Key lessons from selected economic zones in the MENA region

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First Meeting of the Working Group on Investment Zones in Iraq, Amman, 29-30 March 2011

Overview

I International good practices in economic zone design

II Overview of economic zones in the MENA region

III Case studies from the MENA region:

1. Tangier Free Zone, Morocco
2. Hamriyah Free Zone, Sharjah, UAE
3. Investment Zones in Egypt

IV Comparison of the cases and key lessons

I International good practices in economic zone design - *OECD key guidelines*

- Economic zones are often used as demonstrative projects with the aim of encouraging economic reforms leading to **employment, greater exports,** and **increased foreign investment.**

- A review of OECD countries and MENA economies best practices reveals that policy makers interested in designing an economic zones programme should mainly focus on **six elements:**

1. *Zone Type*
2. *Incentive Framework*
3. *Policy Framework*
4. *Regulatory Framework*
5. *Institutional Framework*
6. *Physical Development and Management*

I International good practices in economic zone design - *Selected recommendations for Investment Zones in Iraq*

1. Zone Type:

- Zones regime should not be limited to a narrow set of sectors;
- **Greater involvement of the private sector in the development of zones should be encouraged;**

Good practice: Egypt's new investment zones regime, Kuwait Free Trade Zone, Morocco Tangier Free Zone…

- A common set of incentives and privileges for all zone types is encouraged, in order to avoid the overlapping between the different zones.

2. Incentive Framework*:

- Use tax incentives carefully, potentially harmonize the tax incentives inside zone with the general investment law and national tax system;

Good practice: In Morocco, 5 years exemption from income tax, corporate tax holidays in Lebanon for 10 years for the companies in the zone…

- Use performance based incentives.

I International good practices in economic zone design - *Selected recommendations for Investment Zones in Iraq*

3. Policy Framework:

- **The Government should set realistic expectations and conduct a thorough cost/benefit analysis;**
- Free zones should respect the principle of non-discrimination and not discriminate between foreign and domestic investment projects;

Good practice: Egypt, Kuwait, UAE allow 100% foreign ownership…

- Collaborative relationships should be encouraged between investment projects in the zones and firms and research institutions in the local economy.

4. Institutional Framework:

- Sufficient autonomy of the zone authority;
- A **one-stop shop** should be set up by the zone authority in each of the zones;
- Non-core functions and services should be outsourced and privatized as much as possible.

5. Regulatory Framework:

- Use streamlined procedures for business registration in the form of one stop shops established in the zone;
- Facilitate provision of secondary permits and authorizations with line ministries through the zone authority.

6. Physical Development and Management:

- Implement land use planning and zoning policy in defined areas for industrial and commercial development to attract private developers;
- 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.

II Recent trends of economic zones in the MENA region

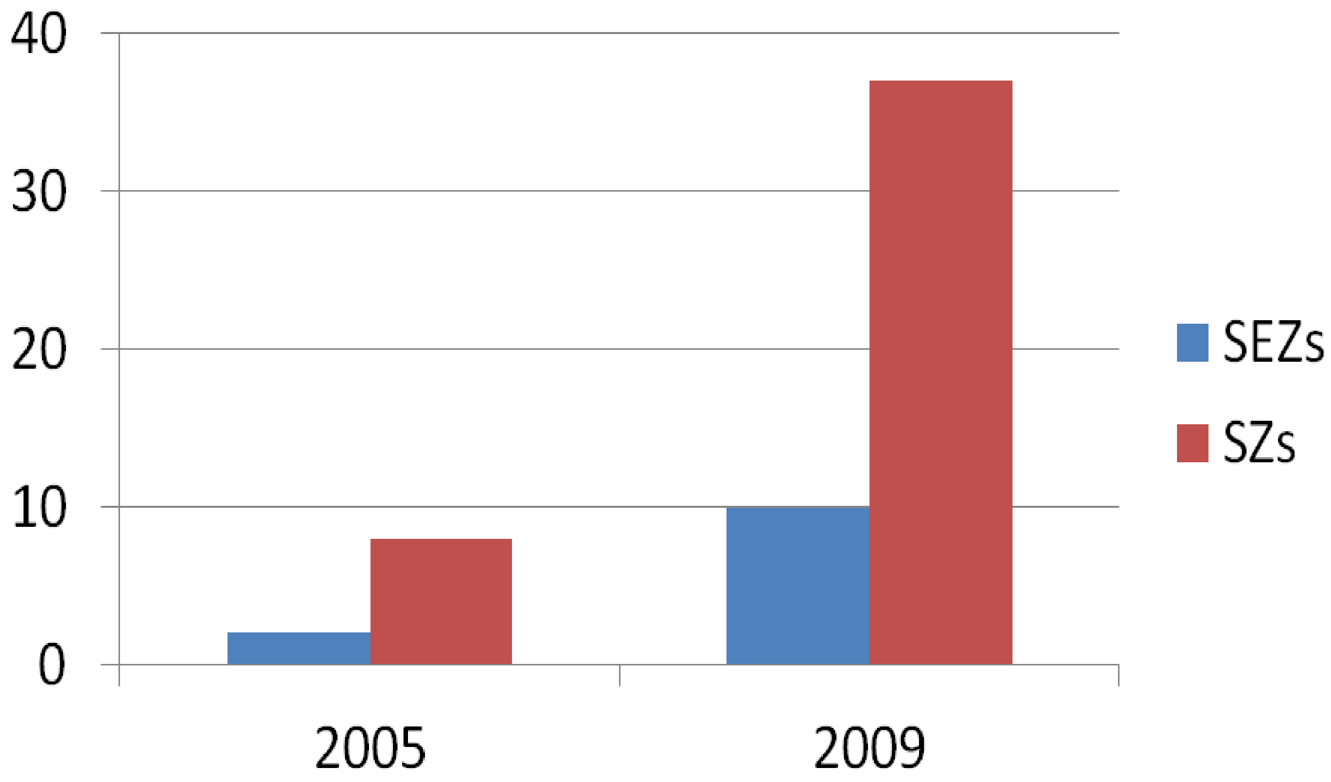
- The emerging trend in the MENA region is:
  - **away from** traditional export processing concept with *export processing/free trade zones;*
  - **towards** *special economic zones* and *industrial zones;*
  - **with** a rapid growth in the number of zones.

- There is a desire to promote **economic diversification** and enable greater **employment opportunities,** leading to a shift:
  - **away from** the traditional focus on export/import activities
  - **towards** increased manufacturing capacities and specific industry clusters.

<u>*Example:*</u> UAE approach to industrial zones, *clustering manufacturing facilities in high-value-added sectors*, Saudi Arabia creating *special economic cities…*

II Overview of economic zones in the MENA region

- The stock of SEZs and SZs in MENA has increased from 2 and 8 respectively in 2005 to 10 SEZs and 37 SZs in 2009.



II Fit with Iraqi Investment Strategy…

- This trend fits with the findings from the Workshop on the Iraqi Economic Zones Strategy (Paris, 25-26 November 2010), and the NIC Investment Strategy:
  - Zones should not be used to support an export led growth strategy, but for production targeted at domestic consumption;
  - Zones should be (re-) establishing industry clusters in areas where Iraq had/has comparative advantages.

II … and with the Iraqi sector selection

- Key sectors are:

Zone	Sector	Zone	Sector
Hatein	Manufacturing	Al-Anbar Province	Construction, glass and ceramics
Baghdad International Airport	High-tech, communications and services	Nineveh Province	Specialised mechanical industries
Basra Province	Transport and logistical services	Middle Euphrates	Foodstuffs indutries

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III Case study: Investment Zones in Egypt

Four different types of zones

- Egypt has different types of economic zones:
  - 11 Free Zones (public and private);
  - 1 Special Economic Zone;
  - 19 Qualifying Industrial Zones;
  - **13 Investment Zones.**

- All these economic zones are under the authority of the General Authority for Investment (GAFI).

- As of 31 October 2010, there were 13 investment zones, located in 8 Egyptian governorates.

III Case study: Investment Zones in Egypt

Projected Investment Zones

	Zone	Activity	Governorate
1	CBC Egypt for Industrial Development	Building materials	6th of October
2	Polaris International Industrial Park	Textile industries	6th of October
3	Te Industrial Development Group	Auto-feeding industries	6th of October
4	Pyramids Industrial Parks	Engineering industries	Sharqiya
5	Misr investment compounds for industrial cities and mortgage development	Textiles and ready-made garments	Sharqiya
6	Meet Ghamr	Small/medium enterprises (SME)	Dakhalia
7	Al-Saf	SME	Helwan
8	Mubarak City for Scientific Research and Technology Applications	Nanotechnology and biotechnology	Alexandria
9	Cairo Univesity	Higher education and scientific research	6th of October
10	Ain Shams University	Higher education and scientific research	Qalyubiya
11	Fayyoum University	Higher education and scientific research	Fayyoum
12	Ministry of Communication Investment Zone, Maadi	Information technology	Cairo
13	Cairo Airport Investment Zone	Commercial and service	Cairo

III Case study: Investment Zones in Egypt
Regulatory Framework and Incentives

Regulatory framework:

- Investment zones were created in Egypt under Law 19 of 2007.
- An establishment decree must be issued for each new investment zone.

Incentives and guarantees for the investor:

- The projects have full protection against expropriation, and nationalization.
- No entity or authority has the right to interfere in the pricing of the products or the defining of profit margins.
- No entity or authority has the right to cancel or to postpone the license granted previously to the project, unless it breaks license conditions.

III Case study: Investment Zones in Egypt
Institutional Framework

- The private sector is in charge of developing, managing and promoting these zones. *As a part of a plan to develop investment zones,* GAFI started to establish investment zones.

- A board of directors is created in each Investment Zone. It is comprised of:
  - ❑ a representative of GAFI,
  - ❑ a representative of the zone developer,
  - ❑ one or more investors in the zone,
  - ❑ a representative of the Ministry of Finance,
  - ❑ a representative of the governorate where the zone is located,
  - ❑ and the bodies concerned with the licensed activities.

The board develops standards, regulations and rules for the investments in the zone.

III Case study: Investment Zones in Egypt
Institutional Framework

- In addition to the board, an Executive Office, comprised of GAFI officials, is responsible for:
  - ❑ Ensuring compliance with the investment zone general rules,
  - ❑ Receiving applications from investors wishing to establish projects within the investment zone and presenting them to the board of directors for decision,
  - ❑ Engaging with external bodies in supervision and follow-up,
  - ❑ Implementing board of directors resolutions,
  - ❑ Following up procedures for the entry and exit of goods,
  - ❑ Issuing all permits for projects within investment zones after receiving board approval.

III Case study: Investment Zones in Egypt

Licensing of the Investment Zone developer

- The potential developer submits an application form with the required documents to the investment zones unit, which transmits it to the committee in charge;
- GAFI, *via* the committee and jointly with the applicant, obtains approvals from:
  - The bodies concerned with the type of business or main types of business in the proposed zone named in the application, and
  - The *Armed Forces Operations Authority,* the *National Center for Planning State Land Uses,* the *Supreme Council for Antiquities,* the *Environmental Affairs Agency* and the *Civil Aviation Authority.*
- The committee submits the application to GAFI's board of directors for approval. Once obtained, the GAFI decision is referred to the Prime Minister for a final decree on establishing the investment zone.
- GAFI's chairman issues a decree for forming a investment zone board of directors within two weeks of the date the zone establishment decree.

III Case study: Hamriyah Free Zone – Sharjah, UAE
Key figures

- **Location*:*** the ***Hamriyah Free Zone*** benefits from a strategic location at the crossroads of three continents, with a direct access to the Indian Ocean.

- **Access*:*** the Hamriyah Free Zone is located in proximity to an international airport connected to 230 cities, and to ports on the Arabian Gulf's west coast and east coast.

- **Positioning:** the ***Hamriyah Free Zone*** was created as an industrial free zone.

- **Activities*:*** manufacturing, processing, packaging, assembly and trade, and selected services.

III Case study: Hamriyah Free Zone – Sharjah, UAE
Regulatory Framework

- The Hamriyah Free Zone was established by an Emirati decree issued on 12 November 1995.

- Offering *"classic"* inducements to investors, such as tax breaks and high-quality infrastructure, would be unlikely to have much effect in the low-tax and generally modern economies of UAE

⇒ **HOWEVER, the opportunity to get around the country's strict rules on foreign control on corporate entities and land has made investors flock to the FEZs.**

Between 1998 and 2007, the number of companies in the Hamriyah Free Zone went from 19 to 2800.

- As a general rule, the attractiveness of UAE Free Zones to foreign investors largely hinges on their permissive regulatory environment, allowing **100% foreign ownership in the zone.**

III Case study: Hamriyah Free Zone – Sharjah, UAE

Incentives and guarantees for the investor

- *Regulatory incentives:* 100% foreign ownership of firms and unrestricted access to the zones, plus access to land through long-term (25 year) renewable leases.

- *Fiscal incentives:* complete exemption from taxes, customs and commercial levies.

- *Financial incentives*: low land rents and subsidized energy consumption.

- *Other Incentives:*
  - a large and well-educated labor force;
  - pre-built warehouses, factories and office units for lease;
  - executive office suites in the *International Business Center* for lease.

III Case study: Hamriyah Free Zone – Sharjah, UAE
Institutional Framework

- The **Hamriyah Free Zone Authority** is comprised of:
  - ➢ A Director General
  - ➢ Different departments:
    - marketing, sales
    - IT
    - leasing and licensing
    - visa and residence
    - investor services
    - customer relation
    - program management
    - finance and accounts
    - human resources.

III Case study: Hamriyah Free Zone – Sharjah, UAE
Different types of licenses

- Different types of licenses are granted depending on the activities developed in the zone:
  - *Industrial* – allows the investor to import raw materials for the purpose of manufacturing, processing, and/or assembly of specified products, that can then be exported outside the UAE or sold in the domestic market through a local distributor or agent;
  - *Commercial* – allows the investor to import, export, sell, distribute and store items specified on the license. If the finished products are sold in the domestic market, they need to be distributed through a local distributor or agent;
  - *Service* – allows the investor to carry out the services which are specified on the license within the Hamriyah Free Zone only;
  - *License for the companies holding a National Industrial License* – provides the investor with the same status as local or a GCC company inside the UAE, with customs duty exemption on products imported into the GCC states (subject to several conditions).

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III Case study: Hamriyah Free Zone – Sharjah, UAE
Licensing procedures

- A license can be obtained within 24 hours of submitting all requisite documents.

Completing the License Application Form → The project is given a *provisional approval* so that legal documents may be prepared → The license is granted/declined

N.B: The legal documentation depends on the type of company:

- ❑ A branch of a local or international company – no capital is required to be deposited at the bank;
- ❑ A new incorporation - the minimum capital is deposited with a UAE bank for a temporary period of 1 or 2 days.

III Case study: Tangier Free Zone – Morocco
Key figures

- **Location:** Two free zones are operational in Northern Morocco, both in Tangier, just 14km south of the European Union (Spain):
  - *Tanger-Med,* near the Tangier-Med Port;
  - ***Tangier Free Zone (TFZ),*** near the Ibn Battouta International Airport.

  A third free zone, *Tangier Automotive City* is being built next to these two zones.

- **Access:** TFZ is linked to the Casablanca/Marrakesh/Agadir highway, and to the Tanger-Med Port highway.

- **Positioning:** TFZ is operating as an ***export processing zone.***

- **Activities:** Agri-food, textiles and leather, metallurgy, mechanical, electronics, chemical and high technology.

III Case study: Tangier Free Zone – Morocco
Facts

Key figures:

- 500 hectares;
- 10 years of activity;
- 475 companies set up by 31/12/2009
- with 30 different activities;
- 47,000 jobs created in 10 years;
- 530 Million Euros worth of investments;
- Benefits from free trade agreements signed by Morocco, notably with the *European Union,* the *United States, Turkey* and *some Arab countries.*
- Existence of a skilled workforce at competitive costs.

III Case study: Tangier Free Zone – Morocco

Regulatory Framework

- Free Trade Zones in Morocco are established under **Act 19-94.**
- This law sets a special regime for trade in the Moroccan economic zones.

<u>Example:</u> Foreign exchange regime:

- ❑ Goods entering and leaving the TFZ are not subject to the national legislation on foreign exchange;
- ❑ Commercial and industrial activities as well as services for overseas markets by companies in the TFZ enjoy total exchange freedom whatever the nationality and residence of the operator;
- ❑ The settlement of transactions in these areas must be made in convertible currency only, and settlement between Free Trade Zones and the rest of the Moroccan territory takes place in accordance with the general exchange regulations prevailing in Morocco.

III Case study: Tangier Free Zone – Morocco

Incentives and guarantees for the private investor

- *Registration fee and stamp duty:* exemption for acts of incorporation and capital increase, as well as acquisition of land (article 27).
- *License tax and urban tax*: exemption for the first 15 years for buildings and equipment (article 28).
- *Corporate tax:* **0%** during the first 5 years and then a reduced rate of 8.75% starting at the 6th year (applies for the next 20 years) (article 30).
- *Dividends and shares:* exemption when they are paid to non-residents and a tax rate of **7.5%** when they are paid to residents for TFZ activities.
- *Subsidies from the Moroccan government* for some industries (through the Hassan II Fund): The Fund grants subsidies for the acquisition of land and/or construction of production units that can reach 100% of the land price based on a maximum cost of 250 DH / m2.

III Case study: Tangier Free Zone – Morocco
Institutional Framework

- The Tangier Free Zone is managed by the *Tangier Free Zone company,* which is a subsidiary of the *Tanger Mediterranean Special Agency.*

- The *Tanger Mediterranean Special Agency* has a management and a supervisory board with a capital of 75 million Euros.

- It is controlled directly by the Moroccan State through the Hassan II Fund for Economic and Social Development.

- Under Decree No. 2-02-644 of September 10, 2002, TMSA:
  - ❑ Is the public authority over the Tangier-Med Port and export processing zones.
  - ❑ Is a public regional authority responsible for regional and urban planning within the Special Development Zone, which spreads over a 550 km2 area around the Tangier-Med port.

III Case study: Tangier Free Zone – Morocco
Licensing mechanisms

- The Tangier Free Zone functions as a **one-stop-shop** for investors: all the administrative procedures are done on site.
- The application process is the following:

An application comprising:

1. A registration certificate issued by the Tangier Regional Investment Center;
2. A questionnaire (downloaded from the website);
3. A description of the project;
4. An application fee.

is submitted by the investor to the TFZ offices.

The TFZ submits the file to the Local Commission of Tangieris Free Trade Zone

The Local Commission of Tangier Free Trade Zone grants/declines the license within 30 days.

A representative of the TFZ can attend the meeting, with an advisory status.

IV Key lessons from the economic zones studied

3 countries with different income levels, 3 approaches (export processing free zone, multi-sectoral free zone, and investment zone), <u>1 key idea:</u> economic zones as a leverage for developing investment, and thereby, growth and employment.

<u>Key factors of success:</u>

1. *Zone Type:*
   - ❑ Easy access to the zones;
   - ❑ Multi-sectoral activities;
2. *Incentive Framework:*
   - ❑ Attractive Incentives in comparison with the national tax system;
3. *Policy Framework:*
   - ❑ Will of the Government to provide incentives and guarantees to the investors;
4. *Regulatory Framework:*
   - ❑ Unified legislation to avoid overlapping;
5. *Institutional Framework:*
   - ❑ An independent authority with defined missions and objectives;
6. *Physical Development and Management:*
   - ❑ Infrastructure provided by the Government, or granted to a private developer.

Thank you!

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