



# Designing an Investment Zones Strategy for Iraq

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## The current status of economic zones in Iraq: Free Zones

- The FEZ are managed by the Free Zones Commission under the authority of the Ministry of Finance and the Free Zones Commission Law (3/1998).
- Goods imported into/exported from the free zones are exempt from all taxes and duties, unless transported to areas where customs are enforced.
- Capital, profits and income derived from investment in projects within the free zones are also exempt from all taxes and duties.
- 3 FEZ are currently implemented in Iraq:
  - Khor Al-Zubair Free Zone;
  - Nineweh/Fleifel Free Zone;
  - Al-Qa'im Free Zone.
- The free zones have fallen short of potential due to economic embargoes, armed conflict, and damaged infrastructure.
- The NIC would like to amend the Free Zones Law of 1998 to permit private sector participation in the management and development of the zones.

## The current status of economic zones in Iraq: Industrial Zones

- The Iraqi Ministry of Industry and Minerals is building industrial zones to provide improved services to investors in terms of environment and health, water, sewerage, roads, electricity and communications.
- Industrial zones target **small and medium-sized industrial enterprises**.
- There is an objective of balanced regional development.
- 8 industrial zones have been selected in different provinces:
  - 1 in Thi Qar province;
  - 1 in Basra province ;
  - 2 in Nineveh province;
  - 1 in Babil province;
  - 1 in Wassit province;
  - 1 in Al-Anbar province .

### The economic basis:

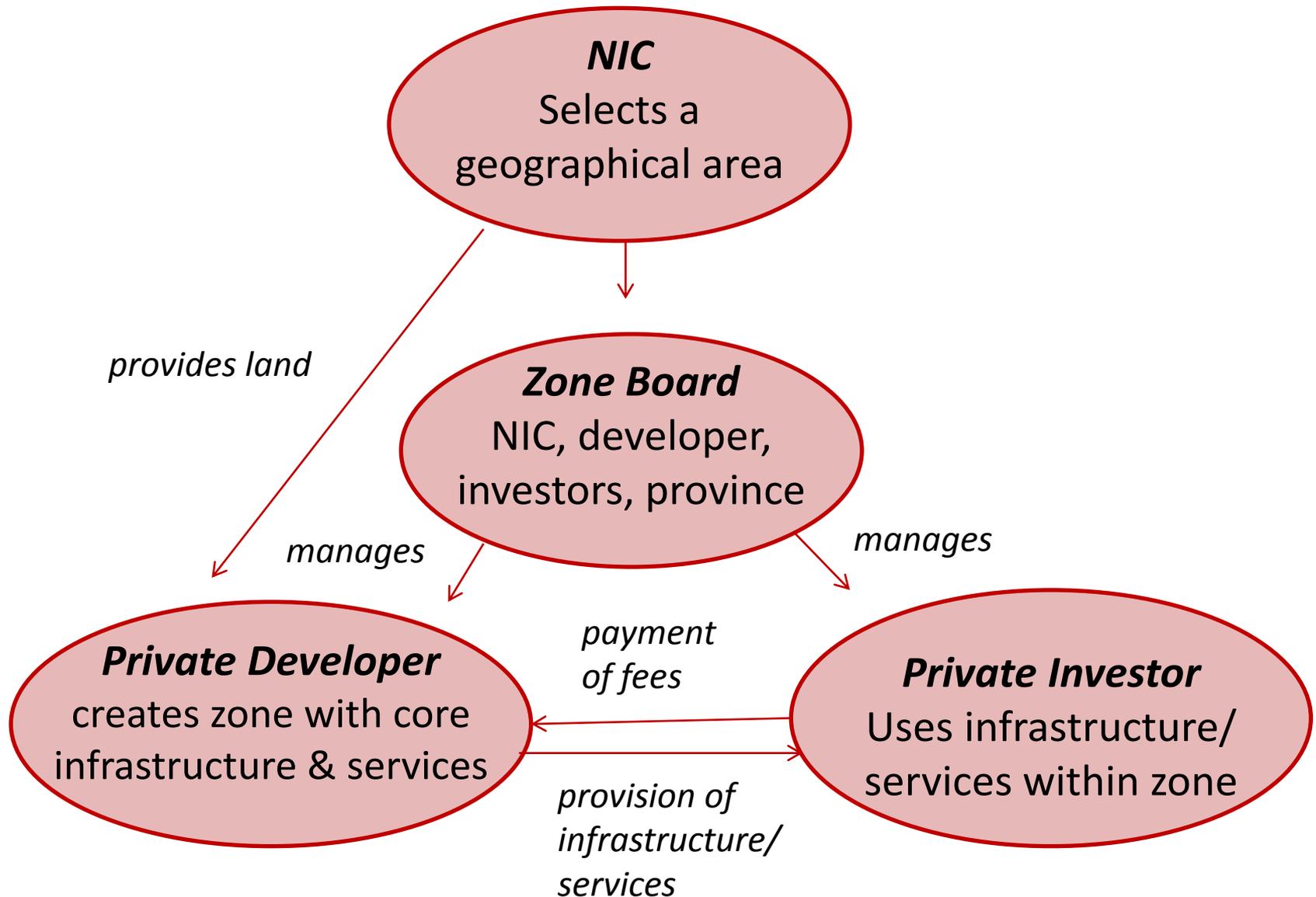
- Investment Zones will provide:
  - Appropriate new infrastructure;
  - Alleviation of the pressure of economic growth on sub-standard existing infrastructure;
  - Enhanced capacity to enforce Iraqi law (environment, labour);
  - Streamlined administrative procedures;
  - The right to benefit from all the incentives and exemptions in the Investment Law No. 13 of 2006.

- **The legal framework:**
  - Mandate derives from article 9 (7) of Investment Law No. 13 (2006).
  - **No need for new legislation – the Council of Ministers need only issue an implementation regulation, followed by instructions issued by the NIC.**

- **The management structure:**

- The zones themselves are *strategic* investment projects, so are under the authority of the NIC;
- Projects within zones are under the authority of the Provincial Investment Commissions (PICs).
- Zones therefore require a flexible management structure offering a significant role to provincial authorities.
- A board of directors will be formed for each zone, comprising:
  - The developer/investor;
  - The NIC;
  - The relevant PIC;
  - A representative of the province;
  - A representative of the investors.
  - The Board creates a one-stop-shop to consider investor applications and facilitate the granting of licences.

## Presentation of the NIC Investment Zones Strategy



## The investment zones proposed by the NIC

- 1) Hatein Zone (Babil Province): Industry;
- 2) Baghdad International Airport Zone (Baghdad Province): Commercial and logistical services;
- 3) Basra Province Investment Zone: Transport and logistical services, plus some manufacturing activities within the petrochemicals field.
- 4) Al-Anbar Province Investment Zone: Construction, glass and ceramics;
- 5) Nineveh Province Investment Zone: Advanced and specialised mechanical industries;
- 6) Middle Euphrates Investment Zone: Foodstuffs.

- **Free zones:**
  - ❑ The strategy suggests that the existing free zones should be preserved, but they suffer from poor infrastructure.
  - ❑ Their preservation implies substantial funding for repairs and redesign, and also for marketing and promotion.
  - ❑ If customs duties and taxes are restored, free zones will become more attractive relative to investment and industrial zones, so the strategy should take account of this potential repositioning.
  
- **Industrial zones:**
  - ❑ These zones target small-and-medium-sized firms, while the investment zones target larger and more sophisticated projects.
  - ❑ This investment zone target could slow recruitment and discourage sub-contracting to larger firms by SMEs. Flexibility is key.

- **Investment zones – law enforcement:**
  - ❑ The strategy suggests that investment zone management will monitor enforcement of Iraqi law.
  - ❑ This implies a certain amount of training for zone management staff, board members, and tenants.
  - ❑ The NIC will retain the oversight role, and this should be reflected in the configuration of its Investment Zones Unit.
  
- **Investment zones – and local infrastructure:**
  - ❑ The strategy suggests that investment zones will be largely independent of dilapidated local infrastructure.
  - ❑ But some interconnection is inevitable, so upgrading of the latter should be studied.

- **Investment zones – one-stop shop (OSS):**
  - ❑ The strategy provides for an OSS in each zone to streamline administrative procedures.
  - ❑ These zone OSS will be distant from ministry headquarters in Baghdad and may be far from provincial offices.
  - ❑ Full delegation of powers where possible, accompanied by the needed expertise, could reduce delays caused by the systematic referral of decisions to higher levels.
  
- **Investment zones – and nearby free zones:**
  - ❑ The strategy proposes investment zones in three locations that also host free zones – Khor Al Zubair, Al Anbar, and Ninewah.
  - ❑ What is the intended relationship between these zones?

- **Investment zones – and zone developers:**
  - ❑ Zone developers are to finance the construction and operation of zones and recover costs through fees levied on zone users.
  - ❑ The capacity and willingness of zone users to pay the fees will be crucial to the success of the concept, and reliable market research on this point will be crucial.
  - ❑ The first zones may have to be publically financed – at least in the construction phase – until critical mass is reached.
  - ❑ The responsibilities of zone developers and the state for off-site infrastructure should be clarified.

- **Amendments to the Free Zones Law:**
  - ❑ The strategy proposes amending the Free Zones Law of 1998 to permit private sector participation in the management and development of the zones.
  - ❑ If the Ministry of Finance and Free Zones Commission support that view, then one means of achieving this would be the incorporation of the relevant provisions of the draft investment zones implementation regulation for the Investment Law into the Free Zones Law.
  - ❑ More far-reaching solutions could also be envisaged.