



Free Economic Zones in the MENA Region: Update 2008

4th Meeting of Working Group 1 and 2
MENA-OECD Investment Programme
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**OECD Private Sector Development
Division**

Presentation Overview

- 1. Background**
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- 3. New trends in MENA FEZs**
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Background on MENA-OECD Investment Programme work on free economic zones

Task Force on Incentives June 2005 in Bahrain

- Fiscal transparency and policymaking
- Designing the incentives framework
- Evaluation and monitoring of incentives
- Policy Forum and capacity building



Working Group 2 meeting in September 2005

- Reviewed preliminary stocktaking report on incentives and free zones in MENA region
- Options for further collective action included:
- Improving data collection
 - Implementing peer reviews
 - Joint initiatives on avoiding adverse outcomes for the region



MENA Ministerial Declaration 2006

Recognised that duty free zones and special economic zones, where used, must be carefully designed and the ability of the administering body to effectively monitor incentives should be ensured.



Terminology: what do we mean by free economic zones?

Free Zones

- Range from free ports to export processing zones – FEZs that are generally accessible to investors, but do not go as far as offering a tailored regulatory environment.

Special Economic Zones

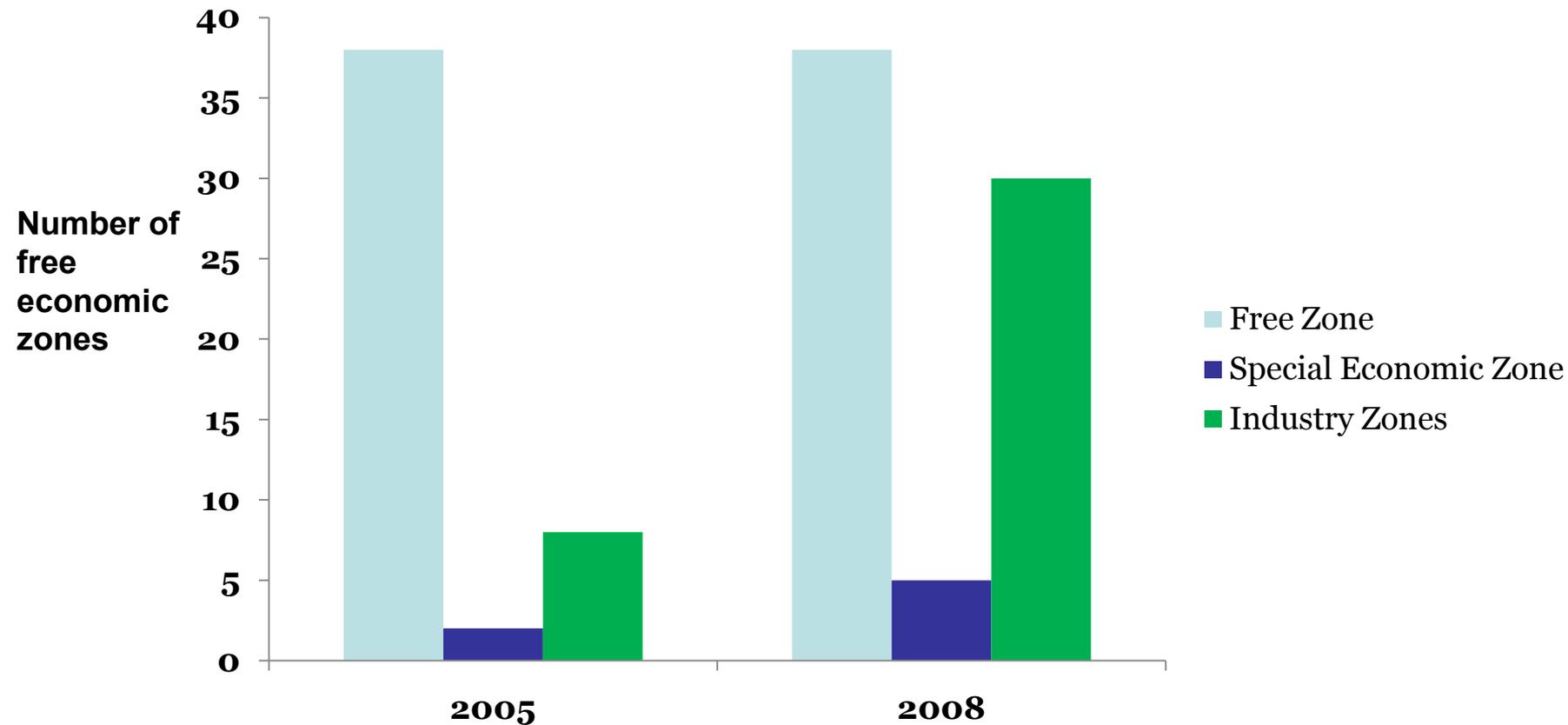
- SEZs are basically ring-fenced customs-free areas with a regulatory environment of their own.
- Most backed by legislation establishing a governing council for each individual SEZ and mandating it to enact rules that shall apply to investors within the zone.

Industry zones

- Targeted at specific sectors or economic activities.
- Industry zones (IZ) may restrict the access of companies in non-priority sectors, and their infrastructure is mostly tailored according to their sectoral targets.

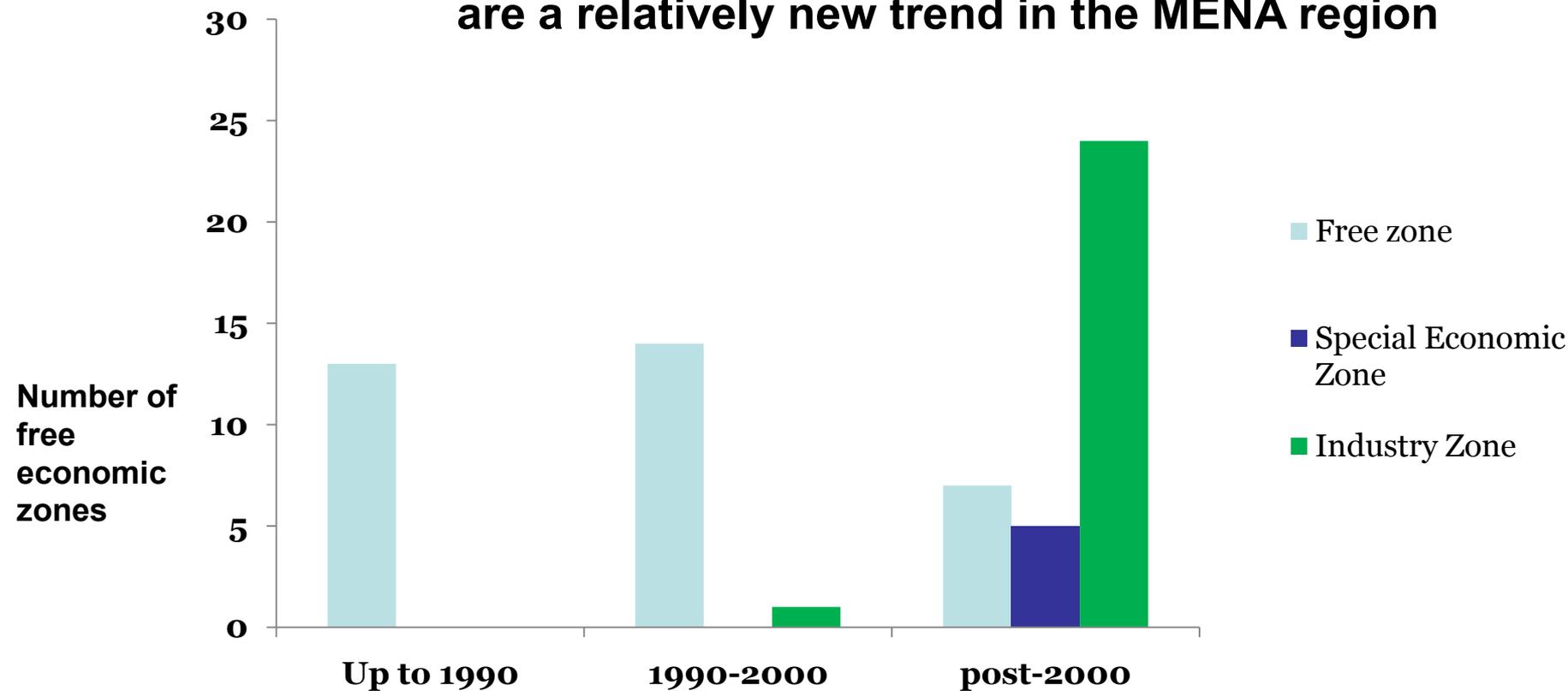
2008 Update: What's changed?

Growth in SEZs and Industry Zones



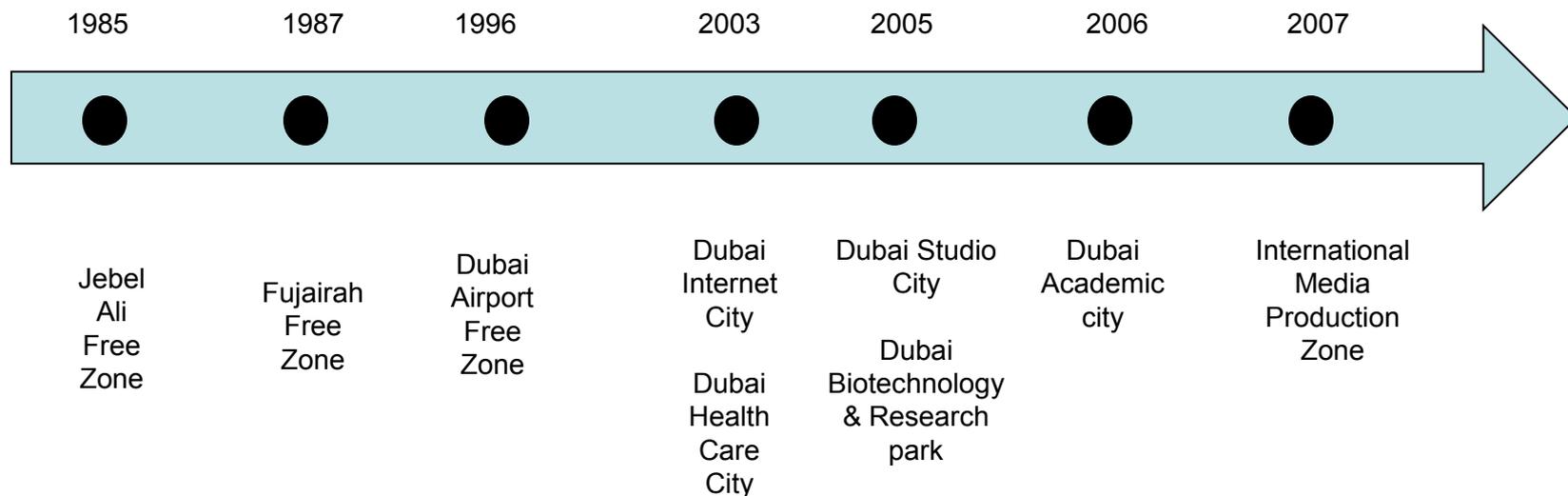
2008 Update: What's changed?

Special Economic Zones and Industry Zones are a relatively new trend in the MENA region



Example: UAE

Economic Zones Establishment Time Line



Source: Adapted from “The Rise of Economic Zones in the MENA Region: A Telecommunications Perspective”, Booz Allen Hamilton, 2008



Investment incentives outside vs. inside the FEZs

Outside of the zones...

Investment incentives offered by MENA countries are mainly fiscal (e.g., exemptions from duties, customs, indirect taxation, and corporate tax holidays).

Regulatory incentives do not appear common (e.g., easing of access to employ expatriates or exemption for land acquisition).

Financial incentives are not widely used (e.g., allocation of land and infrastructure at low rates, soft loans from national development banks, or subsidized public utilities).

Inside of the zones...

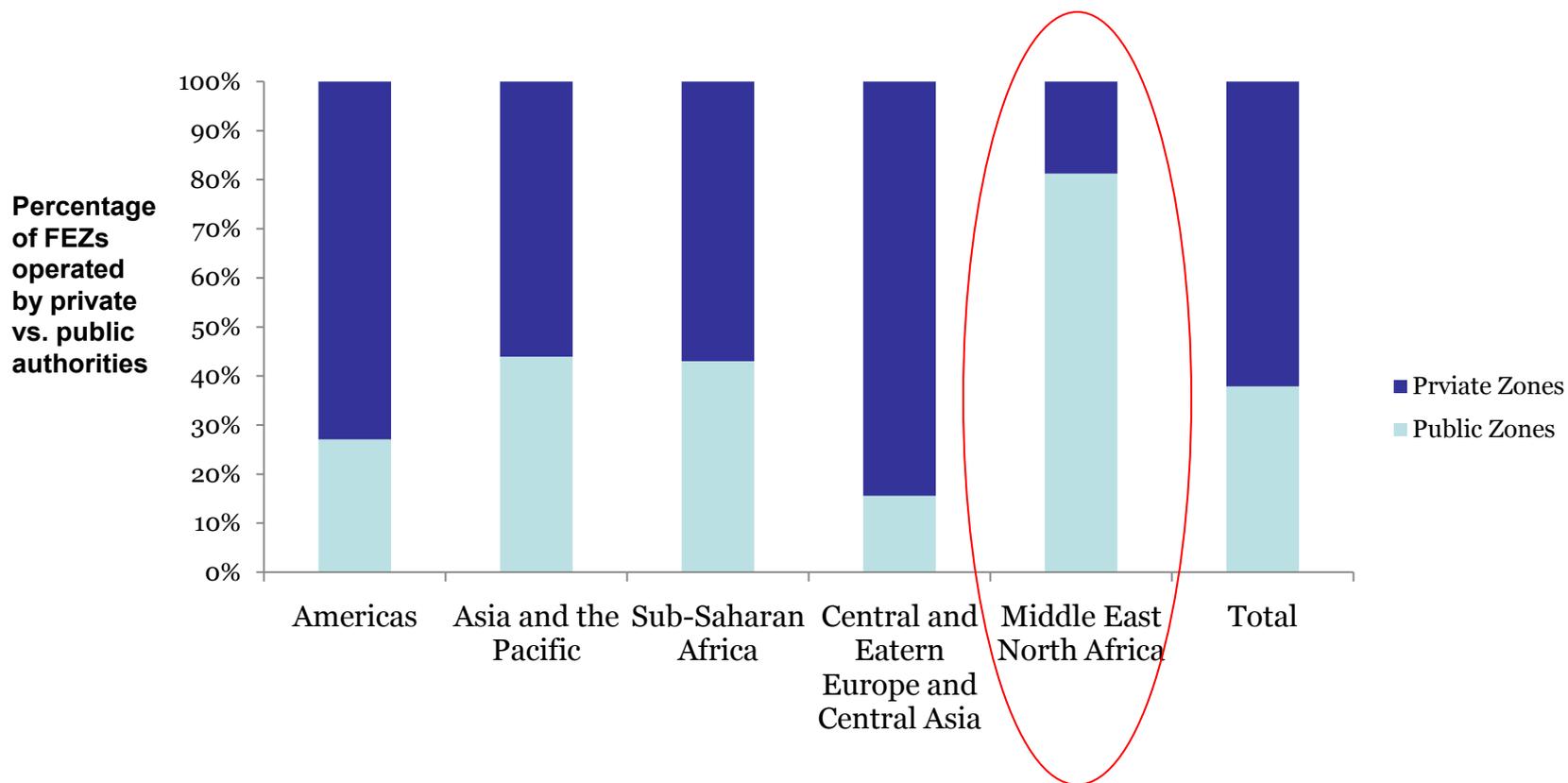
Reliance on regulatory incentives to cut red tape and simplify administrative procedures (e.g., one stop shops). In Gulf countries one of main regulatory incentives is exemption from limits on foreign ownership. Other types include exemptions on foreign land ownership, easier hiring of expatriates, relaxation of foreign exchange restrictions.

Fiscal incentives offered outside of zones generally offered inside too. Some go much farther such as complete exemptions from corporate or private income taxes.

Financial incentives are less common (e.g., low land rental and utility rates)

Management of FEZs

Management of zones: Public vs. Private



Source: April 2008, *Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development*.
FIAS

FEZs in selected OECD countries

Name	No. of Zones
Australia	10 technology development zones
Canada	1 Free trade zone
France	2 Free trade zones, 85 enterprise zones
Germany	8 Free trade zones
Japan	22 foreign access zones
Spain	4 Free trade zones, 1 freeport
United Kingdom	7 Free trade zones, 55 enterprise zones
United States	266 Foreign trade zones



Global Best Practices

Expansion of activities to include commercial and professional services (such as warehousing, transshipment, informatics) in addition to manufacturing and processing.

Equal treatment of investors and forms of investment. Zone legislation accords the same benefits to foreign and local investors.

Relaxation of minimum export requirements **in line with the WTO framework.**

Allowing zone developers and others to **supply utilities services** (telecommunications, water/ sewerage, power) to tenants of SEZ estates.

Treatment of sales of goods and services from the **domestic sector to zones as “constructive exports”** eligible for all relevant export incentives.

Shift towards a **universal set of fiscal incentives** for all promoted activities, rather than a separate regime for zones.

Potential elements of good practice guidelines in the design of FEZs

- 1. Programme transparency**
- 2. Cost-benefit analysis**
- 3. Monitoring performance**
- 4. Equal treatment of investors**
- 5. Improving linkages with the domestic economy**
- 6. Consistency with international investment and trade agreements**
- 7. Expanding the role for the private sector in the management of the zones**

Joint Egypt-OECD project on FEZs

The Private Sector Development Division in cooperation with GAFI is undertaking an evaluation of Egypt's free economic zones.

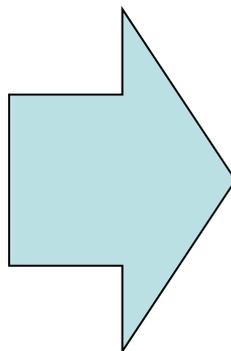
The study will focus on five pillars:

1. Egypt's overall policy approach to FEZs
2. The institutional design and management of FEZs
3. Linkages between domestic firms outside of the FEZ to those inside the FEZ
4. Cluster development within the FEZs
5. Cost-benefit analysis on the use of tax incentives in the FEZs

Proposed next steps

Working Group 1 & 2 2 October 2008

- Review results of preliminary update report on FEZs in MENA region.
- Initiate development of good practice guidelines in the management of free zones.



Working Group 1 & 2 March 2009

- Review and approve final version of updated stocktaking report.
- Review and consider good practice guidelines and prepare for inclusion in 2009 Ministerial Declaration.