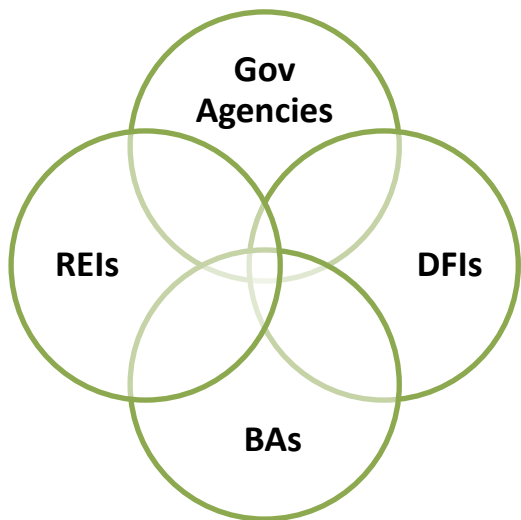
## In adopting SEZs as a tool for export diversification and market-based economic growth, classical approach of SEZs also need to evolve

	Classical Approach	Modern Approach
<b>Concept development basis</b>	Comparative advantage political motivations	Optimized communication and collaboration within and across clusters, Locally and globally
<b>Target market</b>	Export market, mainly developed economies	Local and export markets
<b>Policy Objectives</b>	Income growth, efficiency, job creation and FDI	Spatial equity, efficiency and capabilities, competitiveness and job creation
<b>FDI Attraction Instruments</b>	Incentives schemes, business aid and physical infrastructure	Local growth, regional economic integration, business environment and physical/social infrastructure
<b>Logistical requirements</b>	Easy access to international transportation	Easy access to multi-modal and intermodal transportation and logistics capabilities
<b>Sector focus</b>	Undifferentiated industrial development on a first come, first serve basis	Zone catering to specific needs of an industry or industries and may extend to commercial and social components
<b>Development model</b>	Public Sector role is dominant	Public Private Partnership

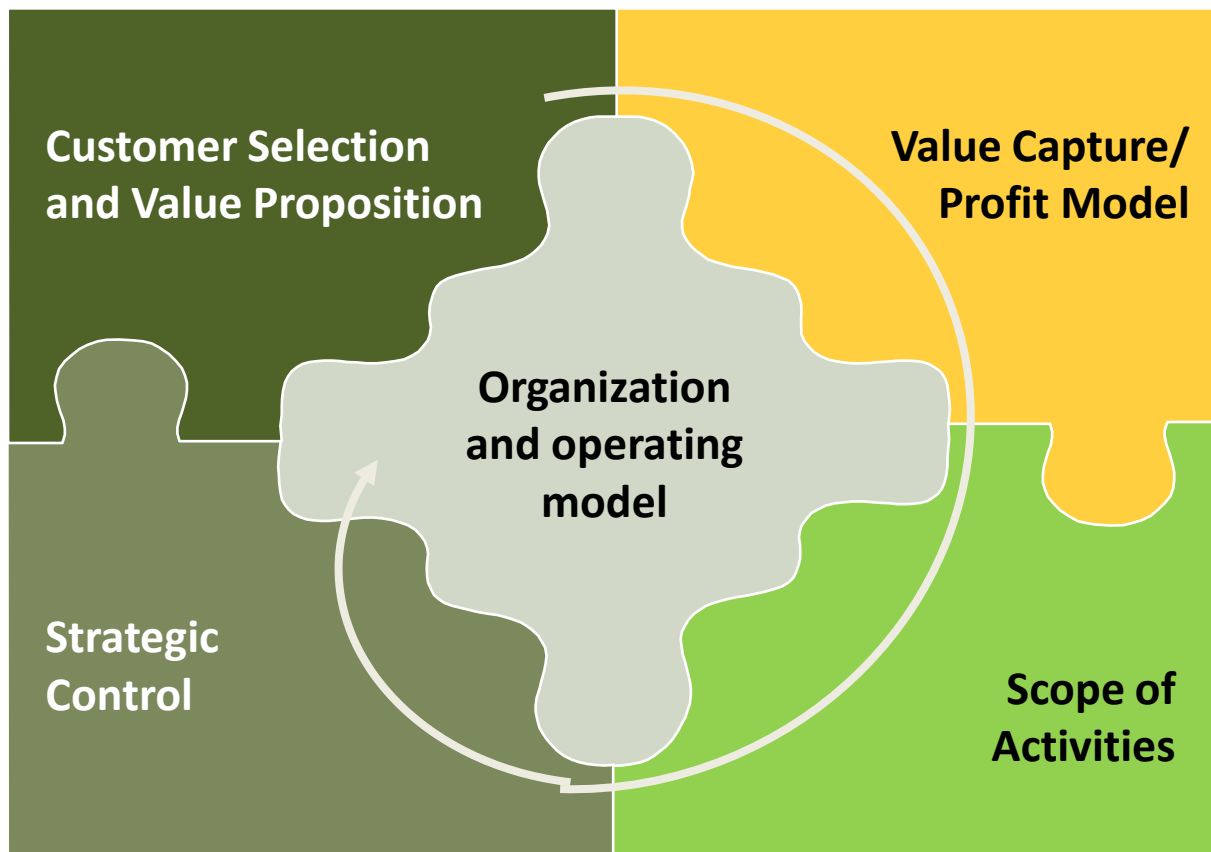


**Success of SEZs to create sustainable impact for LDCs will depend on a how dynamic and integrated is their development and management approach beyond physical infrastructure and incentives schemes**

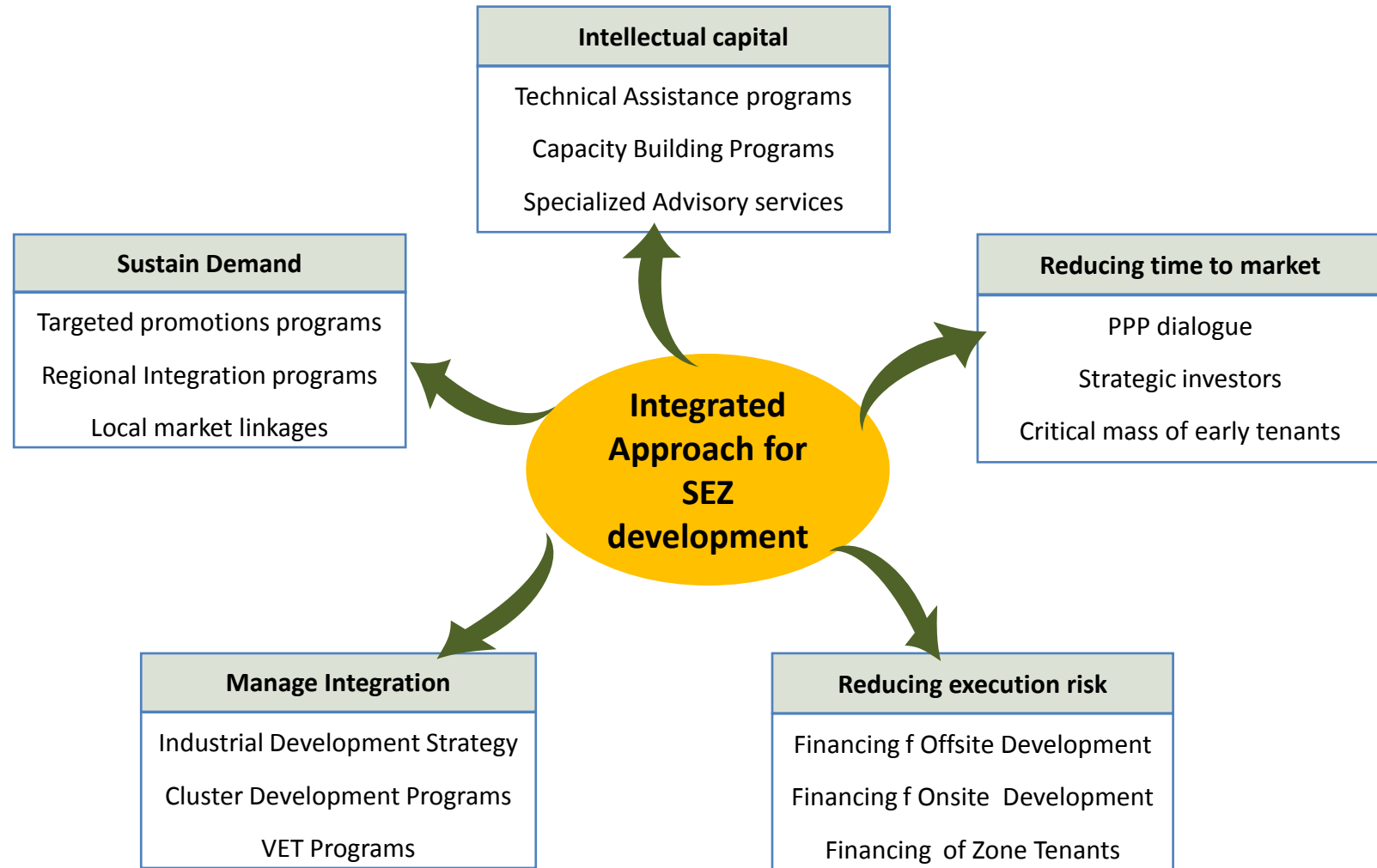
**Partnership Development**



**SEZ Concept Development**



# This integrated approach requires proactive and participatory process to nurture the SEZ development from concept to operationalization



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## Concluding Remarks

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# Concluding remarks

■ 1

- **Diversification** towards more value add exports is a **key** differentiating path behind the sustainable growth of developing countries

■ 2

- A targeted initiatives such as **Special Economic Zones** provide a viable pragmatic approach for diversification

■ 3

- **SEZ projects** are resource intensive initiatives, therefore the approach for SEZs among LDCs **should be tailored** to address capacity constraints while adopting **PPP models**

■ 4

- A **broad international partnership framework** is needed for SEZ to develop into viable and sustainable economic development poles

■ 5

- This framework should be mapped to an **integrated program for SEZ development** that leverages on the unique and complementary capabilities of various stakeholders





**Thank You**

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