



International Good Practices for Attracting Investment Zone Developers

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Investment Zone Definition

- Investment Zones are:
 - A type of Special Economic Zone, but often much smaller
 - Geographically delimited
 - Administered by a single body
 - Often with a sectoral focus
 - Offering certain incentives for businesses physically located within the zone
 - Tax incentives
 - Duty-free or reduced-duty importing
 - Streamlined customs procedures
 - Streamlined administrative procedures
 - Excellent infrastructure
 - Security

Criteria for Selecting Investment Zone sites

- Obvious commercial and logistical issues:
 - Proximity to inputs
 - Proximity to labour
 - Proximity to markets
 - Proximity to transportation
- But also political and financial commitments
- Local governments must commit resources to zone development alongside private investors
- This ownership increases the chances that the local political and administrative environment of a zone will be responsive

Investment Zone trends in the MENA region

- Economic zones are increasingly used by governments to attract foreign investment, promote export-oriented growth, and generate employment.
- Recent estimates indicate there are currently more than 2300 economic zones in 120 countries.
- The emerging trend in economic zone development in the MENA region is a movement away from the development of classical free zones and export processing zones towards SEZ and specialised investment zones (SZ) focusing on high value added.

Investment Zone trends in the MENA region

- The stock of SEZ and specialized zones in the MENA region increased from 2 and 8 respectively in 2005 to 10 SEZ and 37 SZ in 2009
- Many investment zone programmes have been in place for several decades, but despite high profile successes, many have failed to meet their potential
- Although multiple factors contribute to the failure of a programme, in most cases, it can be traced back to the initial planning stages, and derives from an ineffective regulatory and institutional framework

Objectives of Investment Zones

- **Establishing a one-stop shop (OSS)** to streamline administrative procedures
- **Establishing integrated clusters** by bringing together the various actors in a production cycle
- **Boosting economic and social development** based on national competitive advantages

Objectives of Investment Zones

- **Promoting investment in a wide range of investment zone activities, including classic industrial activity but extending to other activities such as:**
 - Educational and scientific research
 - Small and medium-sized businesses (SME)
 - Commercial services
 - Tourism

Objectives of Investment Zones

- **Promoting integration and value-added** in various fields (such as industry, services, agriculture and tourism) and supporting SMEs with special focus on labor-intensive activities
- **Involving the private sector** (as investment zone developers and current or future zone users) in:
 - The creation of zone infrastructure
 - The management and marketing of the completed zonesensuring optimal project design, optimal provision of user services, and complementarity of commercial activity in the zones

Objectives of Investment Zones

- **Offer development services** above and beyond the administrative services of a one-stop shop, such as the creation of training units to offer technical and management courses for zone workers and upgrade their professional qualifications

Roles and Responsibilities in an Investment Zone Programme

- The Regulator
- The Developer
- The User

Roles and Responsibilities of the Regulator

- Strategic planning and zoning issues
- The selection of site(s) and establishment of land use guidelines
- The execution of initial feasibility studies
- The selection and contracting of the developers
- The development of offsite infrastructure and interconnection with on-site plant
- Training, workforce development and social services
- The regulation and administration of the investment zone programme

Roles and Responsibilities of the Regulator

- The facilitation of government services such as licensing, registration and permits (environmental, building, and work permits, etc)
- The regulation of services within the zones (such as utilities)
- The provision of dispute resolution services (the regulator may set fees commensurate with the cost of service delivery)

Roles and Responsibilities of the Regulator

- Monitoring of compliance with the investment zones legal framework, including investment zone policies, standards and requirements
- Enforcement through appropriate penalties independently from other public agencies

Roles and Responsibilities of the Developer

- **Land use planning:** Create a final land-use master plan, and prepare the land (grading, leveling, other pre-construction activity).
- **Provision of on-site infrastructure:** internal road networks, drainage and sewerage, and infrastructure for the provision of utilities.
- **Facility leasing:** managing lease and rental agreements with individual investors and providing basic services to the zone (including maintenance and security).

Roles and Responsibilities of the Developer

- **Utilities:** ensuring the provision to zone users of on-site utilities (electricity, gas, water, telecommunications) through direct supply or via domestic providers.
- **Provision of other value-added services:** this may include a wide range of other services, including business and training centers, medical and childcare, transport, and recruitment.

Roles and Responsibilities of the Developer

- **Marketing:** experienced private developers often have a network of multinational clients across a range of industries to which they can market new investment zone opportunities.
- The Zone authority/regulator and other parts of the government (such as an investment promotion agency) typically also carry out some marketing activities.

Criteria to be met by Investment Zones to Attract Developers

- Easy access to the allocated land (access and title).
- Reasonable land prices that are not prohibitive in terms of a profitable build-own-operate (BOO) arrangement.
- Timely and adequate provision of infrastructure and utilities.
- Efficient administrative processing of required authorizations (building permits, environmental approvals).

Criteria to be met by Investment Zones to Attract Developers

- Close coordination between government agencies involved in zone development approvals and service provision
- A site location that is close to strategic markets, inputs, and transport networks – governments may be concerned about developing rural areas, but a zone developer must achieve commercial success
- Certainty that the government will offer streamlined administrative services to zone users, which are a source of revenue for zone developers

Separation of the Regulator Role from the Developer/Operator Role

- This avoids conflict of interest – the regulator is not in the position of making decisions that affect private zones in competition with public zones that it operates
- In Lesotho, where the public developer is also the regulator, the provision of land and factory shells at below-market rates has been cited as a key factor undermining private sector provision
- The regulator has critical role to ensure that development processes are both transparent and effective

Marketing Investment Zones to Potential Developers

- Packages designed by governments to attract zone developers may include tax incentives
- But tax incentives are a classic tool and only one of many decision factors for a potential zone developer
- Governments may take a more pro-active and comprehensive approach by drafting a full marketing strategy targeting developers

Marketing Investment Zones to Potential Developers

- A 2-part plan by the World Bank for Ghana:
 - First, assist any already interested potential developers in addressing any project financing or other issues that may deter them
 - Second, mount a campaign to locate qualified developers using International Competitive Bidding (ICB) and Direct Developer Identification (DDI).
- A key tool in the latter component would be an "offer" document that would fully disclose site features and advantages as well as delineate the criteria for developer qualification.

Conclusions and Recommendations

- Identify the best locations for Investment Zones
- Clear separation between regulator/developer roles
- Low bureaucratic and tax/customs burden on developers
- Grant the Investment Zone boards more executive authority to manage the internal affairs of the zone
- Increase co-ordination between the one-stop-shop and the other governmental agencies
- Develop full marketing strategy targeting developers