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UNITED NATIONS
ECONOMIC COMMISSION TO AFRICA

Industry and Human Settlements Division

**BACK TO OFFICE REPORT
OF INDUSTRIAL MISSIONS TO
KENYA, MAURITIUS AND EGYPT:**

(2nd - 25th September 1992)

A.Z.A SUIT

I. OBJECTIVES

- (1) Collection of information and data for the technical publication on African Industrial Free Zones in the context of the Second Industrial Development Decade for Africa.
- (2) Survey of current national IDDA projects which are directly linked to the export processing authorities and the potentials that exist in developing new ones.

BACKGROUND

Following a resolution adopted by the Ninth Meeting of the Conference of African Ministers of Industry CAMI Harare 1989, the UN General Assembly resolution 44/237 and the UNIDO General Conference on the Declaration of 1991-2000 as the Second Industrial Development Decade for Africa IDDA II the African countries with the assistance of UNIDO, ECA and OAU have embarked on the programme of IDDA II.

However, due to the lack of resources the prospects for IDDA have been rather poor because of the global recession and the economic situation facing the continent. The private sector therefore has a lead role to play in IDDA-II by strengthening Small- and Medium-scale Industries. Financing arrangements better suited to private industrial activity and accessible to small- medium-scale entrepreneurs are strongly advocated for. The IDDA-II programme itself requires proper dissemination among the potential investors and aid institutions so that projects can be realized with private and institutional sources of finance.

There is strong evidence that Export Processing Zones (EPZs) can to a certain degree help some countries with the right conditions to attain some of the objectives of IDDA-II. This is especially so because industrial free zones are closely associated with the export of non traditionally manufactured goods; creation of employment generation of net foreign exchange earnings, enhancing the entrepreneurial and technical skills of local investors through the presence of new technologies. This will no doubt stimulate the local economies through backward linkages; rational exploitation of the resources of the host country.

During the establishment of these zones it is expected that the sponsoring countries will provide certain physical infrastructures and institutions which can attract potential investors. The hope here is that the participation of the foreign investors will in the long run add to the modernisation of the many infrastructures culminating into improved economies.

The purpose of the missions was to collect data information and assess to what extent the African Countries are prepared or can demonstrate the potential for attracting foreign investors. It is realized that the money needed for investments cannot all come from the governments themselves but also from multilateral sources like equity foreign financing or joint ventures.

It was envisaged that the findings of the missions would help the preparation of a technical publication which can show the role of industrial free zones in the industrialization of African countries in the context of IDDA-II.

The following issues were examined during the discussions with various officials:

- a) Job creation functions of Export Processing Zones;
- b) Promotion of local entrepreneurial capabilities through backward linkages;
- c) The use of domestic production factor inputs;
- d) The positive effects of developing local physical and institutional infrastructures;
- e) Contribution of the EPZ's in attracting scarce foreign investment by providing the right investment climate etc.

The participants of the meetings were expected to be:

All the African countries that are willing to embark on EPZ programme and those that have already established working EPZs.

Every regional, international, national and financial institution, actively engaged in Industrial Projects in Africa.

II. MAIN FINDINGS OF THE MISSIONS

The main findings of the missions are detailed in parts 1) for Kenya, 2) for Mauritius and 3) for Egypt as shown below.

1. KENYA EXPORT PROCESSING ZONE [1st-8th September 1992]:

A. objectives

The main objectives of Kenya Export Processing Zone are to attract, promote and to facilitate export-oriented investments and develop an enabling environment for such investment and related purposes. By increasing the manufacture of, or trade in, export goods, the EPZ aims to generate employment, foreign exchange and other benefits for Kenya, such as obtaining technical know-how.

B. administration

The administrative authority responsible for their management is the Export Processing Zones Authority which was formed as a corporate body enjoying financial independence. The Authority has been set up to develop, regulate, promote and administer such zones. It must also assure the protection of national revenues and foreign currency earnings. Furthermore, it examines applications from EPZ developers, operators and enterprises for licences and issues the latter within 30 days from the date of application.

C. conditions and admission

An EPZ developer and operator must : (a) be incorporated in Kenya for the sole purpose of developing and operating an EPZ; (b) have the necessary capital and expertise required for developing the EPZs; and (c) own or lease land for at least 30 years within the EPZ.

An EPZ enterprise will be granted the licence by the Authority if: (a) it is incorporated in Kenya, whether or not it is 100 per cent foreign-owned, for the sole purpose of producing goods or services for export within an EPZ; (b) it proposes to engage in any activity or activities to be undertaken by an EPZ enterprise in the EPZ; (c) it does not have a deleterious impact on the environment or on national security, nor engages in unlawful activities; (d) it conducts business in accordance with the laws and regulations; and (e) it keeps accounts at its place of business or on its premises and maintains them in a form and manner conforming to accepted accounting standards.

All kinds of building-construction and renovation works to be carried out within the export processing zone and all uses of public areas must have written approval by the EPZ Authority. Furthermore, the latter has the right to inspect factories set up in EPZs in order to check on safety, health and working conditions.

D. Benefits and Guarantees

EPZ enterprises, developers and operators are exempted from all existing and future taxes or duties payable under the Customs and Excise Act and Value Added Tax Act of 1989 on all imports for eligible business activities. They are also granted the following exemptions:

- (a) Exemption from registration under the Value Added Tax Act of 1989;
- (b) Exemption from payment of excise duties as specified in the Customs and Excise Act;
- (c) Exemption from payment of income tax as specified in the Income Tax Act for the first 10 years from the date of obtaining a licence to operate as an EPZ enterprise, and limitation to 25 per cent for the subsequent years;
- (d) Exemption from payment of withholding taxes or dividends and other payments made to non-residents during the period that the EPZ enterprise is exempted from payment of income tax;
- (e) Exemption from stamp duties;
- (f) Exemption from quotas or other restrictions or prohibitions on import or export trade;
- (g) Exemption from exchange control or payments for receipts of EPZ exports, for specific goods and services and for capital transactions; and
- (h) Exemption from rent or tenancy controls.

In addition to these advantages and in accordance with Legal Notice No. 227, EPZ developers, operators and enterprises are exempted from: (a) the licensing requirements under the Trade Licensing Act, and the Imports, Exports and Essential Supplies Act; (b) the provisions of the Factor Act; (c) the provisions of the Companies Act and the Exchange Control Act relating to allotment of shares to non-residents; (d) the provisions of the External Exchange Control Act relating to trade inspections, the approval of the appointment of non-resident directors and the approval of technical management and licensing agreements; (e) the provisions of the Foreign Investment Act relating to certificates of approval for enterprises; and (f) the provisions of the Statistics Act.

E. Functioning

The EPZ has been recently established in Kenya where the authorities have already identified two public zones for manufacturing activities. The first one is the "Machakos EPZ" which includes all that piece of land known as L.R. No. 10021 and measuring approximately 339 hectares situated next to Kitengela township. The second zone is the Nairobi EPZ which includes land situated in Nairobi (L.R. No. 12081/8) and measuring 16.5 hectares situated at the corner of Mombasa Highway and Enterprise Road.

The national authorities have allowed privately operated zones; one privately operated EPZ (Sammer Industrial Park) with 12 factory buildings had already been half rented and was expected to be fully occupied by the end of 1992. This experience has led the Government to encourage the private sector to take an active part in developing private EPZs. Some proposals had been received but certain modalities, such as the provision of basic infrastructure, still had to be satisfied.

Difficulties

- (1) Small domestic market;
- (2) Lack of technical and industrial skills;
- (3) Lack of hard currencies, delays in payment red tape and monetary instability in the wake of the new political activities in the country;
- (4) Lack of institutional structure and capability at the PTA Secretariat to monitor and control of existing trade agreements and protocols;
- (5) Difficulties in attracting the indigenous people to participate in the scheme;
- (6) Conflict between participants of manufacturing under bond (MUB) who feel the EPZ incentives are too generous and being encouraged at their expense;
- (7) There appears to be insufficient market survey to assess the market needs;
- (8) Criticism by potential investors of inadequate incentives to attract investment;
- (9) EPZ is only limited to the manufacturing sector.

Identification of priority needs

- (1) Job creation (to solve the problem of increased unemployment);
- (2) Political stability and security guarantee in light of current political uncertainties in the country
- (3) Review of the current PTA regulations on the quota for foreign management and rule of origin of manufactured goods;
- (4) Careful analysis of the implication of the single European Market eroding the privilege enjoyed by many African countries to sell manufactured goods into those countries;
- (5) The need to identify one central body properly organized enough to coordinate all the activities which will create the coexistence of EPZ along side MUB and other traditional manufacturers in the domestic market;
- (6) Vocational training requirement to develop both entrepreneurial and technical skills among the markets. This must be distinctly different from the current education system;
- (7) Possibility of expanding the EPZ programme to cater for other sectors of the economy e.g. services storage.

All persons met were briefed on the purpose of the mission and its impact in the context of IDDA-II.

Kenyan authorities expressed interest in assistance with organizing a coordinating office for the investment promotion services within the country.

List of the people met

1. Mr. J. D. Odede
Deputy Secretary in Charge of Development
Ministry of Industry

Mr. S. Mwanaongoro
Assistant Director of Industrial Cooperation
3. UNIDO Country Director
4. Mr. J. O. Otieno
Deputy Secretary
Ministry of Planning and National Development
5. Mr. Mutiore
Principal Planning Officer
Ministry of Commerce
6. Mr. Ritale
Assistant Secretary and Development
Ministry of Commerce
7. Mr. Orwa
Senior External Relations Officer
Ministry of Commerce
8. Mr. Silas M. Ita
Chief Executive
Expert Processing Authority in Kenya
9. Mr. Francis E. Oyugi
Investment Promotion Centre
Finance and Administration Manager
10. Mr. Ben K. Nzioki
Project Manager
11. Ms. Samina Rana
General Manager
Sameer Industrial Park
12. Mr. Burn
General Manager
Colgate Palmolive
13. Mr. Robert Sry
Director
Tai Tung Garments EPZ (Ltd.)

2. MAURITIUS EXPORT PROCESSING ZONE [9th - 14th September 1992]

A. Objectives

The Export Processing Zones and the Free Zone for Export Service were created in order to attract and increase the manufacturing of export products and export-oriented services, respectively. Indeed, the objective was to promote rapid industrialization and diversification of the economy such that dependency on the sugar industry would be lessened.

Furthermore, population growth and the saturation of employment in sugar production had pushed unemployment to a rate of 23 per cent in 1976. The Mauritius Export Processing Zone (MEPZ) was expected to cope with this problem by providing labour-intensive industries with an attractive framework for investment.

B. Administration

The Ministry of Commerce and Industry Trade and Shipping and the Ministry of Industry and Industrial Technology are the bodies charged with declaring any enterprise, service, area or product eligible to enjoy the statute of Export Processing or Service Zone. The first Ministry mentioned above issues Export Service Zone (ESZ) certificates while the second issues Export Processing Zone (EPZ) certificates. Applications for certificates have to be made by the company to the Minister concerned who issues certificates within four to six weeks. As long as the certificate remains in force, the company must function as an export enterprise.

In order to promote and develop the MEPZ, the Mauritius Export Development and Investment Authority (MEDIA) was created in 1985. It operates by attracting investors to manufacturing industries and services oriented towards export, and works with buyers by promoting the export of goods and services from Mauritius. It also develops and manages industrial estates, and acts as a bridge between the private sector and the Government.

C. Conditions and admissions

The prime condition that an enterprise must satisfy in order to be granted an Export Enterprise Certificate is to export its entire production.

For services many areas have been defined. They must also be export-oriented. Other aspects which influence the certificate issue include employment creation, foreign exchange benefits and the introduction of technology and know-how. Once the project has been approved, the company will have to be incorporated in Mauritius.

Customs control is carried out at the harbour and occasionally in the enterprise. Moreover, an enforcement officer has power of entry and to obtain information from any export processing or service enterprise in order to ascertain compliance by the company with the provisions of the Export Processing Zones Act.

An EPZ company can either construct its own industrial building or rent one from Mauritius Export Development and Investment Authority (MEDIA), from the Development Bank of Mauritius or the private sector. MEDIA's buildings⁰ are available for lease for three years, renewable for three-year periods. Through the Industrial Building Incentives Act of 1986, the Government encourages the private sector to develop industrial estates.

D. Advantages and guarantees

In order to encourage both overseas and local investors to set up manufacturing enterprises or service activities in Mauritius, the (MEPZ) makes available the following tax relief measures:

- (a) Corporate tax limited at the rate of 15 per cent during the lifetime of the company;
- (b) Complete exemption from payment of income tax on dividends for the first 10 years;
- (c) Exemption from import duties on capital goods, raw materials, components, machinery and semi-finished products;

- (d) Free repatriation of capital, dividends, and profits; and
- (e) Exemption from half of the normal registration fee on land and buildings purchased.

Furthermore, MEPZ has at its disposal many other facilities offered to investors such as:

- (a) Quota-free access and duty-free entry to the European Economic Community (EEC) markets provided that the rules of origin criteria as specified in the Lomé Convention are met;
- (b) A stable political environment and guarantees against nationalization;
- (c) Preferential tariffs for electric power supply and freight;
- (d) A skilled, bilingual labour force at low cost;
- (e) Banking and investment loans at preferential rates;
- (f) Favourable labour legislation; and
- (g) Well-developed infrastructure with road networks, port, airports and telecommunications.

Provision for the settlement of disputes is as set out in the World Bank Convention on the Settlement of Investment Disputes.

E. Functioning

In order to reduce unemployment and dependency on sugar, the MEPZ accepted any kind of industry, although the textile sector has recorded the most investment especially from Asia. Moreover, Lomé Conventions provide preferential access to the European Economic Community (EEC), in conformity to the rules of origin.

The MEPZ has produced the effects expected only since 1983. In 1985, MEDIA was created and the Finance Act No. 52 of 1985 was adopted covering tax relief. Thus about 600 enterprises have now been established in Mauritius, of which 26.5 per cent are foreign-owned, 16.5 per cent are joint ventures and 57 per cent are local.

The production of these EPZ enterprises has represented 62 per cent in overall exports while sugar industries amounted to 33.7 per cent. Exports of MEPZ industries, mainly concentrated in the textile sector (85 per cent), had a share among EEC countries of 74.5 per cent (France: 34.3 per cent), United States; 20.5 per cent, and other countries 5 per cent. Moreover, the MEPZ has generated 87,000 jobs of which some 80,000 are in the textile sector. This has brought unemployment down to the lower rate of 3 per cent.

Undeniably, the Government's employment objectives have been reached; the Central Bank of Mauritius has registered a sizeable entry of foreign exchange. On the other hand, textiles have now replaced sugar, by engaging 85 per cent of the enterprises in a sector which represents 80 per cent of employment and 90 per cent of exports. In addition, the United States, since 1981, and Canada, since 1984, have in respect of the Multi-Fibre Arrangement (MFA) restricted imports of clothing products from Mauritius. Even if Mauritius became the third largest exporter of woollen knitwear in the world and the first largest exporter with the wool mark certificate, it has now reached the bounds of its first phase of industrialization. The increase in wages with inflation has obliged the country to direct its activities towards high value added industries.

The MEPZ is taking up this challenge during its second phase of industrialization by promoting capital-intensive industries, the jewellery sector, plastic products, machinery activities, as well as by developing a training programme in several areas which will further develop the skills of the people.

Difficulties

1. Too few workers and saturated textiles market.
2. Saturated market for the sale of traditional products.
3. Difficulties of foreign competition.
4. Problem to maintain high quality products in the wake of outside competition.

Identification of priority needs

1. Efforts to attract technologically more advanced lines of production.
2. Survey for improving domestic markets.
3. Launching of the national quality award to attract greater efficiency in industries.
4. Setting up of vocational training institutions adaptable to the changing needs of the industries.
5. Expansion of the offshore banking facilities.
6. Careful analysis of the implication of the single European Market eroding the privilege enjoyed by many African countries to sell manufactured goods into these countries.
7. Surveys of market potential to see both Mauritian products and skills to the new emerging EPZ countries.
8. Mauritian Authority is seeking to diversify the EPZ products by putting more emphasis on high value added products and capital intensive orientation. It has started to introduce a new line of more sophisticated technologically advanced enterprises while it sub-counters zone of its first generation EPZ activities to neighbouring countries at the initial stages of EPZ development.

All persons met were briefed on the purpose of the mission and its impact in the context of IDDA II.

List of people met

1. Mr. Mahadev Jalem
UNDP Deputy Resident Representative.
2. Mr. M. Chowrianiah
Public Relations Officer
Ministry of Industry and Technology
3. Permanent Secretary
Ministry of Industry and Technology
4. JAIRAZ Pochtun
Principle Industrial Development Officer
Officer-in-Charge
Small Industries Development Organization
5. Mr. Aboobakar
Deputy Director
Mauritius Export Development and Investment Authority
6. Mr. Freebohun
Director Export Processing Zone Development Authority
7. Mr. Gujadhur
Manager-Development Bank of Mauritius
8. Mrs. Wong
Manager
Mauritius Export Processing Zone Authority
9. Mr. Raj Makoond
Deputy Secretary General
Mauritius Chamber of Commerce
10. Mr. Francois Woo Shing Hai
Manager Mauritius Textile Company
CMT

3. EGYPT EXPORT PROCESSING ZONES [20th - 25th September 1992]

A. Objectives

The purpose of the export processing zones of Egypt is to provide favourable conditions for foreign investment in the sectors of export oriented processing services. It is intended to encourage the use of local raw materials, enable the country's industry to have access to new technologies and methods, and in particular encourage the creation of local jobs with a view to combating structural underemployment and in the long term improve the living conditions of the population.

B. Administration

The administration of the free zones is the responsibility of the General Authority for Investment and Free Zones. The zones are considered to be a distinctive investment system together with inland investment system and the projects for both systems are subject to Investment Law No. 43. The approval procedures involve preliminary and final approvals.

Inland Investment Projects

Preliminary approval:

The investor or his designated representative must submit a formal "application for Preliminary Approval" in the name of the Executive President to the General Authority for Investment. Upon receipt, the completed application form is forwarded on the same day to the appropriate department within the Authority according to sector of activity.

Final Approval

An Application for the establishment of a project must be submitted by the investor to the Executive President's office on the "Investment Application form. Documentation and data required on the project by this form should be attached. The Investment Application Form is recorded in a special register immediately upon submission against a receipt indicating registration number and date and hour of submission provided to the investor. Simultaneously, the application is forwarded to the appropriate department within the Authority for appraisal and confirmation that all required documentation has been included. The department also seeks the advice and comments of other involved entities as to the proposed project, and prepares a summary memorandum for signature by the Executive President. The memorandum is then submitted to the Board of Directors of the Investment Authority for adoption of a resolution.

After approval of the resolution by the Chairman of the Board of address given in the Investment Application Form if approved, the investor shall proceed to carry out procedures related to project incorporation.

The Joint Committee of the Authority reviews the application at the first meeting following submission and issues its recommendations accordingly. The Joint Committee's recommendations are duly approved by the Executive President the following day. Notification of the recommendations is made to relevant departments within the Authority, which in turn formally notify the investor of the preliminary decision in writing.

Free Zone Investment Projects

Preliminary approval

The investor or his designated representative must submit an "Application for Preliminary Approval" to the administration of the public free zone concerned, provided that the project will be located in a public free zone. The application must be submitted to the Free Zone Sector within the Investment Authority if the proposed project will be a private free zone project. The application is submitted for consideration to the Free Zone Technical Committee at its first meeting following receipt of the application. The committee issues its recommendations accordingly.

Final Approval

An application for the establishment of a project in one of the public free zones must be submitted by the investor to the Free Zone Administration on the Investment Application Form. Documentation and data on the project required by this form should be attached. The Free zone Administration prepares a summary memorandum on the project for submission to the Free Zone Board of Directors for resolution. After approval of the Board of Directors resolution, the Free Zone administration notifies the investor of Board approval of the project at the address written down in the Investment Application Form.

C. Conditions and Admissions

(a) Obligations of Free Zone Projects

. Within one year of notification of project approval, the investor must submit contracts or documents verifying the lease or acquisition of a project site for examination and approval of boundaries by the Board of Directors of the Authority.

. Investors must open a foreign currency operating account at a bank registered with the Central bank of Egypt. Charges to such accounts will include: amounts sold to other accredited banks at the highest declared rate of exchange; and payments related to the activity of the project itself (excepting wages, salaries, remuneration and allowances of board members and chairman, and fees for auditors and advisors).

. Investors must open a local currency operating account at a bank registered with the Central Bank of Egypt to meet payments in local currency. Income into this account will include : the Egyptian pound equivalent of amounts sold from the foreign currency operating account; surpluses of operating accounts for vessels belonging to free zone maritime companies, convertible into foreign currency of which has been approved by the authorities; local currency revenues of the project; and sales proceeds of waste, discarded packaging and containers, products of trial operation, faulty goods and manufacturing scrap which may be authorized for sale within Egypt.

. A statement of revenue and expenditure substantiated by a bank statement of the status of the operating accounts must be submitted to the free zone administration every six months.

. Investors must establish guidelines for wages, salaries and remuneration paid to personnel in foreign currency with a minimum per diem limit per worker of \$ 1.5 or equivalent. Payment of wages in Egyptian pound-equivalents is made at the highest prevailing rate of exchange on the date the payment is due.

. All standards and regulations pertaining to protection of the environment, must comply with safety regulations related to fire and/ or the possession, transport, handling and movement of dangerous or explosive materials.

. Investors must observe procedures set forth in the Executive Regulations of the Investment Law No. 230 of 1989 for the entry, exit and movement of goods.

. Investors must formally submit the accounting system adopted for use by the project to the Free Zone administration for review and approval within 30 days of the date of license notification. Any amendments thereto must be submitted within 30 days of the decision to adopt them.

. Approved copy of the balance sheet and final accounts must be submitted to the Free Zone Administration within 6 months of the end of the fiscal year.

(b) Fees for Free Zone Projects

Storage projects are subject to an annual duty of 1 per cent of the value of consigned goods upon entry into the free zone, payable to the Authority in foreign currency within three months of the date of entry. Duty is levied on the following basis:

- 1 per cent of the c.i.f. value of goods consigned to free zone storage projects' own account;
- 1 per cent of the normal f.o.b. export price of Egyptian goods exported to free zone projects;
- 1 per cent of total revenues of goods consigned to the free zone for storage for third parties.

Entry of such goods for storage projects makes them liable for duty.

Goods utilized in production contracting or processing arrangements either within or outside the free zone are subject to duty equal the difference between the duty levied on the standard f.o.b. export price of the finished product and the duty or ready levied on the items before processing.

Industrial projects are subject to an annual duty of 1 per cent of the value of goods upon exit from the free zone, payable to the Authority within three months of the date of the exit. Duty is levied on the following basis:

- 1 per cent of the standard f.o.b. export price of industrial products or commodities which are assembled, mounted, finished or re-conditioned, as well as goods which are sorted, mixed, blended or repackaged in the free zone for the project itself.

Service projects whose activities do not require entry or exit of goods are subject to an annual rate of duty equal to 1 per cent of the total revenues by the project, payable on a semi - annual basis upon final adjustment of the project's accounts and approval by a certified accountant within six months of the end of the financial year.

(c) Importation from Free Zone Projects

Local Egyptian importers may import goods from free zone projects without restriction. However, other Egyptian importers importing free zone goods must comply with standard import procedures; goods imported from the free zones are treated as though imported from a foreign market and as such are subject of the prevailing import regulations.

- Tariff codes and rates at free zone exit:
- goods exported from the free zone into Egypt as received are subject to standard customs tariffs applicable to these goods without change;
- goods exported from the free zone after adding local or other foreign components are dutiable as follows : the customs tax base is limited to the amount of the materials and parts imported from abroad. The customs tariff is calculated on a piece-by-piece basis for each component according to the prevailing rate at the time of the exit of the goods from the free zone.

D. GUARANTEES AND BENEFITS

(a) Facilities for Investment in the Free Zones

. Every public free zone incorporates a special unit dedicated to providing investor - related services, such as obtaining residence and work permits, installation of telephone and telex communication with ports and various governments agencies.

. To avoid delays in approval and implementation, approval of free zone projects is granted directly by the Free Zone Board of directors.

. Each public free zone houses and administration unit is designed to support and oversee all aspects of projects implementation. This unit is equipped to handle issuing of licences, finalization of procedures, and the provision of economic, technical and legal consultation.

. Free zone sites available for the establishment of projects are fully equipped with required infrastructure, any may be leased for annual fees of between \$ 1.5 square metre (industrial projects) and \$ 3.75 - \$ 5.00 (storage projects).by reference to the free zone entry documents. Freight is not included in the customs tax base since the free zone is considered the country-of-origin.

b) Privileges Accorded to Free Zone Investment Projects

. The Investment Law does not restrict investors as to the nature of activity undertaken in free zones. Approval of free zone projects is depends only on the financial soundness of the investors, market potentials indicated by local and international surveys, and export capability.

. The Investment Law provides for the unrestricted participation of Egyptian, Arab and foreign capital in the establishment of projects in the free zones.

. The Law sets no limitations on the size of capital invested in a project, enabling project founders and managers to determine optimal project size according to desired capacity and output.

. Project founders are not subject to any restrictions related to the legal form of the free zone company (i.e. individual, joint-stock; partnership, branch...), allowing them to opt for the most appropriate structure given the nature of activity, project size and objectives.

. Free zone projects are entitled to import intermediate and other requirements freely from the domestic or foreign markets, and such imports are exempted from import regulations applicable within the country.

. In order to utilize excess capacity available within industrial projects located in the free zones, projects may operate on behalf of other projects against payment of 1 per cent of the total revenues realized from processing or finishing goods, materials or parts on behalf of other projects.

. The Investment Law provides for storage projects to contract processing operations to other companies either inside or outside the free zone. Such arrangements are subject to duties equal to the difference between the duty payable on the standard f.o.b. export price after processing and the duty previously levied on the unfinished goods.

. Exports from Egypt into the free zones must observe all export and banking procedures governing exportation to foreign markets.

. Free zone are entitled to repatriate profits and re-export invested capital in case of liquidation.

. In accordance with the Investment Law, output of free zone projects is not subject to any price controls or profit ceilings which may apply domestically.

Exemptions Granted to Free Zone Projects

. Goods exported abroad or imported from foreign markets by free zone projects are exempted from customs duties, consumption taxes and other taxes and duties.

. All articles, supplies, machinery and means of transport - with the exception of passenger cars - required by free zone projects to undertake their licensed activity within the free zone are exempted from customs duties, consumption tax and other taxes.

. Dividends earned by projects established in free zone are exempted from taxes and duties in force in Egypt.

. Funds invested in free zone projects are exempted from inheritance taxes applicable within Egypt.

. Trade in transit goods with a fixed destination is exempted from the annual duty of 1 per cent of the value of goods entering or leaving the free zone.

Amounts paid by projects to non-Egyptian personnel normally subject to the employment earnings tax on wages, salaries bonuses, and other such payment are exempted from the general tax on income provided that the duration of their work in Egypt does not exceed one uninterrupted year.

E. Functioning:

a) Public Free Zones.

The six public free zones operating in Egypt are listed as follows:

1) Nasr City Public Free Zone

Nasr City Public Free Zone is located in close proximity to Cairo International Airport, facilitating linkages with foreign markets while simultaneously providing easy access to skilled labour from Cairo.

2) Alexandria Public Free Zone

Alexandria is renowned internationally as Egypt's major port on the Mediterranean Sea. Main industrial activities concentrated around the city include spinning and weaving petrochemicals, metallurgical works, food processing and production, oil extraction, paper production, and maritime activities. Skilled and semi-skilled labour is amply available in Alexandria.

Alexandria Public Free Zone is located 20 kilo meters from the Port of Alexandria at the center of the road, marine and communications network, close to Dekheila Port and El Nozha Airport enabling easy access to external markets. A good road network eases the flow of goods in and out of the free zone.

3) Port Said Public Free Zone

Located on the Mediterranean Sea at the entrance of the Suez Canal, Port Said is among the highly regarded major commercial centers in Egypt, due largely to free zone status.

Port Said Public Free Zone is located close to the port, facilitating transport of goods, and Port Said Airport is currently being rehabilitated to enable it to better serve the growing commercial activity of the city.

4) Suez Public Free Zone

A key Egyptian port on the Red Sea and the southern entrance to the Suez Canal, Suez occupies an important strategic location with easy access to Arab, Asian and African countries on the Indian Ocean.

Economic activity in the city is centred on the important oil industry, since much of Egypt's petroleum wealth is concentrated in the Suez Gulf. The country's largest oil refinery is located in the city, spurring the growth of oil related industries in the area. Nitrogen fertilizer production is the second largest industry in Suez, while other industrial activities there include quarrying and paper production, cement, and spinning and weaving.

Suez Public Free Zone occupies two sites -- the first in Port Tewfik where many projects for the servicing and supplying of maritime transportation are already in operation, as are a number of industrial projects. The second, located in El Adbbeya, is still under execution.

5) Ismailia Public Free Zone

Characterized by mild weather and attractive surroundings, Ismailia is endowed with touristic appeal as well as industrial potential. Located mid-way along the Suez Canal, the city is linked to the Delta, Cairo, Sinai, and the other canal cities by a well-established road network.

Ismailia Public Free Zone is situated outside the city on the main Cairo/Port Said road offering some 200 feddans equipped with infrastructure for the establishment of industrial projects.

(6) Damietta Public Free Zone

A new public free zone is being established in Damietta, east of Alexandria along the Mediterranean coast. Where a modern port has been constructed and equipped with sophisticated transport, shipping and handling facilities. The free zone will be a center for industrial exports, particularly in those industries for which Damietta has traditionally been renowned, such as wood-working and furniture making and leather production.

b) Private Free Zones.

Some activities because of their nature need to be located outside the Public Free Zones such as:

- 1) Projects because of economies of transportation need to be near sources of raw material etc... or it should be erected on a site appropriate with its nature of activity (marine transportation projects, cement silos etc...).
- 2) Where areas for projects in Public Free Zones are not readily available.
- 3) If there is a danger that the project may pollute the environments.
- 4) If the site of the project constitutes a tangible asset of the projects capital.

Without being specific a number of private free zones are now growing in competition with the established public free zones. The only criteria to be followed by the investors is to make observation of the conditions 1-4 above.

The sitings of the private zones are namely in Alexandria Port, City of Ramdan Cairo and Port Said.

DIFFICULTIES

1. Shortage of raw materials and utility services like, water and power supply.
2. The effects of the spending during Middle East wars has put strain on the economy of the country.
3. Limitation to the rest of the African markets.
4. With the collapse of the oil prices there is growing unemployment as Egyptian workers returning from the Gulf find no work.
5. The problem of creating more processing zones to keep up with the demand on economic growth.

IDENTIFICATION OF PRIORITY NEEDS

1. Job creation to solve the problem of increased unemployment.
2. Efforts to attract automation into the existing industries. Research studies into these areas are being conducted.
3. More training of skills and efforts to rehabilitate the existing integrated equipment.
4. Expansion of offshore banking facilities.
5. Exploration of means to improve communication coordination and cooperation among zones to achieve lower promotion costs.
6. Quality control of existing line of products.

All persons met were briefed on the purpose of the mission and its impact in the context of IDDA II.

List of people met

1. Dr. Yusef K. Mazhar
First Undersecretary
Ministry of Industry
Egypt.
2. Monica Massey DG Hoyos
Deputy Resident Representative
United Nations Development Programme
3. Dr. Farouk Momamed Islam
Under Secretary of Free Zone
Sector of Industrial Development
4. Mrs. Ferial Mohamed Mahmoud
Director General of African Organization
Arab African Section
Ministry of International Cooperation
5. ABD Al Hariss ABD Al Rahim
General Manager
International Relation
Ministry of Industry
6. Hamed Amer, Managing Director
Golden Tex Wool Co.
10th of Ramadan City
Egypt.
7. Fathi S. kamel, Plants Manager
Milkyland International Dairy and Food Co.
10th of Ramadan City
Egypt.
8. General Manager(Industrial Estate Management)
10th of Ramadan City
Egypt.
9. Walid A. Helal, Deputy Chairman
EL Hilal & Golden Star Factories
10th of Ramadan City
Egypt.