MENA-OECD INVESTMENT PROGRAMME

Towards Best Practice Guidelines for the Development of Economic Zones

A Contribution to the Ministerial Conference by Working Group 1

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I. INTRODUCTION

Countries develop different types of free economic zones (FEZs) as a tool to generate employment opportunities, promote and diversify exports, increase technology transfer and attract investment flows. Developing and emerging economies use FEZs as "economic laboratories" or showcases of a generally strong enabling environment and a competitive market for investment. In order to achieve the intended objectives of zones, governments offer a range of incentives from fiscal to regulatory such as export duty exemptions, streamlined customs and administrative controls and procedures, liberal foreign exchange policies and income tax incentives. Governments have been experimenting with the use of policy tools in ensuring the effectiveness of their zones; however they have not always been successful. Recently, governments have been trying to move away from the traditional zones with the traditional set of objectives and policy tools to either more comprehensive or sector specific zones. In addition, they are trying to incorporate other development policy instruments to their policy packages to tackle other issues such as skills development, rural development and green growth while achieving the traditional objectives.

Given that nearly all MENA countries have developed or are in the process of developing FEZs or some hybrid thereof, MENA countries have expressed the need during the MENA OECD Working Group 1 in October 2008, to develop a set of best-practice guidelines for the development of FEZs. These guidelines serve as a tool to help governments maximise the success of FEZs in meeting their specified policy objectives. The guidelines touch on, but not limited to, the following issues: the use of incentives; performance measures, cluster strategies, linkages to the domestic economy, and an expanded role for the private sector in zone management. The best practice guidelines for the development of FEZs are developed based on identified international and MENA best practices.

During the last Working Group 1 meeting in March, 2009, participants commented on the "Best-practice Guidelines for Economic Zone Development in the MENA region", which was tabled at the Ministerial Conference in November 2009. The next step is to develop a detailed and comprehensive Handbook for Economic Zone Development showcasing best practice examples from the region, other competitive markets and the world. Since governments have different policy objectives for economic zones and therefore use different policy tools in achieving them, the handbook is unique in the way it analyzes and determines the most effective combination of policies given country specificities, while ensuring that both economic and social costs of policies do not exceed their benefits. It will also look at the use of new development policy tools and how to incorporate them in their policy packages.

The handbook would entail the following analytical pieces of work:

- Modelling the effects of different policy levers on policy objectives and on the profitability of firms.
- Analyzing case studies to showcase good and bad practice examples of policy tools.
- Incorporating best practice concepts in the design of economic zones based on the developed guidelines.
- Determining elements of a cost benefit analysis of economic zones.

- Better interlinking the roles of investment boards and economic zone authorities and transforming economic zone best practice concepts to economy wide reforms.

This document successively provides a brief overview of different definitions of free economic zones - with the aim of utilizing one common definition throughout the document; highlights main FEZ trends in the MENA region and finally introduces the best practice guidelines for FEZ development.

II. TOWARDS A COMMON DEFINITION OF FREE ECONOMIC ZONES

The first type of FEZs mostly took the form of free ports – customs free areas within seaports offering little more than warehousing and trade facilities. Over time, some free ports developed into customs-free zones in which light manufacturing and other processing took place. The next step was the development of export processing zones, which encourage more complicated manufacturing operations with the purpose of exporting. Later, special economic zones (SEZs) and specialized zones (SZs) evolved. SEZs offer a wider array of sectors including manufacturing and services that target both foreign and domestic markets. In addition, they permit on-site residence and provide all facilities to employees and hence could be viewed as standalone cities. On the other hand, specialized zones (SZs) focus on specific industries by providing the appropriate infrastructure and building on the concepts of clusters.

The terminology applied to free economic zones, in literature and common usage, is highly confusing. Words like "free zones", "free trade zones", "customs-free zones", "special economic zones", "export processing zones", etc. are in practice used almost interchangeably. This reflects the implementing authorities' linguistic preferences as much as functional differences between different kinds of zones. However, some main differences can be identified. Again, for the purpose of this paper, the term "free economic zones- FEZs" has been chosen as the term applying to all such establishments. Common to most FEZs is the fact that they are ring-fenced enclaves (with the exception of Single Factory/Private EPZs) that enjoy special regulatory, incentive and institutional frameworks that are different from the rest of the economy. The different classifications of FEZs are as follows:

1. **Free trade zones (FTZs; also known as commercial free zones):** are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, trans-shipment, and re-export operations.

2. **Export processing zones (EPZs):** are industrial estates aimed primarily at attracting export-oriented investments. They cover usually a wide array of manufacturing industries.

3. **Private zones/Single factory processing zones:** provide incentives to individual enterprises regardless of location.

4. **Special economic zones (SEZs):** are larger estates and could be considered cities on their own. They usually cover all industrial and service sectors and target both foreign and domestic markets. They provide an array of incentives ranging from tax incentives to regulatory incentives. In addition, they permit on-site residence.

5. **Specialized zones (SZs):** targeted at specific sectors or economic activities. Examples of SZs include science/technology parks, petrochemical zones, logistics parks, airport-based zones, and so on. They may restrict the access of companies in non-priority sectors, and their infrastructure is mostly tailored according to their sectoral targets.

It should be noted that the distinction between the different kinds of zones must involve an element of judgment and sometimes zones fall in between categories. For instance, most free zones restrict the access of certain categories of investors, without necessarily being classified as specialized zones. Also, it is not very clear how "special" a free zone's regulatory environment must be before it can be classified as a SEZ. FEZs in their general definition can include a combination of characteristics from all the previously identified FEZs. Therefore the classification just provided is merely for the purpose of providing a simplified overview of FEZs in MENA.

III. OVERVIEW OF ECONOMIC ZONES IN THE MENA REGION

1. Free Economic Zones in MENA: Major Trends

There is generally an increasing trend in the development of FEZs in the MENA region. In the MENA OECD Stock-taking report (2005), there were 48 functioning zones in the MENA region as a whole; with three MENA countries having no FEZs at that time namely Oman, Qatar and Saudi Arabia. According to the 2008 update, there were about 73 FEZs. The numbers have almost doubled from 48 in 2005 to around 89 FEZs in 2009. Moreover, the three countries that did not have FEZs had set up concrete plans for their development. Saudi Arabia had set ambitious goals for creating six "special economic cities" with a goal of creating 1.3 million employment opportunities by 2020. The King Abdullah Economic City is slated to be built first and will be divided into six areas: the sea port, industrial zone, central business district, resort district, education zone and residential zone. Oman has developed a specialized zone called the Knowledge Oasis Muscat focusing on technology development. Qatar plans to construct a development called Energy City Qatar with the aim of attracting leaders in oil and gas production, to be opened in 2010.[1]

The following table classifies FEZs in MENA according to the definitions developed in the earlier section of this paper. Therefore these classifications should be used with flexibility as they are named differently in their respective countries.

[1] Booz Allen Hamilton (2008), pg. 4

Table 1. FEZs in MENA[2]

	Number and type of zones	Total area (hectares)	Number of enterprises	Observations
Algeria	1 SEZ Plan for more SEZs namely industrial estates	523	ND	
Bahrain	1 FZ; 3 SZs	ND	ND	
Egypt	1 SEZ; 9 EPZs; 5 SZs	SEZ:2040 ; EPZs: 1633	ND	
Iraq	3 EPZs	ND	ND	
Jordan	1 SEZ; 6 EPZs; new development zones	SEZ: 37,500; FZs: 757	1,722(a	The SEZ covers the urban area of Aqaba.
Kuwait	1 EPZ	60	300	
Lebanon	2 EPZs	27	ND	
Libya	1 FTZ	430	ND	
Morocco	2 EPZ	345	ND	
Oman	1 EPZ, 1 FTZ, 1 SZ, 1 SEZ	ND	ND	
Palestinian National Authority	SZs (in development)	ND	ND	
Qatar	1 SZ	..	..	
Saudi Arabia	4 SEZs, 3 SZs	..	..	
Syria	7 EPZs	339	ND	
Tunisia	2 SEZs	138 hectares	ND	
United Arab Emirates	8 EPZs, 24 SZs	FZs: 12,950; IZs: 1,235(a	9000	Several of the industry zones occupy space inside the larger free zone areas.

[2] These are roughly the numbers of FEZs in MENA; MENA countries are welcome to submit the accurate numbers.

Yemen	1 EPZ	28	29	
Total MENA	2 FTZs; 37 EPZs; 10 SEZs; 37 SZs	57,977	11051	

MENA countries have taken vastly different approaches to the use of FEZs in attracting investment. This is because they have different investment climates and use different investment incentives in the general economy. Some of the MENA countries offer quite good physical investment climates (e.g. modern roads, ports and electricity grids), a reasonably well-educated labour force, and have at least taken steps towards raising administrative and regulatory efficiency while other countries are still in the process of improving their investment climate.

In line with the rest of the world, the emerging trend in FEZ development approach in MENA is a movement away from the classical development of "free trade zone" and "export processing zones" towards "special economic zones" and "specialized zones." In 2005, the stock of export processing zones (EPZs) special economic zones (SEZs), and specialized zones (SZs) in MENA numbered 38, 2 and 8 respectively; in 2009 the numbers are as follows: 37 FZs, 10 SEZs and 37 SZs.

The movement away from traditional free zones to SEZs and SZs in part reflects a desire to promote economic diversification and enable greater employment opportunities.[3] The World Bank estimates that for MENA as whole, FEZs in general nearly employ 1.5 million or 1.59% of national employment.[4] The UAE approach to IZs and the Saudi development of "special economic cities" are examples of the shift toward improving manufacturing capacities and promotion of specific industry clusters. Improving linkage development between firms inside and outside of the zones would also contribute to generating greater employment opportunities and promoting economic diversification.

In terms of FEZ development and management, the global trend has been the movement towards those which are privately operated. According to a recent FIAS stocktaking report (2008), nearly 62% of developing and transition country FEZs worldwide are private sector developed and operated, while in the MENA region that proportion stands at approximately 18%. However, examples of a movement toward public-private partnership approaches are emerging in the MENA region. In the Aqaba Industrial Estate in Jordan, for example, the role of the public sector focuses on financing of all external infrastructure and provision of land on long-term basis, while the private sector is responsible for financing of all internal infrastructure and zone management.

The FEZs that are so far considered most successful are those in the United Arab Emirates – not least the famed Jebel Ali Free Zone (JAFZA) in Dubai that has until the last stock taking report in 2008, attracted more than 2,200 mostly foreign-owned enterprises. Following the establishment of Jebel Ali in 1985, other states of UAE were quick to follow suit (e.g. Fujairah and Sharjahin 1987, Umm Al Quwain in 1988) and the country now has around 32 FEZs in operation. The success of JAFZA has been such that its operating company is now selling know-how to, or is otherwise involved in the development of, several of the other zones in MENA.

In another apparent consequence of the early successes, the governments of UAE (especially Dubai) have gone further than other economies in the MENA region in using the zone approach as a tool for targeted

[3] Booz Allen Hamilton (2008), p.3

[4] FIAS (2008), p. 34

strategies. The country is host to around 24 SZs, including the widely acclaimed Dubai Media City. The zones generally target knowledge-intense sectors such as ICT, higher education and health care, but also include facilities targeted at the local production of jewellery and the distribution of automobiles.

Several MENA countries have expressed the intention of trying to emulate the success of the Emirates with FZs. Arguably, the most advanced plans can be found in Egypt and Jordan. In the case of Jordan, there is a long-standing tradition for relying on FEZs to encourage investment. The EPZ in Zarqa close to Amman has been in operation for decades and is host to more than 1,300 enterprises, most of which domestic companies of a limited size. As part of a new strategy to use zones to attract international investment, in 2001 the free port of Aqaba was turned into a SEZ and greatly expanded to include most of the urban area. Since then, more than 310 companies have established themselves in the zone and invested an estimated US$ 400 million.

Egypt also has a relatively long history of relying on FEZs (the oldest ones- Egypt Free Zones, still in existence were established in 1973), but recent years appear to have brought a change in the overall strategy. More recently the focus has been on SEZs and what is known in Egypt as “Investment Zones” (applying the same concepts as specialized zones or industrial zones). A SEZ was established in 2003 on a large industrial area of 9,000 hectares at the North West Gulf of Suez.

2. Incentives and subsidies offered in MENA’s FEZs

Like other aspects of the MENA countries’ investment environments, the incentive package[5] in FEZs differ between countries – not least between the Gulf countries and the rest of the region. However, as a general rule, FEZs rely relatively strongly on regulatory incentives – inter alia by cutting red tape and simplifying administrative procedures for companies located inside the zones. In many cases the zone authorities are authorised to act as a one-stop shop with the authority to grant all necessary licences and authorisations and oversee regulatory compliance, thereby shielding investors from a time-consuming and sometime ominous regulatory compliance. In the Gulf countries, one of the main regulatory incentives in FEZs is the exemption from limits on foreign ownership that apply to companies elsewhere in the host economy. Examples of countries following this strategy include Bahrain, Kuwait and the United Arab Emirates. In addition, these and several other MENA countries that maintain restrictive practices toward foreign land ownership either wave these restrictions inside the zones or offer land on long-term renewable leases. Labour market regulation is eased in some zones, for instance through easier access to hiring expatriates (Jordan and Kuwait), or a wavering of national rules against limited duration

[5] Incentive package includes:

1. Regulatory incentives: In the context of FEZs, they often consist in the relaxation of direct investment regulations (e.g. nationality requirements; screening and authorisation procedures) in place elsewhere in the host economy.

2. Fiscal incentives: consist of an easing of the tax burden on the investing companies or their employees. Unlike many other incentives they are most commonly rules-based as changes in taxation in most cases require legislative action. General fiscal incentives normally take the form of reduced corporate tax rates or tax holidays; encouragement of capital formation (e.g. investment tax credits and accelerated depreciation allowances); and preferential treatment of foreign operators (e.g. lower tax on remittances; reduced personal income tax rates on expatriates). In FEZs fiscal incentives, virtually by definition, also include lower import and export taxes and tariffs.

3. Financial incentives: consist of out of hand public spending to attract companies or induce them to invest. They are often formally justified by a need to compensate investors for the perceived disadvantages of a particular location (“site equalisation outlays”), or may take the form of tailoring the infrastructure of a prospective location to the needs of investors. Other financial incentives include subsidising the actual costs of relocating corporate units (e.g. job training cost; expatriation support; and temporary wage subsidies).

employment contracts (Tunisia). Finally, those countries that have foreign exchange restrictions in place generally permit companies located in FZs to operate outside this part of the regulatory regime (e.g. Morocco, Syria and Tunisia).

MENA countries rely in large measure on fiscal incentives to attract investors in the general economy, with financial and regulatory playing a less prominent role. For the most part fiscal incentives offered to investors in the general economy are available to companies in the FEZs as well. However, some zones go beyond this and offer additional fiscal concessions. Four countries offer a complete exemption from corporate and private income taxes in their free zones (Algeria, Egypt, Kuwait and United Arab Emirates), whereas companies located in SEZs (in Egypt – and likewise in Jordan) are requested to pay certain low income taxes. Jordan's free zones offer freedom from the taxation of corporate profits earned on manufacturing goods for imports or trading within the zones. Several countries (Lebanon, Morocco and Yemen) offer corporate tax holidays in their FZs that are more generous than what is available under their general investment incentive regimes. Some zones also offer reduced personal income taxes on expatriate staff. In Yemen, the income of non-Yemeni employees is completely exempt from taxation; in Jordan's free zones non-Jordanian employees enjoy a 12 year tax holiday, and in Tunisia's FZs a flat individual income tax rate of 20% is applied to the salaries of foreign staff.

In the nature of FEZs, the so-called "quasi-incentives" are on offer almost everywhere: zones are generally advantageously located next to an air- or seaport and equipped with physical infrastructure that exceeds what is found in many other parts of the host country. In addition to this, some zones offer actual financial incentives, mostly in the form of low land rental and utilities rates (Egypt, Kuwait, Lebanon, Tunisia and United Arab Emirates). More targeted financial incentives include subsidising the training expenses of foreign enterprises (Jordan – Aqaba SEZ) and providing state aid for the acquisition of land and the production of production units (Morocco).

The following section lays the main policy issues that are to be considered by governments when developing FEZs. They are the stepping stones for a more comprehensive set of guidelines for zone development.

IV. TOWARDS BEST PRACTICE GUIDELINES FOR THE DEVELOPMENT OF ECONOMIC ZONES

The overriding consideration for a country seeking to attract investment is putting in place a healthy enabling environment (infrastructure, human capital, an investment-friendly regulatory environment, the rule of law, good public governance). Incentives and free economic zones can, at best, be a supplement to a good enabling environment, or be used to compensate for certain concrete shortcomings that cannot be otherwise addressed.

In order for free economic zones to succeed in achieving their intended policy objectives, they must not be seen as a substitute for a country's larger trade and investment reform efforts. This would jeopardize their potential success and make governments more complacent with the status quo without acknowledging the need for overall investment policy reform. Zone programmes should be used as pilot and demonstrative projects with the aim of encouraging broader economy-wide reforms leading to more employment, greater exports, and increased foreign investment. The success of zones in the long run depends on the overall improvement in the investment and business climate and the extent to which projects in the zones are linked to activities in the local economy.

A review of international best practices, including those of MENA countries, reveals that policy makers interested in designing new or modifying existing zone programmes should focus on six elements: the type of zone to be developed; the policy framework; incentive framework; regulatory framework; institutional framework; and lastly physical development and management of zones.

I. Zone Type

A critical issue is to determine what type of zone is to be promoted. In choosing the zone type, the two following considerations should be taken into account:

1) **Export processing zones vs. Multi-sectoral zones: zone programmes should not be limited to a narrow set of sectors.** The increasing convergence of the traditional export processing zone concept with free trade zones into so-called Special Economic Zones (SEZs) with a multi-sectoral development approach is a global trend. Zone programmes should target a wide assortment of economic sectors, including commercial and manufacturing activities and professional services (such as warehousing, transshipment, informatics);

2) **Public vs. Private Sector Operated Zones: Greater involvement of the private sector in the development and management of zones should be encouraged.** This reduces the burden placed on public resources and increases the efficiency of zones by allowing them to operate under market mechanisms. International experience reveals that a significant number of governments developed and managed zones have been less effective than their private counterparts. In order to facilitate private development of zones, an appropriate legal, regulatory and institutional framework should be in place based on the following guidelines:

a. A legal framework should be developed that clearly outlines selection criteria, incentives and privileges of private zone developers and operators;

b. Public-private partnership (PPP) frameworks for zone development should be encouraged. The PPP arrangement should be based on a clear definition of rights, responsibilities, obligations and commitments of the private and public sector parties. An illustrative list of different PPP frameworks include:

    1. Public provision of off-site infrastructure and facilities (utilities, connections and roads) while private funding is targeted towards on-site infrastructure and facilities;

    2. Build Transfer and Operate (BOT) and Build Operate Own (BOO) approaches to on-site and off-site infrastructure and facilities with government guarantees and financial support;

    3. Contracting private management for government owned zones or of government zone assets by the private operator (beneficial ownership);

    4. Equity shifting arrangements whereby a private contract manager of a government zone can exercise a purchase option once pre-defined performance levels have been reached.

Box 1. Selected Efforts by MENA countries to increase private sector involvement in zone development and management

- **Egypt's new "Investment Zone" regime** allows the private sector to establish, manage, use and promote these zones to remove the burden of providing utilities and other infrastructure services from the state.
- **Kuwait'**s Free Trade Zones (KFTZ) located at Shuwaikh port were established and managed by the privately owned National Real Estate Company.
- **Libya** is also pursuing a private sector involvement whereby Dubai's JAFZA International signed an agreement with the Misurata FTZ Authority which commits both sides to explore the possibility of forming a joint venture, or granting JAFZA a 30- year concession over the FTZ.
- **Morocco** is also further developing its second free zone (TFZ) in cooperation with Dubai-based JAFZA.
- **Oman** is developing the Knowledge Oasis Muscat as a public-private sector led Technology Park.

II. Policy Framework

It is very important that policy frameworks be streamlined across different zones. Policy frameworks should be designed to encourage zones to compete on the basis of facilities and services rather than on competing on the basis of fiscal incentives. The following guidelines for developing a policy framework for zone programmes should be considered:

1) **When designing a zone programme, governments should set realistic expectations and conduct a thorough cost/benefit analysis.** The analysis should include various scenarios including those where the public sector is responsible for management and operation of zone infrastructure and services and scenarios where the private sector is responsible.

2) **Minimum export requirement should be removed in order to maximize the flexibility of the regime and to abide by WTO obligations.** The incentive regime applied within the zones should be consistent with WTO obligations. This mainly concerns the use of subsidies and tax incentives which are conditional on minimum export requirements or the use of local content requirements.

3) **Free zones should respect the principle of non-discrimination between foreign and domestic investment projects**.

4) **Labor regimes should be consistent with international norms including ILO standards and obligations** including core rights of assembly, organization, and collective bargaining. In addition, foreign worker employment regimes should be transparent yet discourage excessive dependence on foreign labour at the expense of the domestic labour market.

5) **Physical development standards and clear criteria for approval of privately and publicly developed zones should be put in place and streamlined.** This includes zone design, environmental standards, financial and technical track record of the zone development group and minimum equity requirement by the zone developer.

6) **Indirect exporter benefits (i.e. duty free access to the zones) should be given to firms in the local economy, which supply firms located in the zone thereby increasing linkages.** Creating backward linkages with the national economy is a major opportunity to foster economic growth and employment in the overall economy.

7) **Collaborative relationships should be encouraged between investment projects in the zones and firms and research institutions in the local economy.** Encouraging business networks and clusters between zone investments and outside zone investments increases transfers of know-how and skills to the local economy.

8) **Private zone developers should be allowed to supply utilities services** (telecommunications, water/ sewerage, power) to tenants of SEZ estates.

Box 2. Selected MENA Policy Frameworks for Free Economic Zones

- The policy frameworks in several MENA countries provide for equal treatment of foreign and domestic investors, increased linkages with the local economy and national certificates of origin.
- Egypt, Iraq, Kuwait, Palestinian National Authority, UAE, Syria and Yemen all permit 100% foreign ownership in their FEZs.
- Egypt's SEZ does not impose a minimum export requirement linked to customs and tax incentives.
- UAE and Jordan do not apply minimum export requirement in their zones.

III. Incentive Framework

The use of incentives should be consistent with the agreed upon "Conclusions of the MENA Task Force on Incentives, 29-30 June, Bahrain." The following are guidelines for the design and implementation of incentive packages in the zone programmes:

1) **Generous incentive packages (such as blanket tax and duty exemptions) in zones need to be monitored and evaluated periodically to ensure they are meeting their intended policy objectives**.
2) **A common set of incentives and privileges for all zone types in a country is encouraged.** This would reduce the problem of competing zone regimes that undermine zone programmes by ensuring a level playing field between the different FEZs.
3) **When using performance based incentives, they should be included within a country's tax code rather than through special legislation.** Having too many tax regimes, such as one for free zones and one for the general economy, may strain resources and the effectiveness of national tax administrations**;**
4) **Encourage the introduction of sunset clauses in instances where tax incentives are offered.** Long term commitments create equity problems by discriminating a zone programme and go against their "temporary "nature.
5) **Link fiscal incentives to actual process of capital formation.** Fiscal incentives that may have this effect include investment tax credits and duties exemption on capital goods whereas sweeping measures such as tax holidays often encourage tax planning rather than productive investment.

Box 3. Selected MENA Incentive Frameworks in Free Economic Zones

- Some MENA countries are using sunset clauses when offering tax incentives in zones.
- In Morocco, the exemption from income tax is for 5 years with a rate reduction to 8.75% indefinitely thereafter.
- In Jordan, a personal income tax holiday is granted for 12 years for non-Jordanian employees.
- In Lebanon, there is a corporate tax holiday of 10 years for all companies in the zone.
- In the Palestinian National Authority, there is an extension on tax holidays of two years.

IV. Regulatory Framework

A crucial aspect of zone programmes which is often overlooked is the simplification and streamlining of investment approvals, expatriate work permits, granting of import and export licenses as well as accelerated on-site customs inspection procedures and automatic foreign exchange access. The following guidelines are intended to improve and increase the efficiency of the regulatory framework:

1) **Use streamlined procedures for business registration in the form of a simple declarative investment registration system rather than lengthy and complicated investment approval regime.** Applications should be submitted to a single government office that provides the license. Moreover, instead of specifying eligible activities, a negative list of ineligible activities should be used. All criteria for approval or denial should be made public and a default clause authorizing automatic approval of application if no ruling had been issued within the review period is encouraged;

2) **Facilitate provision of secondary permits and authorizations.** Additional permits covering land, building, labor, health and safety matters can be facilitated by vesting all such authorizations to the relevant zone authority rather having investors deal with individual line ministries and agencies (one-stop shop services).

V. Institutional Framework

A major factor contributing to the success of zone programmes is the autonomy and effectiveness of the body charged with overseeing zone operations in areas such as staffing, control over budgets, funding, partnership with zone developers, and business facilitation services. Moreover, a critical aspect in an institutional framework is that public authorities remain engaged in purely regulatory functions and preferably move away from owning, developing or operating zones. This would eliminate any conflict of interest arising from the regulating body having the authority to approve zones and projects and at the same time owning specific zones. The following are guidelines for the development of an effective institutional framework:

1) **Sufficient autonomy of the zone authority particularly over staffing, budgets, spending and policy making should be ensured** and be clearly stated in the law;

2) **Efficiency of the zone authority should be maximized by constituting an independent board** that is composed of representatives of all key involved government ministries and private sector representatives, be it the private developers or the investors in the zone;

3) **A one-stop shop should be set up by the zone authority in each of the zones** providing all approvals and licenses and assisting private developers in establishing the zone and also assisting private investors in establishing their investments in the zone;

4) **Non-core functions and services should be outsourced and privatized as much as possible.**

Box 4. Selected MENA Institutional Frameworks in Free Economic Zones

- Egypt's SEZ have a separate authority that has exclusive responsibility for applying the provisions of the SEZ law. Each zone is self-governed through an independent authority with much greater authority granted to the Board of Directors of each SEZ.
- In Jordan, the Aqaba Special Economic Zone Authority (ASEZA) has taken over all the regulatory responsibility of its SEZ.
- Most of MENA countries have established one-stop shops in their zones such as Bahrain, Egypt, Jordan, Djibouti, Kuwait, UAE, Tunisia, Morocco and Lebanon.

VI. Physical Development and Management

The choice of zone locations is very important in determining the extent of off-site infrastructure expenditures of the government. Some locations are already situated near ports, roads and are connected to electricity, water and other utilities, thereby minimizing costs to be incurred by public authorities. Allowing the private sector a greater role in the physical development of free zones would remove a significant financial and resource burden from the public sector.

The way in which zones are managed is also crucial to their success. Management is enhanced when zones are operated on a cost recovery basis, and are customer focused. Nevertheless, if the zones are publicly owned and managed, they should still operate on a cost recovery basis, limiting subsidies and charging fees for their services that are based on market prices.

The following are best practice guidelines for the physical development and management of zones:

1) Implement **land use planning and zoning efforts** in defined areas for industrial and commercial development to attract private developers;

2) Develop **zone designation criteria** in the zone law and implementing regulations to ensure that private zones are conveniently located (near population centers and transportation hubs) and minimize off-site infrastructure development costs for public authorities;

3) Establish a **land use planning and infrastructure development unit** in the government to ensure adequate planning and support of off-site infrastructure provision.