

Project paper

# Institutional Structure of Special Economic Zones



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## **Institutional Structure of Special Economic Zones**

This report is the International Growth Centre's second report on Special Economic Zones (SEZs) addressed to Myanmar policymakers. The first report, *Special Economic Zones in Myanmar*, attempted to build an understanding of the benefits of SEZs<sup>1</sup> for Myanmar's overall programme of economic reforms. It used the experiences of other countries to argue that SEZs can catalyze Myanmar's economic growth. At the same time, it laid emphasis on multiple factors that policymakers should take into account while thinking about Myanmar's SEZ policy. These include:

1. The importance of improving the business climate in SEZs
2. The need to encourage linkages between SEZs and the domestic economy
3. The importance of monitoring and evaluating the zones

This report dives deeper into the institutional aspects of SEZs. Drawing from the international experience of SEZs, it tries to answer two questions concerning SEZs:

1. **What are the best practices for the institutional structure of SEZs?**
2. **To what extent should private sector be involved in SEZs?**

It is the hope that this report will guide Myanmar policymakers by providing insights on:

1. The different stakeholders in an SEZ
2. The different models used to run SEZs
3. The pros and cons associated with private SEZs and public SEZs
4. Important factors concerning the regulation of SEZs
5. Important factors concerning One Stop Shops

We believe that this report is timely given that Thilawa is the only operational SEZ in Myanmar and because the government is resuming projects to develop SEZs in Dawei and Kyaukphyu (Lin, 2018). We hope that the report can thus help Myanmar policymakers build robust and effective SEZ institutions that ensure the success and sustainability of SEZs in Myanmar.

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<sup>1</sup> This report uses the term "SEZ" to describe any geographic area with a regulatory framework that differs from national regulatory framework. This term includes: free trade zones (FTZs) that are duty-free areas offering infrastructure for warehousing and storage; export processing zones (EPZs) that are essentially FTZs with firms exporting their output to foreign markets; enterprise zones that are areas where firms receive special tax incentives; and specialized zones that are FTZs or EPZs focused on one particular sector, such as electronics or petrochemicals (Khandelwal & Teachout, 2016).

## Section I: Responsibilities of Stakeholders

Each Special Economic Zone (SEZ) is governed by four stakeholders: regulator, owner, developer, and operator (operator is sometimes referred to as manager). The responsibilities of the four stakeholders are:

Regulator	<ul style="list-style-type: none"> <li>▪ <b>Strategy:</b> Plan the countrywide strategy of SEZs: Objectives they serve (export promotion, job creation, supplier linkage, etc.); their locations; number of SEZs in the country.</li> <li>▪ <b>Scrutinize:</b> Examine proposals to build SEZs and verify their validity with respect to the SEZ strategy created. This may involve asking independent institutions to conduct feasibility studies on proposed SEZs. The scrutiny should take into account their commercial viability.</li> <li>▪ <b>Compliance:</b> Ensure that all parties comply with SEZ laws, rules, and regulations; and recommend changes in laws, rules and regulations when necessary.</li> <li>▪ <b>External Infrastructure:</b> On occasion take responsibility for provision of external infrastructure, such as access roads and electricity generation, to support an SEZ.</li> <li>▪ <b>Monitoring and Evaluation:</b> Carry out monitoring of SEZs to ensure that they are meeting their stated objectives; and use SEZs to experiment with policies and evaluate their effectiveness using independent advice.</li> <li>▪ <b>One Stop Shop (OSS):</b> Streamline licensing process for businesses through the provision of OSS. Draw out standard operating procedures for different license processes and coordinate between investors and government authorities.</li> </ul>
Owner	<ul style="list-style-type: none"> <li>▪ <b>Equity:</b> Finance land acquisition for an SEZ.</li> <li>▪ <b>Resettlement:</b> Abide by regulator-approved norms to acquire land for SEZ development. This may include resettlement for displaced people, offering livelihood opportunities to those displaced, etc.</li> <li>▪ <b>Select Developer and Operator:</b> Hold a legal tender and use an objective scoring system to select a developer and operator. There should be a competitive tender especially if the SEZ is publicly-owned.</li> </ul>
Developer	<ul style="list-style-type: none"> <li>▪ <b>Land use:</b> Prepare a land master plan. For example, classifying locations of heavy industry vs light industry investors; location of commercial services such as banks, hospitals, etc. Prepare the land by carrying out grading and levelling, along with any other pre-construction activities.</li> <li>▪ <b>Internal Infrastructure:</b> Build roads, drainage, and waste treatment facilities inside the SEZ; ensure the provision of water and electricity to tenants inside the zone.</li> <li>▪ <b>Marketing:</b> Market the SEZ to potential investors.</li> </ul>

Operator (or Manager)	<ul style="list-style-type: none"> <li>▪ <b>Screening Applications:</b> Screen investor applications and approve them based on a pre-defined objective criteria.</li> <li>▪ <b>Facility Leasing:</b> Manage lease and rental agreements with SEZ investors and provide maintenance and security services for the zone.</li> <li>▪ <b>Administration:</b> Provide administrative services to investors including collecting rentals and utility payments on behalf of a developer.</li> <li>▪ <b>Value-Added Services:</b> Facilitate provision of services such as banking, restaurants, and hotels inside the SEZ.</li> <li>▪ <b>Coordinate OSS:</b> Channel the feedback of the investors on the performance of the OSS to the regulator. Some operators may also be responsible for providing physical space for the setup of the OSS.</li> </ul>
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Sources: FIAS (2008), Farole T. (2011), Farole & Kweka (2011), and Jamaica Chamber (2015)

It is important to recognize that some of these responsibilities are fluid. For example, the regulator, developer, or operator could be responsible for marketing an SEZ. Similarly, instead of the developer, at times the operator could be responsible for the provision of utilities (water and electricity) to the SEZ investors. However, the core duties of each stakeholder should remain unchanged. With the exception of the role of the regulator, the private sector can play all the other roles. A single entity can also play multiple roles. For example, many SEZs are owned, developed, and operated by the same private entity.

Whether a role is assigned to a public or a private stakeholder determines the pros and cons the SEZ brings with it.

## **Section II: Models of SEZs**

There are three main models of SEZs: public, private, and joint venture<sup>2</sup>:

### **1. Public SEZ**

#### **Features:**

- In such SEZs, the government is responsible for all the aspects of an SEZ: regulation, ownership, development, and operation.

#### **Advantages:**

In general, public ownership is preferred when there is sufficient autonomy from interest groups and when the profit motive alone doesn't guarantee the success of the zone for the country at large. Most SEZs in China, Korea, Malaysia, and Singapore are publicly owned (FIAS, 2008). These countries are characterized by strong and effective bureaucracies. In the case of China, public ownership was decentralized to the local level and competition between local authorities provided strong "market" incentives for the zones to maximize their economic success.

#### **Drawbacks:**

Public SEZs have three main drawbacks (discussed in greater detail on page 6). Public SEZs are not the preferred model in many countries because they can lead to a drain on public finances. In addition, governments often lack the technical expertise needed to run SEZs effectively; and conflict of interest, a common issue in government institutions that run commercial ventures, can hamper the efficacy of public SEZs.

### **2. Private SEZ or Build-Operate-Own (BOO)**

#### **Features:**

- Except regulation, a private entity is responsible for all aspects of the zone.
- The private company gets to keep the entire operating revenue from the SEZ.
- In some cases, the same private company could own, develop, and operate a zone. In others, the SEZ owner can subcontract the development or operation of the SEZ to another private company.

#### **Advantages:**

Most developing countries now use the BOO model for SEZs (FIAS, 2008). The BOO model is preferred when maximizing direct economic returns from the zone is of paramount importance and the government possesses strong regulatory capacity. This is because the private sector is often best placed to maximize the economic returns from SEZs. Phnom Penh SEZ, established in 2008, in Cambodia is an example of a private SEZ (Warr & Menon, 2015).

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<sup>2</sup> Joint-Venture (JV) SEZs can be 100% private, where ownership is split between multiple private companies, thus qualifying the SEZs as private SEZs. But for the sake of this report, the term 'JV SEZs' will refer to those that are partly government owned.

**Drawbacks:**

In the presence of limited regulatory capacity in the government, privately run zones might lack accountability. Furthermore, private SEZs might focus excessively on the “private” economic returns to the zone, rather than benefiting the economy at large. For example in India, due to limited public accountability, it was reported that private SEZs used land acquired for SEZs for other, self-serving purposes. Rather than using the SEZ Act to procure land for its intended purposes, developers used it to circumvent the traditional routes of acquiring land and divert it toward other purposes (Khandelwal & Teachout, 2016).

**3. Joint Venture****Features:**

- In JVs (see Box 1), a host government gets into an agreement with another government or private company (either domestic or foreign) to run an SEZ.
- Either the JV entity could be responsible for the development and operation of the SEZ, or it could decide to outsource these roles using PPP models, such as lease agreements or management contracts (see Appendix).
- Thus, unless the development and operation of the SEZ is outsourced to a private company, the government may be partly involved in all aspects of the SEZ (regulating, owning, developing, and operating).

**Advantages:**

JV SEZs represent a midway between public and private SEZs. They could be used when a government is unable to attract sufficient private investment to finance an SEZ. This could occur when the private sector does not want to take the complete risk of owning the SEZ due to fears of political uncertainty. A JV model in such a case can act as a strong commitment device, which ensures that the government has a strong incentive to support the SEZ throughout its lifecycle. Secondly, they could be used when a government wants to retain some control over the ownership of the zone and also wants to make use of private sector expertise.

**Drawbacks:**

Due to the presence of multiple agencies in a JV, there is a possibility that the progress of the SEZ could stall due to coordination issues (see Box 1).

**Box 1: Joint-Venture-Owned SEZs**

SEZs which involve a Joint Venture with the host public entity can take two forms:

1. **Single Investor:** Where the host government develops a partnership with a single investor: a domestic company, a foreign company, or a foreign government. For example, the Navi Mumbai SEZ in India was set up by a domestic private company and a local provincial public corporation.
2. **Consortium of Investors:** Where the host public entity develops a partnership with a consortium of investors, who could be public/private or domestic/foreign. For example, the Thilawa SEZ is owned by a consortium of investors using a Special Purpose Vehicle (a legal entity that is created to carry out a very specific task).

JV ownership of SEZs has its own pros and cons. It represents a great way to pool capital and expertise and thus reduces the exposure to risk. Such zones in Africa have managed to attract significant investment. For example, the Lekki Free Trade Zone in Nigeria and the Chambishi Multi-Facility Economic Zone in Zambia had reportedly attracted US\$ 76 million and US\$ 322 million respectively by 2013 (Zeng, 2015).

However, JV SEZs also face challenges unique to them. In the Lekki zone, miscommunication between the Nigerian and Chinese investors over the terms of their partnership hindered the development of the zone. Disputes between the Chinese consortium of investors also delayed its financing (Brautigam & Tang, 2010). Thus, dealing with foreign consortiums can hamper coordination due to differences in culture and social norms, as well as due to the need to communicate with multiple agencies.

The Joint-Venture SEZ model is considered an example of a Public Private Partnership (PPP). Some countries also classify private SEZs (or BOO SEZs) as PPPs because of an active role played by governments in supporting them, for example, by providing external infrastructure.

Apart from BOO and JV SEZ models, there are other PPP models that can be used by governments to finance and run SEZs. For example, governments use concession agreements to subcontract the development and operation of SEZs to private companies for a period of 20 to 30 years. Such agreements are used when a government wants to use private sector expertise to run an SEZ but does not want to give up its ownership permanently. Other examples of such PPP arrangements are described in the appendix.

Most SEZ models, except those in East Asia, take the form of Build-Operate-Own or JV agreements (as shown in the table below<sup>3</sup>). This is because most governments now believe that private companies are best placed to develop and operate SEZs.

**Table 1:** Comparison of private and public SEZ ownership in Asia

	Share of Private SEZs <sup>4</sup> (%)	Share of Public SEZs (%)	Total no. of SEZs <sup>5</sup>
Korea	10	90	102
China	12	88	1,515
Malaysia	23	77	530
India	74	26	615
Thailand	84	16	110
Vietnam	89	11	411
Philippines	92	1	460
Cambodia	100	0	14

Source: Asian Development Bank (2015)

Why do governments increasingly prefer private or joint-venture SEZs to public-sector SEZs?

- a) **Drain on Public Finances:** SEZs require significant investment and so present a huge opportunity cost for any government. For example, the Bole Lemi Industrial Zone in Ethiopia, the country's first public SEZ, required initial investments of US\$ 113 million from the government and US\$ 250 million as a grant from the World Bank.

Private or joint-venture zones usually require less public funding to establish and operate because the private developers usually finance most of the internal infrastructure; governments are asked only to provide the external infrastructure, which is estimated to cost not more than 25% of internal infrastructure costs (FIAS, 2008). In a public SEZ on the other hand, the government would be responsible for providing both internal and external infrastructure. In addition, many privately owned zones, such as those in the Dominican Republic and the Philippines, are required by law to provide offices and other facilities for government authorities in the SEZs. This reduces the administrative costs a government would otherwise have to bear.

Most private zones in Latin America and the Philippines also pay overtime and other special benefits to customs officers and other officials to remain in SEZs on a 24-hour basis. In other SEZs, such as those in Kuwait and Costa Rica, zone operators even assume some "regulatory functions" such as inventory counts on behalf of customs authorities (FIAS, 2008).

<sup>3</sup> In the table, Joint-Venture SEZs are considered private SEZs.

<sup>4, 5</sup> The data on share of private/public SEZ data are based on 2008 figures. The data on total number of SEZs are based on 2015 figures.



- b) Market Know-How:** Due to the high opportunity costs, governments need to make sure that SEZs are commercially viable. Many governments however lack sufficient resources to make this assessment. This can lead to poor investment choices. For example, the Bataan Export Promotion Zone in the Philippines could not meet its potential because the location chosen by the government was unfeasible (FIAS, 2008). This not only led to a poor return on its SEZ investment but also on the US\$ 25 million it spent on the construction of a dam to support the zone (FIAS, 2008).

Lack of commercial viability in a public SEZ can also trap a government in a vicious cycle of underinvestment in the SEZ. For example, lack of adequate funding meant that many public zones in the Dominican Republic were inadequately maintained (FIAS, 2008).

On the other hand, since private companies may have better access to market information, they can take more informed decisions. For example, because most zones are export-oriented, private developers or operators may have a better sense of which types of industries are likely to locate in a zone given the structure of industries' trade patterns.

- c) Conflict of Interest:** Governments are often unable to run zones effectively because of the overlapping mandates that they take on as a regulator of all SEZs and as an owner of public SEZs. Its bias toward public SEZs can erode their competitiveness in a country. For example in Lesotho, where the public developer of industrial parks also acts as the regulator of those parks, the land rates offered in public parks were found to be below market rates. This was considered an important factor in dissuading investments from private sector developers (Farole T. , 2011).

Similarly, it was suggested that the conflict of interest in running and regulating SEZs for the regulator in Bangladesh was responsible for the delays that the country's first privately developed zone faced in acquiring its operating license and accessing energy supplies from the government (Farole T. , 2011).

This does not mean that publicly owned SEZs cannot also achieve successful results. For example, the vast majority of SEZs in Singapore, China, and Korea are publicly owned and have been consistently effective. However, these countries have sufficient financial resources, are less impacted by bureaucratic logjams, and possess strong trade and logistics links. Most emerging economies may struggle to replicate such conditions.

### **Section III: SEZ Regulator**

While in most countries minimal involvement of the government in the development and operation of SEZs is likely to generate higher economic returns, it does not mean that the government has a limited role to play in the institutional structure of SEZs. Examining SEZ proposals, creating One Stop Shops, and experimenting with policies are some of its main responsibilities (others are listed on page 2).

Lack of support from the government – even if zones are privately owned – can lead to disastrous consequences. For example, the first privately developed zone in Bangladesh languished for 8 years awaiting approval for its operating license from the government and the zone has since struggled due to lack of guarantees from the government on accessing energy (Farole T. , 2011). In the Indian state of Maharashtra, private developers have withdrawn from 61 of the 139 approved SEZs because of ineffective policymaking, as of 2015 (The Economist, 2015).

An effective regulator can help avoid such instances. Based on the experience of other countries, there are many lessons that Myanmar can consider to strengthen the regulation of its SEZs. These are:

- 1. Autonomous SEZ Boards:** Many infrastructure projects – including SEZs – in developing countries fall victim to vested interests in a government. To avoid this, many countries have instituted independent authorities to regulate SEZs that lie outside the purview of line ministries. For example in the Philippines, the autonomous body, Philippines Economic Zone Authority (PEZA), regulates all zones. The Industrial Estate Authority of Thailand and the Free Zones Board in Ghana are other examples of such independent regulators.

Regulating SEZs through autonomous boards, though, is a difficult task, especially where bureaucracies are resource-constrained. The Bac Ninh Industrial Zone Authority is responsible for managing provincial zones in Vietnam and has a staff of 30 to 40 people, as of 2015 (Jamaica Chamber, 2015). The regulatory authority in Mozambique employs 51 people, as of 2015 (Krik, 2015). Running such organizations requires significant management capabilities and financial resources. In the absence of sufficient resources, many countries second the task of regulating SEZs to other ministries, which may lead to other issues as described below.

- 2. Reporting Authority:** PEZA in the Philippines reports to the Department of Trade and Industry. Best practice, though, suggests that such zone regulators should report to the highest possible level of government, such as the Prime Minister, the President, or any other influential central authority to minimize interference from line ministries. In Bangladesh, the Prime Ministerial leadership of the regulator was one of the most important factors in its effective functioning (Farole T. , 2011). In the Dominican Republic, Kenya, and Senegal, the SEZ regulatory authority reports to the President. (Farole & Kweka, 2011).

Secondly, reporting to a high-level central body allows the regulator to coordinate policies across different ministries more effectively since an office such as that of a President would have equal access to all ministries, which might not be the case for line ministries.

Reporting to the highest offices comes with its own challenges. In the absence of delegation, policymaking by the regulator can be unnecessarily slow since those offices might have other pressing issues. For example in Ghana, all zone licenses had to be approved by the regulator, whose members are appointed by the President. Following a change in Presidency in 2009, there was a long delay before the new President reconstituted the regulator. As a result, some companies faced a delay of six to nine months before their applications were approved (Farole & Kweka, 2011). In Bangladesh, to avoid delayed decision-making from the Prime Minister's Office concerning SEZ regulations, the Prime Minister appointed the office's Permanent Secretary on the executive board of the regulator (Farole T. , 2011).

In some countries, such as the Philippines and El Salvador, the zone regulator report to a line ministry. Ideally, such a ministry should have capabilities and experience in coordinating with other ministries relevant to SEZs. Thus, most regulators – when they report to line ministries – report to the Ministry of Trade, Investment, or Commerce.

Even if the government decides to institute a regulator that reports to a line ministry, the regulator should have sufficient independence from the ministry. For example in Tanzania, the Export Processing Zone Authority (EPZA) reports to the Ministry of Industry, Trade, and Marketing (MIIT). But its office is outside the ministry, which ensures that the EPZA enjoys sufficient autonomy and does not end up becoming another department in the ministry.

Some countries assign the task of regulating SEZs to their central investment bodies. This should be avoided since one of the reasons why SEZs are conceptualized is to bypass the traditional investment policies of the country.

3. **Financial and Administrative Autonomy:** A regulator must have sufficient autonomy regarding its budget and other administrative tasks, such as recruitment. To boost a regulator's financial autonomy, best practice suggests that its budget should have a fixed component (decided by its reporting authority) and a variable component, which is tied to the revenues generated by SEZs for the government<sup>6</sup> (Farole T. , 2011). For example in China, a portion of the regulator's budget comes from the tax revenues from the zones.

At the same time, its budget should not be heavily weighted toward the variable component. This can pressure the regulator to be self-sufficient and lead to excessive administrative charges that dissuade investors. For example in Ghana, investors complained that they were required to pay the regulator US\$ 50 each time they imported (Farole & Kweka, 2011).

Moreover, the fixed component of the budget should be predictable. For example in Tanzania, a ministry or the exchequer decides the EPZA's budget year on year (Farole & Kweka, 2011). This leads to unpredictability and is susceptible to issues if there are conflicts between the EPZA and the ministry/exchequer. A

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<sup>6</sup> Some of the sources of revenue from SEZs for the government are: corporate income tax (if no tax holiday); personal income tax on direct employment; administration fees (e.g. One Stop Shop fees if operated by the regulator); land rental (or sales) fees if the government rents (or sells) land to private developers; import duties; and taxes on goods sold in domestic territory (FIAS, 2008).

better alternative could be for the ministry/exchequer to commit to a long-term budget for the EPZA.

A predictable, independent budget is critical because lack of financial resources can undermine a regulator's effectiveness. For example, due to limited resources the EPZA in Tanzania initially functioned with a skeletal staff that prevented it from establishing a One Stop Shop, a critical feature of SEZs (Farole & Kweka, 2011).

Government can also bolster a regulator's independence by providing it with more flexibility with respect to labour regulations. Thus, removing restrictions on hiring, firing, salaries, and promotions can help a regulator become more effective.

- 4. Conflict of Interest:** One of the main reasons why many governments avoid public or PPP structures for SEZs is because they can blur the lines between regulation and operation. For example, there were legitimate fears in Japan that the SEZs announced by Prime Minister Shinzo Abe would fail to take off because government officials would prevent deregulation to prevent offending vested interests (The Economist, 2015). Thus, it is critical that the regulator has no role in development or operation of an SEZ. But such a separation may be difficult if a regulator, overseeing public or PPP SEZs, is instituted in a line ministry that is heavily involved in running SEZs.
- 5. Single SEZ Regulator:** Some countries delegate the regulating authority to zone-wise regulators. For example in Panama, the Panama Pacifico SEZ has its own regulator (Jamaica Chamber, 2015). Other examples are Jebel Ali Free Zone Authority in UAE and Aqaba Special Economic Zone Authority in Jordan (World Bank, 2012). Such a setup might work for countries that have sectoral-focussed zones. Thus, electronic SEZs and IT SEZs might have different regulators. However for countries such as Myanmar, where SEZs are more likely to cater to a broad set of industries, a single regulator could be more effective in policy coordination across SEZs.
- 6. Decentralize Policymaking:** Even in spite of a single regulator, SEZs should have the freedom to experiment with their own policies. Decentralizing autonomy and policymaking can encourage competition between zones, which can help improve the business climate in a region and generate knowledge among policymakers about the impact of different policies (Khandelwal & Teachout, 2016). For example in China, the creation of central government-approved Suzhou Industrial Park (SIP) motivated the provincial government to build the Suzhou New District zone (SND). The SND zone offered fewer tax incentives but was a lower-cost alternative to SIP (The Economist, 1998). The success of SIP and SND suggests that provincial authorities were able to learn successfully how to run SEZs from their central counterparts. More importantly, the different incentives on offer at the zones and their eventual success generated knowledge that could be used by a wider pool of policymakers. Decentralizing authority to SEZs could be one way to spur similar competition and innovation in SEZs in Myanmar.

- 7. Membership:** A few things to take note of while deciding a regulator's membership are:
- a) A regulator should have a good balance between public-sector and private-sector representatives – the former to coordinate between government agencies and the latter to instil market-based practices in SEZs .
  - b) The government representation should be inter-ministerial, especially coming from ministries relevant to SEZs.
  - c) Regulators should ideally have independent members. These, though, should truly be independent: the “independent” members of the SEZ Board in South Africa are ministerially appointed (Gauthier, 2011). The chamber of commerce can, for example, nominate them.
  - d) To ensure coordination between the SEZ and countrywide investment policy, at least one member should be from the country's investment board. In Ghana, the Chief Executive of the Ghana Investment Promotion Centre (GIPC) and the CEO of the Export Promotion Council are both non-voting members of the zone authority (Farole & Kweka, 2011).

While there is no golden rule in terms of the number of members in a regulator, international experience suggests that most regulators have less than twelve members (Farole T. , 2011).

Finally, all members should also have reputable standing. An important reason why investors decide to locate in SEZs is to avoid corrupt practices that could be prevalent in other parts of a country. Many zones, however, are known to suffer from graft. Some 60% of firms in Indian SEZs reported having to make “irregular” payments to zone authorities. In 2015, Ukraine's prime minister said he opposed SEZs because of corruption (The Economist, 2015).

- 8. Technical Assistance:** Despite having private sector representatives, a regulator may lack expertise in judging SEZ proposals. In that case, it should consider getting support from independent, reputable institutions to carry out feasibility studies and due-diligence on its behalf. For example, the World Bank and International Finance Corporation provided significant technical support to the Panama Pacifico SEZ in developing a strategy for SEZs, drafting laws and regulations, designing a developer agreement, and managing the developer selection process. Private companies and aid organizations that have experience in developing and operating SEZs could also provide technical assistance to a government.

Lack of technical expertise can lead to ill-fated projects. In Columbia, the Cartagena Free Zone was located on a swamp resulting in extremely high capital development costs. The Katunayake EPZ in Sri Lanka was poorly designed, resulting in congestion, overcrowding, and social unrest (FIAS, 2008). Construction companies, who have no prior experience in SEZs, have sometimes been asked to develop SEZs, which can lead to poorly designed zones. Consulting another organization or creating a review committee comprising of external experts can help to avoid such situations.

- 9. Coordination with Line Ministries:** While a regulator should remain independent from line ministries in its functioning, it is essential that it coordinates between different ministers, who at times might have competing interests. Lack of synchronization between the ports authority in Nigeria and its export processing authority, for example, inhibited the integration of Calabar Free Zone and its adjacent port, which impacted the zone's performance (Farole & Kweka, 2011). Coordination between the regulator and ministries can be strengthened by including their representatives in the regulator and by signing Memorandums of Understanding (MoUs) with relevant ministries.

Stronger coordination between the regulator and line ministries can also ensure that there is a continuous knowledge transfer between the zone and the line ministries on the effectiveness of policies. This is especially important since one of the objectives of SEZs is policy experimentation (Khandelwal & Teachout, 2016). For example in China, policymakers used Shenzhen SEZ to experiment with incentive-based compensations in the early 1980s, which was by the mid-1980s replicated in other parts of the country (Khandelwal & Teachout, 2016). An effective coordination mechanism (for example, through the creation of coordination committees) between the regulator and ministries can facilitate this knowledge transfer, which can improve the business environment in other SEZs as well as other parts of the country.

The above points are some factors that a government should take note while deciding the structure of a regulator. Taking into account the above best practices can help it carry out its responsibilities more effectively. The Philippines Economic Zone Authority (PEZA) is a good case in point (Akinci, 2006). The case example in Box 2 below demonstrates how a regulator can facilitate the creation and operation of effective SEZs by carrying out its responsibilities (see page 2 for the responsibilities of a regulator).

### **Box 2: Case Example of the SEZ Regulator in the Philippines**

Three ways in which PEZA has helped facilitate the creation and operation of effective SEZs are:

1. **Comprehensive Strategy:** PEZA has created a comprehensive framework to own and develop an SEZ. It lists detailed requirements for establishing an SEZ. For example, any proposed SEZ must locate in an area identified as a regional growth centre by the government; it must have suitable infrastructure around it; and should have sufficient availability of skilled and unskilled labour (Manasan, 2013). It also lists detailed standards that developers and operators must abide by (Jamaica Chamber, 2015). This ensures that the private sector and local governments are aware of the government's requirements and strategy and thus propose SEZ projects accordingly.
2. **Scrutiny:** Based on the above strategy, PEZA approves or rejects SEZ proposals. It has listed the process that SEZ proposals have to go through before a new SEZ is registered on its website (PEZA, 2006). For example, for the registration of an IT park, the proposal must be first submitted to the PEZA Director General (DG); it then must be presented to the PEZA board; and after a series of similar steps the DG issues a certificate. Such a transparent and extensive policy helps maintain a high quality of zones throughout the country.
3. **One Stop Shops:** The cost of doing business for companies inside the zones has been vastly reduced by PEZA's One Stop Shops. The effective facilitation of business licenses through the OSS is a key reason behind PEZA's ability to attract investments: over 2000 companies are located inside its zones (Manasan, 2013). The agreements between PEZA and the various ministries are partly responsible for the OSS' efficacy. For example, PEZA has a Memorandum of Agreement with the Department of Environment and Natural Resources allowing PEZA to issue environmental certificates to its investors (Aldaba, 2013).

## **Section IV: One Stop Shop**

One of the most important features of successful SEZs is their ability to streamline the provision of various permit applications (such as visas and company registration) and other procedures (such as custom clearance) through One Stop Shops (OSS). As discussed in IGC's previous report, *Special Economic Zones in Myanmar*, the success of an SEZ is conditional on provision of such services and not only on the fiscal incentives provided. In this regard, both the regulator and the operator have important responsibilities.

The SEZ regulator has an important role to play to ensure the effectiveness of OSS. Its main responsibilities concerning OSS are:

1. Decide the model of OSS to be used.
2. Draw up the Standard Operating Procedures (SOPs) for permit applications.
3. Coordinate with line ministries to convince them to delegate decision-making power to the government representatives of the regulator and also to delegate authority over the OSS staff to the regulator.
4. Provide value-added services at the OSS.

Based on the experience of OSS in other SEZs, as well as OSS created for national investment programs, here are few of the things an SEZ regulator should keep in mind while it carries out its responsibilities:

- 1. Models of OSS:** There are three ways in which an OSS can be instituted. The regulator must think through the pros and cons of each of these before deciding on a model suitable for its SEZs:
  - a. **Secondment:** In this model of OSS, there are two sections: the front desk and the back office. The front desk is usually located inside the SEZ premises and is responsible for receiving an investor's applications for different permits. Government representatives who work from the back office then process these permits. An investor is usually not expected to interact with these representatives – the front desk is responsible for notifying the investor on their application in a stipulated period of time. The government representatives are asked by their respective ministries to work at the SEZ and are authorized to approve the relevant permits on the ministry's behalf.

**Advantage:** Since no back office employees need to be hired, fewer resources are required to set up such an OSS. Resources need to be spent only on the physical office of the OSS, hiring of the front office staff, and on any incentives that are given to the government representatives to work at the SEZ.

**Disadvantage:** Secondment models can fall victim to bureaucratic hurdles that SEZs are trying to circumvent because some government representatives could either be unwilling or unequipped to implement SOPs in an SEZ that are different than the ones they implement outside the SEZ.



- b. **New Hire:** Similar to the secondment model, this model also has a front office and a back office. However, instead of asking ministries to send their representatives to the SEZ, the regulator hires, trains, and employs its own staff, who are authorized to carry out the work on behalf of different ministries. For example, the Aqaba Special Economic Zone Authority in Jordan had its own tax and custom officials, who were better trained than their ministerial counterparts. (FIAS, 2008).

**Advantage:** By sidestepping the existing bureaucratic setup, the regulator is able to institute an OSS with representatives who are better trained in the SOPs of an SEZ.

**Disadvantage:** Hiring and training OSS employees would require significant financial and management resources. Only regulators of well-developed SEZ programs may have the capacity to establish such an OSS. This may also exert undue pressure on the regulator to deliver on the regulatory and operational aspects of the SEZ (Farole T. , 2011).

- c. **Front Desk Only:** In this model, the OSS does not have any back office at the SEZ. The front desk is responsible for taking the investor applications to the government representatives. The front desk staff may either have to go to the respective ministries for each application or, like in the case of El Salvador, the front desk staff takes the applications to an OSS, which caters to all investors in a region and not just those in the SEZ (Jamaica Chamber, 2015).

**Advantage:** Fewer resources are spent on a building for such an OSS since government representatives are not physically located inside the SEZ.

**Disadvantage:** This setup may only work in special cases, where:

- a) The SEZs are physically near most government offices.
- b) The SOPs in the SEZ are similar to those outside the SEZ.
- c) Most business licenses can be processed digitally.

2. **Standard Operating Procedures (SOPs):** Designing SOPs for the SEZ should serve two purposes: to reduce the time it takes for an investor to submit a permit application and to reduce graft. For the former, the regulator must avoid asking for the same information multiple times and should remove redundant data requirements. For the latter, the regulator should aim to minimize the points of contact for an investor with the OSS. Some ways to do so are: avoiding contact between back office staff and the investor; ensuring that an investor can submit all required documents in one go; and ensuring that an investor can submit payment for an application through a single transaction (Stone, 2006).
3. **Decision-Making Authority:** If the regulator chooses an OSS model where government representatives are physically present inside the SEZ, there are two forms the OSS can take. In its most basic form, the ministry representatives may only be responsible for passing on investor applications to their respective ministries (OECD, 2010). This may not require any procedural change. This form is not international best practice since, as Stone (2006) suggests, this turns the “One Stop Shop into a One More Stop”. The preferred form of OSS is where the

representatives have significant authority to approve or reject applications (Stone, 2006). Greater autonomy to the OSS staff reduces the time in which investor applications are approved or rejected.

4. **Coordination with Line Ministries:** Most line ministries however are skeptical of ceding authority to institutions outside their purview. Therefore, coordinating with line ministries is a prerequisite. The purpose of the coordinating exercise should be to decide the SOPs for SEZ investors, the extent of delegation of authority to OSS representatives, and the division responsibilities between the OSS and line ministries (when should the ministries get involved, how will data be shared and reported, etc.) (OECD, 2010). These issues should be formalized using MoUs between the regulator and line ministries instead of relying on personal relationships of, say, the Chairman of the regulator and the Minister.

These MoUs should also be used as an opportunity to formalize the authority of the regulator over the OSS staff. For example, the regulator could be allowed to retain high-performing employees, ask the ministries to replace under-performing representatives, give salary incentives, etc. Such autonomy for the regulator can help create a culture of professionalism and customer service. The General Authority For Investment and Free Zones (GAFI) in Egypt is a good example, where such an approach has paid significant dividends (Stone, 2006).

To motivate OSS staff, GAFI raised salaries 30% across the board and created an incentives system of up to 20% of salary. The salary incentive also allowed the regulator to extend the workday for the OSS by 1.5 hours (Stone, 2006). OSS staff who were not under the administrative authority of the regulator were also given incentives to perform administrative tasks more quickly. For example, GAFI allowed such staff to be part of its bus system used to transport OSS staff. They were also given bonuses based on FDI figures (Stone, 2006).

5. **Value-Added Services:** Apart from facilitating the provision of permits, the regulator should also use OSS as a means to provide other value-added services to create a business-friendly environment for investors. These include: identifying local suppliers for them (this can also help generate spillovers as discussed in IGC's previous report); assisting in finding homes for staff or schools for their children; and helping in dispute resolution (IDAL, 2013).

For example, GAFI in Egypt has a dispute resolution committee at its OSS that helps solve disputes for an investor (for a fee) with the government agencies that are not represented in OSS. It also provides administrative services such as printing and photocopying, which can be another source of revenue for OSS (Stone, 2006). To improve the investor experience, GAFI has also created a complaints unit that receives and follows up on complaints from investors.

Along with the regulator, the operator has an important role in running OSS. It should channel the feedback of investors on the performance of an OSS to the regulator. Establishing a communication channel between the operator and the regulator can ensure that the OSS is constantly improving and is in line with the expectations of the investor. The operator could also suggest some improvements in the operation of OSS, such as installing a queue system, installing a web-based platform that facilitates permit applications, etc.

## Section V: Suggestions for SEZs in Myanmar

Consider the institutional structure of SEZs in Myanmar:

1. **Regulator:** Unlike other countries where a single authority is responsible for regulating SEZs, regulation in Myanmar is split between two institutions. The first is a combination of Central Body and Central Working Body. Two of their responsibilities are to examine SEZ proposals and establish Management Committees (MCs) for each SEZ (Myanmar Government, 2014). The second institution is a Management Committee, which is responsible for providing a One Stop Shop (OSS) in their SEZ and coordinating on behalf of investors with line ministries for the provision of different permits.
2. **Owner:** Thilawa SEZ is jointly owned by four stakeholders: the Myanmar Government, a Myanmar private consortium, the Japanese Government (JICA), and a Japanese private consortium, reflecting a JV model of ownership. The Myanmar and Japanese governments each hold only 10% of the stake (Myanmar Thilawa SEZ, 2015). This ensures that the private sector has the most influence in running the SEZ. According to media reports, Dawei and Kyaukphyu SEZs will also be JVs. The Myanmar Government recently renegotiated its stake in Kyaukphyu SEZ to 30%, with the remaining stake to be held by a Chinese-led consortium (Htwe, 2018). The ownership stake of the Myanmar Government in Dawei is not yet confirmed.
3. **Developer & Operator:** The four stakeholders in Thilawa created a Special Purpose Vehicle, called Myanmar-Japan Thilawa Development Limited (MJTD) (Myanmar Thilawa SEZ, 2015). MJTD is responsible for the development and operation of the SEZ. The development and operation is mostly handled by the private sector since the Myanmar government has only a 10% stake in MJTD.

Drawing on the international experience summarized in the first four sections of this note, we have highlighted in Table 2 the key issues to be considered, the current situation in Myanmar with respect to each issue as best we understand it, and some suggestions with respect to the future organization and roles and responsibilities of Myanmar's regulator that the government may wish to consider:

**Table 2:** Suggestions for Myanmar's SEZ institutional structure

Issue	Current Situation	Suggestion
<p><b>1. Autonomous SEZ Regulator:</b> Best practice suggests that SEZ regulator should be an autonomous body so that SEZs don't fall victims to vested interests in the government.</p>	<p>The responsibilities of the regulator are divided between the Central Body (and Central Working Body) and Management Committees (MCs). The Central Body (CB) and MCs are, however, government bodies.</p>	<p>Consider whether any changes are needed in the structure of the CB and MCs including the possibility of increasing the autonomy of the CB. Increasing the autonomy of the CB would also increase that of the MCs.</p>

Issue	Current Situation	Suggestion
<p><b>2. Reporting Authority:</b> Best practice suggests that the regulator should report to a central authority to minimize interference from line ministries.</p>	<p>The Central Body is chaired by the Vice-President.</p>	<p>It is important that the regulator continue to report to a high-level, central authority such as the Vice-President.</p>
<p><b>3. Financial and Administrative Independence:</b> International experience suggests that this boosts the efficacy of a regulator.</p>	<p>We are unsure of the central body's financial and administrative autonomy. Though, the MCs have their own sources of revenue, such as One Stop Service Centre fees.</p>	<p>Consider improving the financial and admin independence of the CB, and maintaining the financial independence of MCs.</p>
<p><b>4. Conflict of Interest:</b> The regulator should have no (or minimal role) in the development and operation of SEZs.</p>	<p>Since the Myanmar government has only a 10% stake in Thilawa, it has a minimal role in its development and operation.</p>	<p>Consider further increasing the role of the private sector in developing and operating SEZs.</p>
<p><b>5. Single Regulator:</b> Most countries have a single regulator since it helps to coordinate across different SEZs in a country.</p>	<p>Myanmar has a single regulator (CB) to examine SEZ proposals but multiple MCs to establish One Stop Shops (OSS).</p>	<p>It is important that the regulatory structure ensures coordination across different SEZs and empowers MCs (as described in the row below).</p>
<p><b>6. Decentralized Policymaking:</b> As discussed in this report and IGC's previous report, empowering SEZs to experiment with policies can have a long-term positive impact on a country's business climate.</p>	<p>SEZ policies are listed in the SEZ Law and Rules. These are the same across all the different SEZs. Thus, there is little room for an SEZ to experiment with its own policies.</p>	<p>Consider decentralizing more policymaking to MCs so that each SEZ can experiment with its own policies (e.g. tax incentives, minimum investment amount, etc.). This creates competition and encourages innovation.</p>
<p><b>7. Membership:</b> International experience suggests that regulators should have a mix of public and private sector representatives.</p>	<p>CB (and Central Working Body) and MCs are dominated by public sector representatives.</p>	<p>Encourage the membership of private sector representatives who have good standing and relevant experience in both the CB and MCs.</p>
<p><b>8. Technical Assistance:</b> Governments that do not</p>		<p>The CB and MCs can reach</p>

have enough technical expertise use the help of independent organizations to assist them in SEZ planning.	We do not have information on this issue	out to independent, reputable institutions if they require any technical advice.
<b>9. Coordination with Ministries:</b> This is important to ensure that there is buy-in from all ministries for an SEZ, to establish OSS, and to facilitate knowledge transfers.	We do not have information on this issue.	Signing MoUs with line ministries and creating a coordination committee (with MC, CB, and ministry representatives) that meets regularly are some ways to facilitate coordination.
<b>10. OSS Model:</b> Best practice suggests that resource-constrained countries should adopt the secondment model.	The OSS at Thilawa uses the secondment model.	Continue with the secondment model for the OSS. Ask ministries relevant to SEZs that do not have representation at the OSS to send a representative.
<b>11. SOPs (OSS):</b> SOPs should minimize the likelihood of graft and reduce the time it takes for an investor to receive a permit.	The MC at Thilawa has streamlined many SOPs but there may be room for further improvement.	It is important that MCs continuously streamline the procedures based on investor feedback.
<b>12. Decision-making Authority (OSS):</b> The government authorities should be empowered to approve or reject applications.	Most government representatives at Thilawa have the authority to approve or reject. We do not have complete information on this issue.	If there is room for further empowerment of government representatives, the regulator could speak to the relevant ministries.
<b>13. Coordination with Line Ministries (OSS):</b> There should be coordination to ensure that there is support from line ministries for the OSS and they give the regulator authority over their OSS staff.	We do not have information on this issue.	See point 9 in this table.
<b>14. Value-added Services (OSS):</b> OSS should also provide value-added services to make the environment investor-friendly at SEZs.	We do not have information on this issue.	MCs can look to provide services, such as lists of local suppliers, etc. to support investors.

## **Conclusion**

Myanmar's SEZ program is still in its infancy. The country has one operational SEZ and is currently resuming projects to develop SEZs in Dawei and Kyaukphyu (Lin, 2018). One more SEZ has been proposed in Dala (Ko, 2017). Therefore, it is important that it institutes an effective structure to run and regulate SEZs. Thankfully it does not have to reinvent the wheel. It can use the experiences of SEZs in multiple countries to improve the regulation, ownership, development, and operation of its SEZs. This report by the International Growth Centre is an attempt to inform Myanmar's policymakers of the available evidence on SEZs.

Most countries now prefer private or joint-venture SEZs to public SEZs. This is evident in many developing countries like Vietnam, the Philippines, and Cambodia. Private or joint-venture SEZs can introduce greater market discipline into running SEZs, avoid draining public finances, and reduce conflicts of interest, typical of many government projects. The Thilawa SEZ in Myanmar is an example of a joint-venture SEZ.

Regardless of the ownership of SEZs, a regulator is an important pillar of a country's SEZ policy. It should: have minimum interference from the government; be separated from the ownership, development, and operation of the zones; have access to private sector representatives and experts; and have strong relationships with line ministries and central government authorities relevant to SEZs. In Myanmar, the regulatory authority is split between the Central Body (and Central Working Body) and the Management Committees. The government may wish to review this arrangement in the light of international experience. One option would be to continue with this arrangement but empower the Management Committees so that they can experiment with their own policies.

One of the main responsibilities of the regulator is the establishment of One Stop Shops (OSS). In Myanmar, the Management Committees are responsible for the operation of the OSS. Based on international experience, they should continue using the secondment model for OSS, like in Thilawa SEZ. MCs should also look to continuously improve Standard Operating Procedures to reduce the likelihood of graft and to reduce the time it takes to process permits. Other best practices suggest that MCs should: try to empower government representatives at OSS as much as possible to improve efficiency; try to coordinate with line ministries to ensure successful operation of OSS; and look to provide value-added services at the OSS.

If Myanmar is able to reform its SEZ policies in line with the best practices mentioned in this report, it will be able to avoid many of the pitfalls suffered by its neighbours and other countries around the world. As outlined in IGC's previous report on SEZs in Myanmar, SEZs can signal a country's ability to attract and sustain foreign investments. Getting the SEZ institutional structure right is a prerequisite that Myanmar must take note of to achieve this goal.

## Appendix

Below is the list of SEZs models that a government can make use of to finance and run SEZs. The list includes public, private, and joint venture SEZs that were discussed in the main text.

### **1. Public SEZ**

#### **Features:**

- In such SEZs, the government is responsible for all the aspects of an SEZ: regulation, ownership, development, and operation.

#### **Advantages:**

In general, public ownership is preferred when there is sufficient autonomy from interest groups and when the profit motive alone doesn't guarantee the success of the zone for the country at large. Most SEZs in China, Korea, Malaysia, and Singapore are publicly owned (FIAS, 2008). These countries are characterized by strong and effective bureaucracies. In the case of China, public ownership was decentralized to the local level and competition between local authorities provided strong "market" incentives for the zones to maximize their economic success.

#### **Drawbacks:**

Public SEZs have three main drawbacks (discussed in greater detail on page 6). Public SEZs are not the preferred model in many countries because they can lead to a drain on public finances. In addition, governments often lack the technical expertise needed to run SEZs effectively; and conflict of interest, a common issue in government institutions that run commercial ventures, can hamper the efficacy of public SEZs.

### **2. Private SEZ or Build-Operate-Own (BOO)**

#### **Features:**

- Except regulation, a private entity is responsible for all aspects of the zone.
- The private company gets to keep the entire operating revenue from the SEZ.
- In some cases, the same private company could own, develop, and operate a zone. In others, the SEZ owner can subcontract the development or operation of the SEZ to another private company.

#### **Advantages:**

Most developing countries now use the BOO model for SEZs (FIAS, 2008). The BOO model is preferred when maximizing direct economic returns from the zone is of paramount importance and the government possesses strong regulatory capacity. This is because the private sector is often best placed to maximize the economic returns from SEZs. Phnom Penh SEZ, established in 2008, in Cambodia is an example of a private SEZ (Warr & Menon, 2015).

**Drawbacks:**

In the presence of limited regulatory capacity in the government, privately run zones might lack accountability. Furthermore, private SEZs might focus excessively on the “private” economic returns to the zone, rather than benefiting the economy at large. For example in India, due to limited public accountability, it was reported that private SEZs used land acquired for SEZs for other, self-serving purposes. Rather than using the SEZ Act to procure land for its intended purposes, developers used it to circumvent the traditional routes of acquiring land and divert it toward other purposes (Khandelwal & Teachout, 2016).

**3. Joint Venture****Features:**

- In JVs (see Box 1), a host government gets into an agreement with another government or private company (either domestic or foreign) to run an SEZ.
- Either the JV entity could be responsible for the development and operation of the SEZ, or it could decide to outsource these roles using PPP models, such as lease agreements or management contracts.
- Thus, unless the development and operation of the SEZ is outsourced to a private company, the government may be partly involved in all aspects of the SEZ (regulating, owning, developing, and operating).

**Advantages:**

JV SEZs represent a midway between public and private SEZs. They could be used when a government is unable to attract sufficient private investment to finance an SEZ. This could occur when the private sector does not want to take the complete risk of owning the SEZ due to fears of political uncertainty. A JV model in such a case can act as a strong commitment device, which ensures that the government has a strong incentive to support the SEZ throughout its lifecycle. Secondly, they could be used when a government wants to retain some control over the ownership of the zone and also wants to make use of private sector expertise.

**Drawbacks:**

Due to the presence of multiple agencies in a JV, there is a possibility that the progress of the SEZ could stall due to coordination issues (see Box 1).

**4. Build-Operate-Own-Transfer (BOOT)****Features:**

- BOOT models are used to finance a discreet project rather than an entire infrastructure system.
- In this model, a private company owns the project for a specified period of time. Once that period elapses, the private company hands over its ownership and all its operations to the government.

**Used When:**

This model is used when the government wants to engage a private company to run an SEZ on its behalf but does not want to give up ownership permanently.

**Drawbacks:**



This is not a popular method of SEZ operation since the eventual transfer to the government can be problematic – governments frequently do not have the expertise to operate an SEZ.

## 5. Concession

### Features:

- Concessions, unlike BOOT schemes, usually include an entire infrastructure system, rather than a single discrete project.
- They are often used to rehabilitate old infrastructure projects.
- They usually include long-term contracts (20-30 years), where the private company gains the right to develop and operate an SEZ for the entire period.
- The concessionaire pays the government a fixed fee and keeps all the operating revenue.
- The ownership of all assets – including those purchased by the concessionaire – reverts to the government after the agreement elapses.

### Used When:

Similar, to BOOT, these are used when a government wants to use private sector expertise to develop and operate an SEZ but does not want to give up the ownership permanently. It can be used when the government is willing to engage with the private sector over a significant period of time. Examples include the Panama Pacifico SEZ and the Aqaba International Industrial Estate in Jordan.

### Drawbacks:

Similar to BOOT models, concessions may not be optimal since there is an eventual transfer of ownership to the government, which may dissuade investors who are looking for a more long-term investment.

## 6. Lease

### Features:

- Unlike in BOOT and concession agreements, in lease agreements the government is responsible for the development of the zone and merely leases the SEZ to a private company to operate it.
- The private company takes considerable risk since its revenues are linked to the operating revenue of the SEZ. The private company pays the government a fixed fee (or a percentage of the revenue) and keeps the rest.
- The contracts are usually for 3 to 5 years.

### Used When:

The lease model is used when no private investors are interested in developing an SEZ but the government wants to introduce private sector efficiency to the zone's operation. The Que Vo Industrial Park in Vietnam is an example of this model.

### Drawbacks:

Since the government is responsible for the development of the SEZ, the private sector may not have full faith in the commercial viability of the zone.

## 7. Operator/Management Contract

### Features:

- These contracts are generally shorter contracts than lease and concession agreements.
- Like in a lease agreement, the government is responsible for developing the zone but it engages a private company to operate the SEZ.
- The operator does not take much risk and is not responsible for the SEZ's assets.
- Unlike in a lease agreement where the private company pays the government a fee, in management contracts the government instead pays the private company. This payment could either be a fixed fee or a fee linked to the zone's performance depending upon the company's risk appetite

### Used When:

This model is used when a government does not want to give up control over its assets and yet wants to use the private sector on a short-term basis to improve a zone's practices. Industrial City Abu Dhabi in UAE is an example of this arrangement.

### Drawbacks:

If the fees of the operator are not tied to the revenues it generates, it may not have a significant enough incentive to perform. Secondly, operator/management contracts usually last for less than three years and so can create uncertainty about zone operation in the minds of investors.

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