


# Aqaba Development Corporation (ADC) Information Memorandum



**375 KM<sup>2</sup> OF OPPORTUNITIES**



SMALL COUNTRY  BIG IDEAS

**Aqaba, Jordan**  
**July 28, 2004**

ASEZA and the Government of Jordan also launched at the beginning of 2004, the Aqaba Development Corporation (ADC) to be the central development corporation for the ASEZ. ADC owns the port, airport and strategic parcels of land as well as the development/management rights for these assets as well as for key infrastructure and utilities. ADC is mandated to develop ASEZ; build new infrastructure and required superstructure, or expand existing ones; create business enablers for ASEZ; and manage/operate its key facilities; all through maximizing attraction of private sector developers/operators. ADC has also the responsibility to implement the ASEZ Master Plan in a manner that ensures integrated development and transforms Aqaba into a leading business and leisure hub on the Red Sea.

## ASEZ & ASEZA

The Aqaba Special Economic Zone (ASEZ) is emerging as a world-class Red Sea business hub and leisure destination. One of its primary objectives is to enhance the quality of life and prosperity of the local community through sustainable social and economic development. Pre-feasibility studies for ASEZ, prepared in 1999 and 2000, recommended the creation of ASEZ and the Aqaba Special Economic Zone Authority (ASEZA), and a one-stop shop organization mandated to manage, develop and regulate ASEZ to realize the full economic potential of the Aqaba region. Other stated long term objectives include:

- Creating up to 75,000 new job opportunities over a 20- year period
- Attracting over \$6 billion in investments by 2020
- Increasing annual exports by \$600+ million in 20 years



Figure 1: Map of Jordan with Aqaba

### AQABA SPECIAL ECONOMIC ZONE

#### Nature of Zone

In 2001 the Government of Jordan created the Aqaba Special Economic Zone, a land and sea area of 375 km<sup>2</sup> that includes Jordan's 27 km coastline. ASEZ is strategically located around the City of Aqaba (Al' Aqabah) at the top end of the Gulf of Aqaba as illustrated above:

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ASEZ operates as a liberalized, low tax, duty free multi-sector economic development zone with a simplified business environment and streamlined administrative system designed to attract foreign and domestic investment, maximize private sector participation in the Kingdom's development and build Aqaba into a world class business and leisure destination.

In the past three years, ASEZ has delivered on much of its promise. Inward investment has exceeded USD 300 million with additional commitments of about USD 1.0 billion. Over 300 companies have registered for business in the ASEZ, thereby creating some 8000 new job opportunities. Tourist flows have reached about 220,000 visitors per year despite regional uncertainty and a limited hotel room capacity.

### **Strengths**

ASEZ's relative success is attributable to a host of competitive advantages, including:

- Attractive investment opportunities in tourism, services and industries;
- Ability to expand markets into the Middle East and North Africa (Gateway into Levant) and a potential hub for regional distribution, with free zone storage supported by a full-service seaport and an airport;
- Access to a pool of unskilled as well as highly-skilled Jordanian work force;
- Access to existing/new markets on major trade preferential terms arising from Jordan's World Trade Organization membership and various free trade agreements with the United States, the European Union and several Arab countries;
- Multi-modal transport hub whereby an investor can bring goods & passengers by land, air or sea;
- The port of Aqaba, a key access point for the flow of international commerce entering and exiting the Kingdom and region, notably Iraq;
- King Hussein International Airport, an international facility that is supported by an open sky policy;
- Serviced land/facilities for light/medium manufacturing, warehousing, residential and commercial uses;

- Unique tourism experiences;
- Strategic location at the convergence of Egypt, Israel, Jordan and Saudi Arabia;
- Significant investment incentives, including:
  - No customs duties
  - No sales tax on imported goods
  - Low 5% flat income tax for enterprises
  - No income tax on transfer of dividends
  - 100% foreign ownership
  - 7% sales tax on limited range of goods and services sold in ASEZ
  - Modest 6% national tax on land purchases
  - Flexible labor policies - up to 70% foreign workers are allowed
- Favorable business benefits under Jordanian law, including:
  - Economic and transactional freedoms
  - Free capital repatriation
  - Free share transfers
  - Private sector friendly policies
  - Full ownership and management rights
  - International dispute resolution measures
- Resources of the City of Aqaba, including modern infrastructure and urban amenities;
- Untapped opportunities for the development of tourism as a stand-alone Red Sea resort destination and as part of Jordan's Golden Tourism Triangle (Petra, Wadi Rum and Aqaba);
- Modern and superior roadways to the capital Amman and to neighboring countries;
- Full-service utility networks including power, telecommunications and global international communications connectivity through FLAG;
- Reliable water resources with further desalination opportunities on a proprietary or hire basis; and
- Clusters of light and heavy industries that support other enterprises.

### **Opportunities**

Given its inherent competitive advantages and subject to its ability to remedy current competitive disadvantages, ASEZ retains a multitude of opportunities for business development and investment, including:

- Large land area that provides numerous investment opportunities in light industry, heavy industry, tourism, leisure, logistics, transport and services sectors;

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- Prospective access to regional markets through development of multi-modal transport and logistics services;
  - Increasing consumer demand for sophisticated tourism offerings, including high-end hotels and amenities.

## **AQABA SPECIAL ECONOMIC ZONE AUTHORITY**

### **Role**

The regulation and development of ASEZ is vested to ASEZA, a government entity reporting directly to the Prime Ministry.

ASEZA has autonomous powers, regulatory independence and controls in respect of, *inter alia*, customs, taxation, business registration and conduct, environmental regulation, land use, building regulation, certain utilities, municipal services and disposal and use of Government land in ASEZ.

ASEZA is governed by a Board of Commissioners appointed by Royal Decree and headed by the Chief Commissioner who is *ex-officio* Chairman of the Aqaba Ports Corporation.

### **Responsibilities**

ASEZA's mission is to develop ASEZ into a leading center of commerce, trade, industry, leisure and education in the Middle East.

To realize its mission, ASEZA focuses on two principal areas of responsibility: (1) regulation; and (2) development.

In terms of its regulatory function, ASEZA has built strong regulatory capacity and serves as a single point of service for investors, visitors, residents and enterprises in Aqaba, particularly in the areas of business registration and licensing, customs, taxation, building permits, visa/residency/work permits, land, environment and investment promotion.

In terms of its development function, ASEZA has created an enabling environment conducive to private sector development, and has implemented several high profile projects such as a major resort development and the outsourcing of management of the container terminal to a reputable operator.

As ASEZ transitions beyond its initial start up period into a high growth period, the Government and ASEZA recognized that ASEZ's viability and long term sustainability were best addressed by vesting responsibility for the development function to a private shareholding company, driven by private sector principles and capable of

maximizing ASEZ's strengths and opportunities and minimizing its weaknesses and threats through a systemic, integrated development program.

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## AQABA DEVELOPMENT CORPORATION

**ASEZA has delegated responsibility for ASEZ's development to the Aqaba Development Corporation. ADC has acquired substantial assets (land, Port, Airport) and development rights (utilities, others) to accelerate their development according to private sector principles and partnerships. ADC is funded by equity contributions and revenues from assets (notably the Port). While initially owned by Government and ASEZA, ADC will ultimately seek private sector equity participation**

### ADC

#### Inception and Mission

In December 2003 the Aqaba Development Corporation Private Shareholding Company Limited was formed to take full responsibility for development of ASEZ's strategic assets in a manner consistent with the Master Plan and prudent private sector principles and practices.

#### Rationale

Divestiture of responsibility for ASEZ's development from ASEZA to ADC is expected to realize the following principal benefits:

- Enable ASEZA to focus exclusively on its regulatory function while empowering a dedicated corporation to drive the development function;
- Achieve ASEZ's 'holistic' development through an agency vested with full operational and financial responsibility over development matters, including land, infrastructure, utilities and development rights;
- Accelerate ASEZ's development by introducing private sector principles, practices and imperatives to planning and implementing development projects, including stringent performance metrics;
- Escalate private sector participation in ASEZ's development, either on a stand-alone basis or through public-private partnerships or other means that optimally leverage ADC and private sector strengths;
- Access a wider pool of private sector technical and management resources;
- Eliminate potential conflicts of interest within ASEZA by separating its regulatory function from its development function;
- Insulate key development decisions from political influence; and

- Facilitate greater access to market-sourced capital.

### **Shareholders**

Although ADC is a private shareholding company, it is currently wholly owned by the Government of Jordan (50%) and ASEZA (50%).

### **Corporate Governance**

In accordance with Jordan company law, ADC is currently governed by a Founding Committee which shall transfer ADC governance responsibilities to a Board of Directors, elected by ADC shareholders in the near term.

ADC's Memorandum of Association contains significant provisions which mandate best practices in relation to ADC's corporate governance and operate it in accordance with private sector principles.

### **Organization and Organizational Structure**

ADC is essentially a start-up company. ADC has not finalized its organizational structure and does not have any employees. ADC activities are, at present, guided by the Founding Committee as coordinated by the Chairperson of the same.

## **ADC MANDATE**

As part of its incorporation documents, ADC identified five main objectives to realize its mission:

### **Strategic Assets**

Develop and manage ASEZ's strategic assets in accordance with sound business principles and practices and in a manner that optimizes private sector participation in the development and management of these strategic assets so as to accelerate their performance and ASEZ's economic growth and development.

### **Business Enabling Infrastructure and Projects**

Develop and manage business enabling projects and infrastructure in accordance with sound business principles and practices and in a manner that optimizes private sector participation so as to accelerate ASEZ's economic growth and development.

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### **Economic Development**

Undertake transactions that stimulate ASEZ's economy and promote the overall economic growth and development of ASEZ and the Kingdom and otherwise advance realization of ASEZ's vision and provisions of the ASEZ Law.

### **Sustainable Results and Returns**

Realize its business objectives on a viable and sustainable basis that not only realizes the economic and social development of ASEZ and the Kingdom, but also generates adequate returns for ADC's shareholders.

### **Private Sector Ownership and Operation**

Enable significant private sector ownership and management of ADC.

## **ASSETS**

To fulfill its mandate, the Government and ASEZA transferred significant assets and development rights to ADC, including but not limited to:

### **Land, Vested Rights**

Under the Master Development Agreement, ADC acquired the development rights of the bulk of ASEZA's land holdings and certain interests in tourism, industrial, commercial and mixed-use residential sectors, and assumed ASEZA's rights in certain property development projects such as ADC's 15% equity share in the Lagoon site.

### **Port of Aqaba**

Under a Development Agreement, ADC acquired ownership of and responsibility for the Port of Aqaba from the Government of Jordan.

The Aqaba Port Corporation continues to operate the Port under management contract with ADC until such time as ADC vests such functions with other entities, at its sole discretion. In this regard, ADC recently outsourced management of the Aqaba Container Terminal, a part of the Port of Aqaba, to AP Moller of Denmark, under a two year management contract.

A Memorandum of Understanding was also signed with APM Terminals that may lead to a long term partnering agreement for ACT's operation if ADC is satisfied with APM Terminal performance under the management contract.

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### **King Hussein International Airport**

Under a Development Agreement, ADC acquired ownership of and responsibility for King Hussein International Airport from the Government of Jordan. The Civil Aviation Authority continues to exercise general management responsibilities over the Airport, under contract with ADC, until such time as ADC vests such functions with other entities, at its sole discretion.

### **Utilities**

As part of the Master Development Agreement with ASEZA, ADC acquired the right to develop and manage public utilities services in ASEZ, notably water, wastewater, telecommunications, transportation and gas interests.

To date, ADC has acquired a 15% equity interest in the Aqaba Water Company, a limited liability company formed by the Government of Jordan, to assume responsibility for the provision of water and wastewater services in ASEZ and the Aqaba Governorate, according to private sector business principles and practices.

## **OBLIGATIONS**

### **Development Obligations**

The Master Development Agreement and other Development Agreements provide for ADC to undertake development of its vested assets and rights to certain standards and specifications in certain time periods. The specific nature of such obligations, however, remains to be determined through further negotiations between ADC and its counterparts.

### **Corporate Social Responsibility Obligations**

In addition to realizing specific commercial imperatives, ADC is mandated to use ASEZ's economic development as a catalyst to uplift the quality of life for the Kingdom's peoples, particularly members of the Aqaba community.

In this regard, ADC expects to create a community upliftment fund in which a certain portion of revenues are allocated towards funding and developing community facilities such as schools and health clinics.

The precise formula and mandate for this fund has yet to be determined.

## **MODUS OPERANDI**

ADC enjoys significant autonomy to deal with its assets and rights. ADC may sell or lease assets or rights, subcontract or partner with private sector firms to develop such assets or rights or otherwise develop or dispose of them as it sees fit to realize its overarching mandate.

Typically, ADC is likely to package and market various assets and rights for development by the private sector, through either direct private sector development or some form of public-private partnership.

As part of such packaging and marketing, ADC identifies and selects optimal private sector operating partners for specific development opportunities and negotiates Third Party Contracts with those partners to develop and operate those opportunities on terms optimal to ADC.

To date, ADC has successfully employed this modus operandi to develop two high profile, strategic assets:

- ADC attracted a world class private sector developer to build, own and operate the Aqaba Lagoon Tourism Project, a 4 million square meter, integrated tourism resort community built around an artificial lagoon, which represents the largest foreign investment and public-private partnership in Jordan to date; and
- Subject to satisfaction with a current management contract, ADC may have attracted a world class joint venture private sector partner to manage the Aqaba Container Terminal, a transaction which would surpass the Lagoon Project as the largest public-private partnership in Jordan to date.

## **FINANCES**

Beyond initial seed capital contributed by the Government of Jordan, ADC expects to be fully self-financing and profitable in accordance with private sector business principles.

ADC's financial resources originate from two types of sources: (1) funds generated by capital and debt raising exercises; and (2) revenues generated by specific development projects.

### **Capital and Debt Raising**

#### **Immediate Term**

Seed capital to cover ADC's initial working capital requirements was provided by the Government of Jordan through a once-off commitment.

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### **Medium to Long Term**

ADC's current business plan anticipates capital investment in over 160 projects valued at USD 9 billion over a 20-year period.

ADC is expected to account for 10% (USD 900 million) of this funding requirement, with the private sector filling 85% (USD 7.65 billion) and other Vesting Authorities filling the remaining 5% (USD 450 million) of this need.

As such, ADC expects to raise additional funds in the medium term through market related opportunities which may include, inter alia, project finance, structured finance, other debt-raising means on a general or project basis, and equity financing as it becomes feasible in the mid-to long-term.

Resort to such mechanisms remains at ADC's sole discretion, taking into account the views of ADC's shareholders, the Manager, prevailing market conditions, specific project opportunities and other relevant matters.

### **Development Revenues**

ADC earns revenues from the realization of specific development opportunities. Sources of income derived from development projects may include:

#### **Up-Front Income**

Lump sum payments to ADC, particularly from land sales.

In the near term, for example, ADC earns a substantial up-front payment from the pending sale of land for the Lagoon Project.

#### **Annuity Income**

Annual payments to ADC, including annual income from land leases, royalty payments from profit-sharing arrangements and dividend payments from carried equity interest in various development projects.

To date, ADC's principal source of revenue consists of the surplus income generated by the Port of Aqaba, an income stream which vests ADC with a substantial and reliable financial resources to support realization of its objectives.

Other examples of annuity-like income earmarked for ADC include:

- Annual payments from lease of public lands, including several properties within the City of Aqaba as well as public purpose land in the Lagoon Project;
- Royalties from profit-sharing agreements associated with several specific development projects such as the ALTS Project and ACT partnering arrangement; and
- Dividends from carried equity interests in various development entities such as the ALTS Project development company, ACT management company and Aqaba Water Company.

## ADC CHALLENGES

**ADC needs to immediately 'jump start' ASEZ's development. To do so, ADC must build an organization capable of realizing near term development projects and priorities while growing institutional capacity and human resources to meet medium term and long term priorities.**

### CHALLENGES

ADC faces numerous challenges in realizing its mandate. Generally, these challenges may be divided into external priorities and internal priorities and classified into near term, medium-term and long-term objectives.

External priorities are, by and large, related to development of specific assets or investment opportunities while internal priorities are, by and large, in-house initiatives designed to enable ADC to realize its external priorities.

The bulk of ADC's priorities are front-loaded due to its need to make an immediate impact on ASEZ's development.

### EXTERNAL PRIORITIES

#### Near Term (1 to 3 years)

ADC is under significant pressure to 'jump start' ASEZ's growth, particularly through rapid introduction of private sector investment and participation in development of ASEZ assets.

External priorities in the near term include but are not limited to:

- Implementing development and re-development projects that were started as per the Master Plan for the Zone.
- Satisfying existing private sector demand for development of specific projects within ASEZ.

Industrial parks, logistics centers, smart office building complexes, warehousing and showroom parks areas of development with strong private sector demand.

ADC needs to develop a near-term strategy for meeting such demand in the context of ASEZ's holistic long term development.

- Developing supporting infrastructure and business enablers such as logistic parks to foster ASEZ's economic development prospects.
- Effecting market differentiation by making available supporting services such as international schools, first-rate hospitals and

housing facilities for laborers, to attract investment and business development.

- Proactively countering negative investor perceptions about ASEZ arising from regional instability and aggressively marketing ASEZ as an investment destination of choice for companies in target sectors.

<b>Priority Projects for the ASEZ</b>	
<p><b>Property Development/Redevelopment</b></p> <ul style="list-style-type: none"> <li>• Logistics Park and tenants</li> <li>• Industrial Zone in southern Aqaba</li> <li>• Distribution centers, cold storage facilities</li> <li>• Business/office park</li> <li>• Affordable housing</li> <li>• Education, health and social amenities</li> <li>• Redevelopment of urban <i>Brownfields</i> including revitalization of the Old Town</li> <li>• Conversion of Inner Harbor into cruise ship and fast ferries and tourism-retail-entertainment complex</li> <li>• Conversion of phosphate and grain terminals into business incubator and enterprise development complex</li> <li>• Social and recreational amenities in the Coastal Zone area</li> <li>• Airport-related property development</li> </ul>	<p><b>Infrastructure Planning and Development</b></p> <ul style="list-style-type: none"> <li>• Relocation of general cargo terminal and phosphate terminal</li> <li>• Redevelopment of the container port complex and other related facilities</li> <li>• Establishment of a natural gas network</li> <li>• Construction of a truck staging area</li> <li>• Development of ICT facilities</li> <li>• Expansion of airport and access to warehousing and cargo facilities</li> <li>• Improvements to various segments of the road network</li> <li>• Expansion of power generation and distribution networks</li> <li>• Improvements to water supply and distribution systems</li> <li>• Investment in desalinization facilities</li> </ul>

### **Medium Term (4 to 7 years)**

ADC's medium-term external priorities largely involve the continuation of the projects already started in the short term according to the design of the Master Plan. The realization of ASEZ's continued economic growth through a holistic strategy would accelerates the development of specific assets on terms that optimize value for ADC.

Assets targeted for medium-term development likely include, inter alia:

- Expand the capacity of King Hussein International Airport

The Airport houses modern but modest transportation infrastructure which may benefit from private sector development of passenger terminal and cargo handling facilities.

- Certain utilities

Development of specific projects in public utilities services, particularly telecommunications and desalination initiatives.

- Expand the capacity of the sea port

### Long Term (beyond 7 years)

ADC is expected to realize the Master Plan's long-term vision for ASEZ, including development of several substantial infrastructure projects and commercial ventures.

Long-term development projects featured in the Master Plan presently include completing the waterfront Corniche redevelopment and the relocation of one or more Port terminals as well as the development of large tracts of land in prominent positions within ASEZ.

ADC's indicative organizational chart is outlined below:

