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Palestinian Industrial & Free Zone Authority (PIFZA): Business Plan for the Initial Twelve Months

Final Report

U.S. Agency for International Development

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Executive Summary

This report presents a business plan for the Palestinian Industrial Free Zone Authority (PIFZA) during its first 12 months of establishment and operation. The report summarizes research and analysis conducted by The Services Group, in close coordination with USAID, the Palestinian Authority (and in particular, the Ministry of Industry (MOI)), and private sector parties involved in the development of the Gaza Industrial Estate (GIE). The work was conducted under sub-contact to Coopers & Lybrand, under the PEDS III contract with USAID.

This business plan basically consists of 4 main sections:

1. A 12-Month Work Plan for PIFZA Start-Up;
2. An Organizational Plan;
3. A Financial Plan; and
4. A Technical Assistance Analysis

12-Month Work Plan

Chapter 2 outlines the proposed 12-month work plan, month by month. Activities and milestones are presented in the form of a checklist; important comments following each month's proposed tasks and milestones are also included. Among the most critical actions and milestones for each area of activity are the following:

- Preparatory Activities: The first PIFZA Board meeting must be executed as soon as possible (tentatively scheduled for May 1998). Among the priority activities of the Board should be the nomination of the Executive Director, and the delegation of key authorities to him. At a minimum, these authorities should include:

  1. the development of draft work plans (Article 10, paragraph 1, in conjunction with Article 12 of the law)
  2. the development of draft regulations, procedures, and applications for operations within IFZs (Article 10, paragraph 5, in conjunction with Article 12 of the law)
  3. The advertisement and promotion of the IFZ program (Article 10, paragraph 4, in conjunction with Article 12 of the law);
  4. Specifying the number of employees and main officers, supervising their work, and determining their salaries (Article 10, paragraph 6, in conjunction with Article 12 of the law);
  5. The approval of the use of experts and consultants (Article 10, paragraph 7, in conjunction with Article 12 of the law); and

6. The receipt, evaluation, and approval/rejection of IFZ enterprise certificates (Article 10, paragraph 9, in conjunction with Article 12 of the law)

- Regulatory and Procedural Development. Application procedures must be finalized and approved by July 1998; the draft regulation to the PIFZ Law (see Annex B) must be reviewed, finalized, and approved by this time as well. Customs procedures and documentation requirements need to be finalized, and staff selected and trained to implement customs control at the GIE upon commencement of operations (expected for late July 1998).

- Staffing. Once the Executive Director is named, he must in turn assemble an appropriate level of staff. Proposed salaries for these staff are between public sector and private sector payscales. This should be finished by mid-July 1998.

- Technical Assistance & Training. USAID's planned technical assistance (see Chapter 5 for insight) will play an instrumental role in supporting PIFZA's early development. The process for bringing this TA on-line should be prioritized.

- PIFZA Office Facilities & Systems Development. A new office for PIFZA must be established, physically separated from the MOI. Appropriate equipment, communications devices, and both financial management/accounting as well as general management information systems (MIS) should be brought on line as soon as possible.

- Infrastructure Policy and Institutional Framework Development. This is a burning priority that has been somewhat overlooked in recent months, but must now be made a priority so that by late May/early June, this framework definition is finalized. Fees and billing arrangements must be decided, along with sources of financing to cover large (approx. $1 million/year) deficits during the initial time of PIFZA.

- Infrastructure Development, Operation & Maintenance. Key design, construction, operation, and maintenance activities for off-site infrastructure elements will be ongoing throughout the initial 12- month period.

- PIFZ Program Evaluation. Finally, PIFZA staff will need to undertake periodic evaluations of the PIFZ program's performance. A 6-month mid-term evaluation is suggested, along with a 12-month evaluation at the end of the work plan.

Organizational Plan

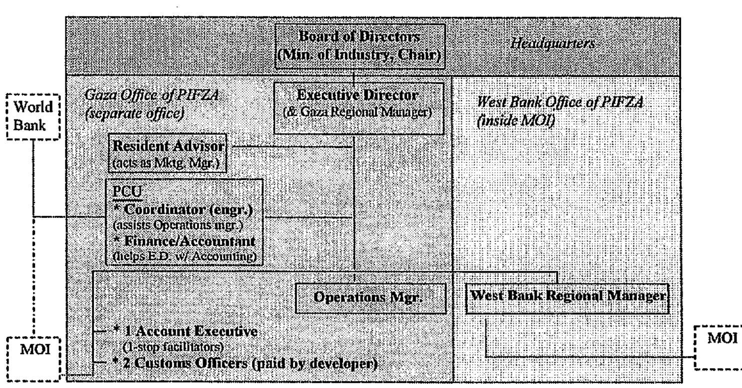
Chapter 3 presents the organizational plan for PIFZA. The chapter begins with a description of key elements that will be critical to the success of PIFZA. These include:

- "Lean and Mean" Corporate-Styled Organizational Approach;
- Delegation of Key Authorities and Responsibilities;
- Hiring and Firing Flexibility (PIFZA staff not considered public servants);
- Proactive Role of Executive Director;
- PIFZA Not to Undertake Functions Better Performed by the Private Sector; and
- Measure Performance

One-Stop-Shop Capabilities. PIFZA will initially employ a virtual one-stop-shop model, making use of the account executive approach to facilitating initial investors and making start-up a relatively straight forward, fast, and effective process. A PIFZA account executive will be assigned to specific investors, and serve as a key information bridge and facilitator in areas such as:

- Company registration
- Required licenses such as import & export licenses
- Work permits
- Providing information on all aspects of doing business in Palestine
- Logistical support
- Providing applications for PIFZ program, answering questions in their regard
- Other miscellaneous support for start-up and initial operations

Short-Term Organizational Structure. Based on a minimalist approach that will build up PIFZA's staff only slowly over time, in accordance with workload, as well as minimizing early year deficits, the following organizational structure is proposed for the short-term:



Structures for the medium and long-term are also considered at the end of Chapter 3. These reflect a more extensive organizational development in the West Bank office of PIFZA, given the expected development of several new IFZs in various West Bank locations. Staff position descriptions are also provided (see Table 3.1)

PIFZA 12-Month Financial Plan

The financial plan (see Chapter 4) is based on the results of two different financial models elaborated specifically for the task:

1. The main financial model. This is based on the administrative, regulatory, and promotional functions of PIFZA, but excludes off-site infrastructure.
2. An "off-site infrastructure unit" model. This was based on a revised model developed by the World Bank.

Various scenarios were run, incorporating different assumptions. The bottom line results are as follows:

- Administrative/Regulatory/Promotion: PIFZA will run deficits during the initial 25 to 47 months, the total cumulative deficit ranging from $190,000 to $645,000. The recommended scenario projects that deficits will occur during the initial 33 to 41 months, totalling between$208,000 and $329,000. After initial deficits, the administrative/regulatory/promotion side of PIFZA will begin to generate surpluses, which will compensate for past deficits in this area, as well as off-site infrastructure losses (see below).

- Off-Site Infrastructure Unit: This aspect of PIFZA's operation will generate substantially larger deficits, for longer periods of time. This is due to the nature of infrastructure investments. During the initial 4 years, deficits from operation and maintenance of off-site infrastructure will come to approximately $1 million/year.

- Total PIFZA financial needs. The combined total of financial needs including both administrative/regulatory/promotion and off-site infrastructure will run around $1.1 million/year for the initial years.

- Offsetting Benefits. An analysis which estimated benefits accruing only from employment generation and associated income generation shows that the investment in PIFZA is well worth the money. By its 4th year of operation, PIFZA will have generated approximately 9,500 jobs, with a cumulative wage bill of $110 million. By year 10, with 250 enterprises operating, the PIFZA program will be generating approximately $13.4 million/month ($161 million/year) in new salary income for Palestinian workers.

- 11-Point Financial Plan. Based on the conclusions of the financial analysis, an eleven-point financial plan was developed. A summary of this plan is as follows:

1. PIFZA should use Scenario 2C as the basis for requesting support money from potential sources.

2. Decide how much of the World Bank credit will be used to cover additional costs not assumed in the model.

3. During the month of May, the MOI should seek to finalize agreements on fee structures, billing arrangements, and financing of projected deficits associated with off-site infrastructure.

4. At the first PIFZA Board Meeting, a proposal for requesting funding support from donors and the PA should be presented & if possible, approved.

5. Prior to requests for additional support to cover deficits expected from months 13 onward, PIFZA should make an erstwhile effort to secure new grant assistance and financing, especially for the West Bank office.

6. During start-up phase, hire staff immediately, but only the bare minimum required to get PIFZA up and running

7. Do not try to save money by setting up PIFZA within existing MOI facilities.

8. Aggressively seek alternatives for generating short-term revenue for PIFZA.

9. Quickly establish a Financial Management System

10. Also at an early stage, set up independent accounts at an appropriate local banking institution.

11. Use PCU financial manager/accountant as PIFZA's main financial accountant and office manager.

Technical Assistance Analysis

The technical assistance analysis produced some new insight into TA requirements for PIFZA in the near to medium term. These include:

- A longer term project is appropriate (2-years minimum, with possible extension)
- A long-term resident advisor should be included
- It may be advisable for USAID to fund one or two PIFZA staff positions on a temporary basis;
- Short-Term TA should include 6 key components. These include support for strengthening application procedures; development of a management information system; support for customs procedures; support for environmental control; strategic planning activities; and marketing and planning actions.

Chapter 1: Introduction

1.1 Background

The PIFZ program has reached a critical stage. After years of hard preparatory work, the Gaza Industrial Estate is only months away from becoming operational. At this crucial point, the importance of a strong policy and regulatory framework, and the institution required to implement it, cannot be overstated. As the first investors submit applications and begin undertaking activities related to start-up and early operations, the reputation of the GIE—indeed, of the entire PIFZ program-- will be formed. There is both an opportunity for getting started on the right foot and setting the stage for future success, along with a threat of experiencing early difficulties and set-backs which might damage the image of the program, and hence discourage subsequent investment. Tens of thousands of jobs are in the balance, as is to a large degree the future economic, social, and political stability of both the Palestinian territories and the broader regional area.

1.2 Business Plan: Components

This report presents a business plan for the establishment and early operations of the Palestinian Industrial and Free Zone Authority (PIFZA). It is based on the best efforts of both local and international experts to devise an appropriate framework for managing the PIFZ program and ensuring its success. The following chapters present the various analyses, conclusions, and recommendations related to four main components of PIFZA's functional and organizational development plan, namely:

1. 12-Month Work Plan for PIFZA Start-Up. This plan assumes formal PIFZA start-up during May of 1998 (month 1), with the long-awaited initial Board meeting taking place early in the month. The work plan presented in Chapter 2 includes a month-by-month breakdown of tasks related to policy and regulatory development, staffing and equipping new PIFZA offices, preparing, operating and maintaining off-site infrastructure, and ensuring proper monitoring, evaluation and control.

2. Organizational Plan. In order to carry out the 12-Month Work Plan, PIFZA will require appropriate human resources organized according to an effective and practical organizational structure. The Organizational Plan presented in Chapter 3 includes a review of key principles of effective organizational development; a discussion of a transitional strategy for shifting responsibilities from their current location within the Ministry of Industry (MOI) to the newly formed PIFZA; proposed organizational

diagrams for the short, medium, and long-term; and descriptions of key staff positions, responsibilities, and required qualifications.

3. Financial Plan. The costs required to fill PIFZA's organizational structure and allow it to undertake required activities and functions must be covered by appropriate sources of finance. Chapter 4 contains a proposed financial plan, based on detailed budgets and projections of expected costs and revenues.

4. Technical Assistance Analysis. Chapter 5 presents a brief analysis of technical assistance needs, based on earlier assessments and an updated look at areas likely to require various types of institutional strengthening during PIFZA's early development.

1.3 Execution & Approach of Consulting Assignment

The work was conducted between February 22 and May 3, 1998. Two separate visits were made to do research and carry out analysis. These were separated by a one-month period, during which time additional data was collected, and work was initiated on the drafting of Regulations for the new IFZ Law (see Annex B). Beyond the tasks and activities contemplated within the scope of work, the consultant attempted as much as possible to provide additional support and assistance whenever possible. This included marketing and financial advisory services to the Palestinian Industrial Estate Development Company (PIEDCO), as well as legal analysis, training, and lobbying on behalf of PIFZA/MOI.

When drafting this report, the consultant had in mind its near-term use by PIFZA's Executive Director and staff. These managers and staff should be encouraged to make any required modifications or adjustments as soon as possible, so that a final version-- preferably in Arabic-- might be presented to the PIFZA Board for its review and approval.

1.4 Acknowledgements

This plan was elaborated based on close collaboration between the consultant and various parties. These include officials and staff of the Ministry of Industry (MOI), the newly formed Project Coordination Unit for the World Bank credit to PIFZA (PCU), as well as the project manager, staff, and other contracted consultants working on behalf of USAID. The consultant wishes in particular to acknowledge contributions made by Dr. Nasser Jaber (Director General, MOI); other officials and staff from the Department of Industrial Estates at MOI (including Jafer Hdeib, Abd'El Rahman Naim, and Bakr Tabat); Messieurs Skaik and Abdulatif of the PCU; Dr. Bashir Rayas (PIEDCO); and especially Mr. Brad Wallach, Chief of the Private Sector Office, USAID.

In conducting this assignment, the TSG consultant worked under subcontract to Coopers & Lybrand and in turn the United States Agency for International Development under contract no. 294-0023 Delivery Order 828. TSG is recognized as one of the world's leading consulting firms specialized in free zone and industrial estate development, having completed related assignments in over 40 countries in practically every region of the world. To the greatest extent possible, this experience has been brought to bear in developing the following information and preparing both the MOI and PIFZA to take advantage of it.

Chapter 2: 12-Month Work Plan for PIFZA Start-Up

2.1 Introduction

This chapter presents the proposed 12-month work plan for PIFZA. The GANTT chart in Figure 1 gives a graphical overview of associated activities and milestones. The following text summarizes these month-by-month, in the form of a checklist to be used by relevant public officials and PIFZA management and staff.

Following the list of activities and milestones for each month, comments are provided on various key issues. Other aspects of PIFZA's development will also need to be taken into consideration, including its organizational development (see Chapter 3, Organizational Plan), budgetary and financial issues (see Chapter 4, Financial Plan), and required technical assistance and support (see Chapter 5, Technical Assistance Analysis). Upon review and approval of this 12-month work plan by relevant authorities, PIFZA's Board should immediately authorize the Executive Director to begin its execution.

2.2 Month by Month Breakdown of 12-Month Work Plan Activities & Milestones

<u>Month 1 (May) Activities & Milestones:</u>

- (by end of month) Finalize fee structures and billing arrangements for utilities, sign memoranda of understanding with relevant authorities
- Nomination of Acting Private Sector Board Members
- Solicitation of nominees for Executive Director
- (early in month) First PIFZA Board Meeting (see agenda, Annex D)
- Executive Director designated, delegated necessary authorities (E.D. will initially operate from current office or home, spending substantial time at MOI-Gaza).
- Intensive meetings and lobbying to encourage Legislative Council to adopt necessary changes to PIFZ Law (see suggested changes, Annex C)
- Draft regulations for law are developed and finalized (see draft in Annex B)
- Finalization of application procedures, joint meetings with other competent authorities to approve one-stop shop mechanism
- Evaluation of design proposals for waste water treatment plant
- (mid-month) meeting of assigned special committee, to review application forms and procedures for developers, operators, and investors (based on draft regulations for law, workshop held with stakeholders at the end of April, and subsequent final revisions)

Figure 2.1: 12-Month Work Plan Schedule

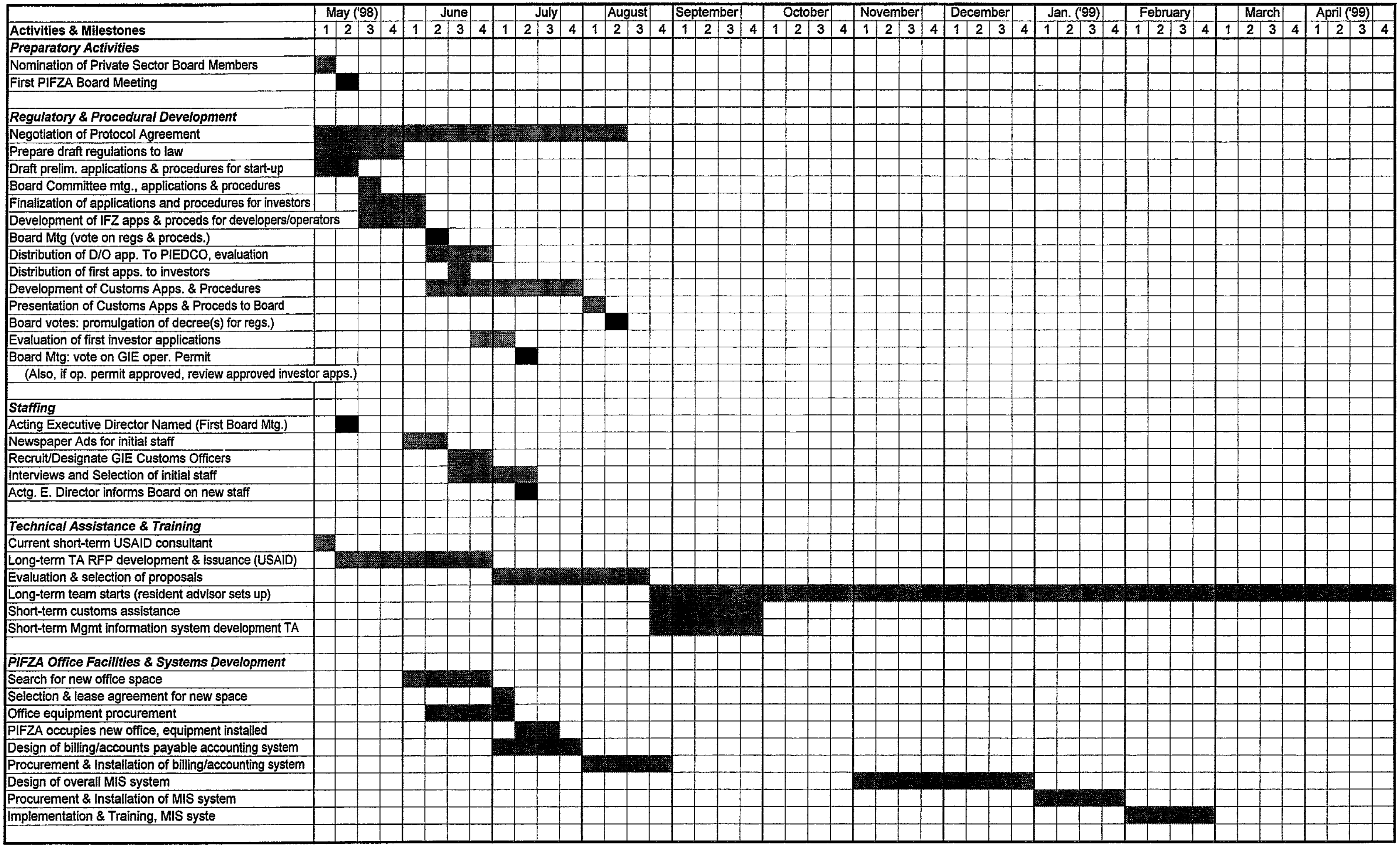
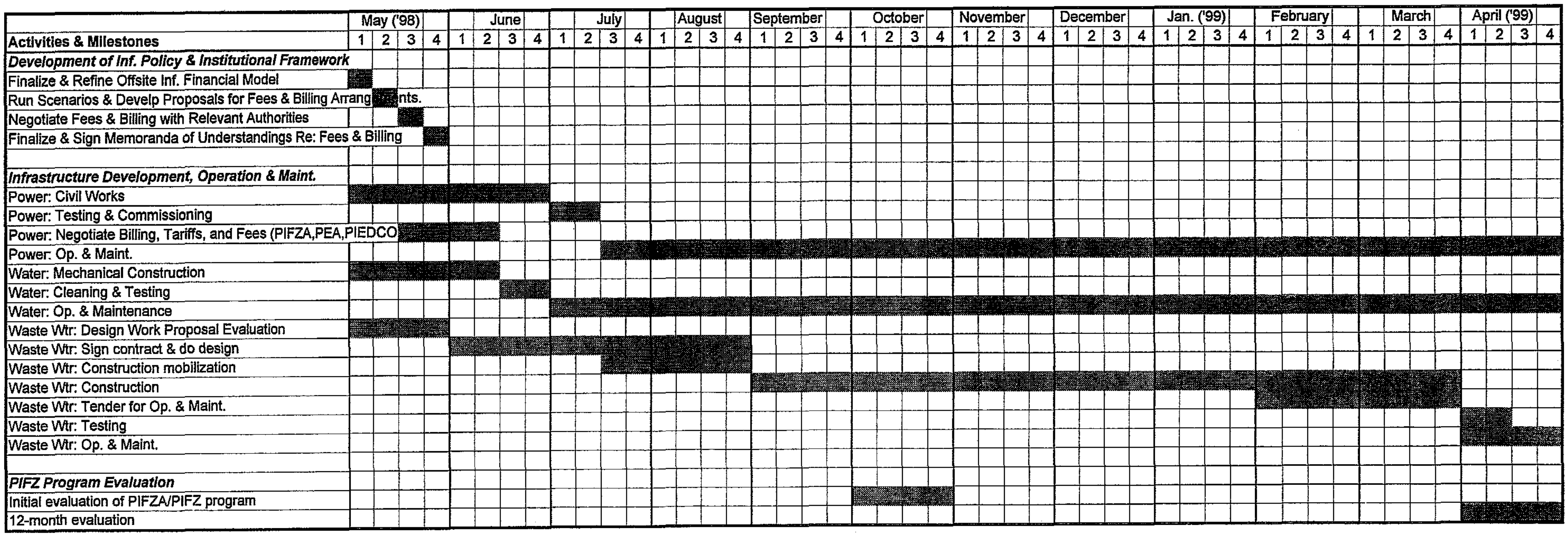


Figure 2.1: 12-Month Work Plan Schedule



Comments: It is absolutely essential to ensure that at its first Meeting, the PIFZA Board delegates to the Executive Director the following functions:

1. the development of draft work plans (Article 10, paragraph 1, in conjunction with Article 12 of the law)
2. the development of draft regulations, procedures, and applications for operations within IFZs (Article 10, paragraph 5, in conjunction with Article 12 of the law)
3. The advertisement and promotion of the IFZ program (Article 10, paragraph 4, in conjunction with Article 12 of the law);
4. Specifying the number of employees and main officers, supervising their work, and determining their salaries (Article 10, paragraph 6, in conjunction with Article 12 of the law);
5. The approval of the use of experts and consultants (Article 10, paragraph 7, in conjunction with Article 12 of the law); and
6. The receipt, evaluation, and approval/rejection of IFZ enterprise certificates (Article 10, paragraph 9, in conjunction with Article 12 of the law)

This last responsibility/authority is crucial, since in the future the Board will meet just one time each month, whereas application approvals need to be facilitated within a 2-week maximum period, as specified in the. All of these delegations will be critical to allow rapid development of the necessary framework and ensure that PIFZA is ready to handle its regulatory responsibilities as soon as the GIE is operational.

<u>Month 2 (June) Activities & Milestones:</u>

- (beginning of month) PIFZA Board Meeting:
  - Draft regulations for law (presented to board members a week in advance) reviewed & voted upon
- Newspaper advertisements placed to recruit remaining 3 staff positions within short-term organizational structure (see Figure 1 in Organizational Plan; 2 PCU staff already recruited)
- Initiate procurement process for initial office equipment & furniture (see proposed12-month budget for items, Annex A)
- Civil Works for Power started
- Sign contract for and begin activities of design work for waste water plant
- USAID issues RFP for PIFZA institutional building technical assistance
- Continuation of GIE protocol negotiation (participation of E.D. as appropriate)
- Selection of PIFZA office location in Gaza, preparation & signing of lease contract
- Interviews and selection of remaining staff positions
- (mid-month) Construction of Mechanical aspects of R.O. plant finished

- Identify customs officer for Gaza, begin work on customs system development
- Application for IFZ Operator's Permit sent to PIEDCO, evaluation initiated as soon as completed and returned (Operation Manager, assisted by PCU coordinator and Account Executive, in coordination with Executive Director)
- Applications sent to GIE interested investors, evaluated as soon as completed and returned (Operation Manager, assisted by PCU coordinator and Account Executive, in coordination with E.D.; note: this is done only after favorable evaluation of PIEDCO's operating permit by PIFZA staff/E.D.)

Comments: This month reflects a heavy workload, thus it will be important to draw upon initial preparatory work done by the consultant and the MOI in regard to procedures and applications. Also, the large number of important definitional issues (applications, procedures, fees, etc.) highlights the importance of the committee meeting in the middle of this month. The importance of proceeding immediately to independent office set-up and recruitment/selection of staff cannot be over-emphasized

<u>Month 3 (July) Activities & Milestones:</u>

- (beginning of month) PIFZA Board Meeting:
  - (if not already done) Final regulations for law approved & sent to appropriate channels for promulgation
  - Review recommendation of PIFZA staff/E.D. on PIEDCO's operating permit, vote to approve or not
  - presentation to PIFZA Board of approved investors
  - Review & approval of customs documentation & procedures
- Remaining PIFZA short-term staff move into new offices & begin working
- Equipment and office infrastructure procurement & installation
- (mid-month) committee meeting to work on customs issues and any remaining application/procedural concerns
- Development of customs documentation and procedures, initial training of customs officer (building on John Holl work & Ramallah officials' collaboration, proposed framework to be submitted to PIFZA Board 1-week in advance)
- Finalization of GIE protocol negotiation (participation of Executive Director)
- Design of billing/accounts payable and receivable system
- (mid-month) preliminary design review for waste water treatment plant
- (mid-month) Mobilization of waste water treatment construction, earth work started
- (By end of month) Civil works for Power finished

Comments: The recruitment of the Customs Officers for Gaza would have already been achieved in the previous month, when they were selected in coordination with the Ministry of Finance. But during Month 3, it would be ideal to officially name them as staff of PIFZA, under direct supervision of the Executive Director (and in the longer term, a PIFZA Customs Manager who will also report to the E. Director and/or the Department of Customs).

Month 4 (August) Activities & Milestones:

- Finalization of customs documentation and procedures, submit to Board members at least 1-week prior to next Board meeting
- Procurement of hardware & software, implementation of billing/accounts payable and receivable system
- (beginning of month) PIFZA Board meeting
- Commencement of GIE operations
- Receipt & evaluation of submitted technical assistance proposals, decisions announced
- Preparations to bring in USAID-supported Resident Advisor & short-term team members for next month
- On-site training of customs officers (both Gaza & future West Bank officers)
- (beginning of month) Preliminary civil work started for waste water treatment plant
- Design of waste water treatment plant finalized

Comments: Prior to initiation of USAID technical assistance (expected for September 1998) there will be a need for various short term advisory services to help PIFZA achieve the tasks outlined above. An "interim" expert advisor to the Executive Director will greatly assist PIFZA in undertaking critical preparatory activities to be ready for GIE operation. As shown in the Organizational Plan, this Advisor should also play a key role in undertaking activities in the realm of marketing and promotion, in coordination with PIEDCO, until the long term resident advisor can take over. USAID and PIFZA should also anticipate immediate execution of a short-term technical assistance activity in the area of customs procedures and related information technology systems, if significant import and export procedures take place in a "customs-secured" area of the GIE.

Financial management IT system will be financed by World Bank credit targeted toward the PCU.

Month 5 (September) Activities & Milestones:

- Ongoing evaluation of GIE investor applications as they are received
- (beginning of month) PIFZA Board meeting
- USAID-supported technical assistance initiated as early as possible

Comments: The technical assistance is likely to include a full-time Resident Advisor, as well as several short-term consultants who will work on various components of PIFZ regime development.

Month 6 (October) Activities & Milestones:

- Mid-term evaluation of results to date:
  - Initial labor density profile based on applications & initial activity
  - Time periods required to approve applications (both developer & investor)
  - Survey of operating & approved enterprises
  - Status report on West Bank IFZ development
- Propose & implement adjustments to PIFZ regime as deemed necessary based on evaluation
- Ongoing evaluation of GIE investor applications as they are received, investment facilitation and follow-up support provided by Account Executives
- (beginning of month) PIFZA Board meeting

Comments: In order to evaluate results to date, not only will data need to be collected, but a survey of recently approved and operating enterprises should be carried out. Interviews should also be conducted with relevant institutions (PENA, customs, etc.) to determine their perspectives on strengths and weaknesses & necessary adjustments

Month 7 (November) Activities & Milestones:

- (beginning of month) PIFZA Board meeting:
  - presentation of evaluation results by PIFZA Executive Director
  - review and vote on any adjustments requiring Board approval
- Begin process to identify sources of finance/grants for months 13-24
- Begin design of overall MIS system for PIFZA

Comments: The identification of sources of finance will be the responsibility of the Executive Director. The E.D. will work closely with the Financial Manager (initially financed by the PCU) to determine needs and possible sources to be approached. Also, the design of the overall MIS system should be compatible with the initially implemented financial controls/billing & accounts payable system.

Month 8 (December) Activities & Milestones:

- (beginning of month) PIFZA Board meeting
- Begin to prepare requests for financing/grant money for months 13-24
- Finalize design of MIS system for PIFZA

Comments: Design of MIS will be shaped by evolving needs of PIFZA, and areas showing weaknesses or better organization of information for management and decision making processes.

Month 9 (January) Activities & Milestones:

- (beginning of month) PIFZA Board Meeting
- Review requests for financing/grant money for months 13-24, approve
- Procurement of hardware & software of overall MIS system for PIFZA
- Finalize & submit requests for financing/grant money for months 13-24

Comments: Depending on financial status of PIFZA at this time, different sources of funds could be used to pay for overall MIS system. This may be a useful target for USAID financial assistance, due to its role in the ongoing TA team's ability to support PIFZA's organizational development.

Month 10 (February) Activities & Milestones:

- (beginning of month) PIFZA Board Meeting
- (beginning of month) initiate tender process for wastewater Op. & Maint.
- Implementation of MIS system for PIFZA
- Receive responses to requests for financing for months 13-24
- Begin to prepare work plan and budget for months 13-24
- (If applicable) Initiate preparation of new PIFZA office in the West Bank

Comments: Preparation of the new PIFZA office in the West Bank will depend upon the status of proposed projects there. If one or more has advanced to the stage where developer applications will be forthcoming & zone operations imminent, then the decision to move forward with the West Bank office will probably need to be taken. Another key factor will be available financing to cover the incremental costs of this office. The assumptions of this work plan (and the associated financial plan) include the seeking of financing/grant assistance to cover deficits expected for months 13-24. Since the deficits will be larger with a West Bank office, the required financing/grant assistance will correspondingly be larger, hence the final proposals and requests prepared should take into consideration the status of West Bank IFZ development.

Month 11 (March) Activities & Milestones:

- (beginning of month) PIFZA Board Meeting
- Negotiation of loan agreements/grant assistance for months 13-24
- Finalize work plan and budget for months 13-24
- Finish tender for wastewater treatment op. & maint.
- Begin evaluation of first 12 months of PIFZA
    - Labor density profile based on applications & initial activity
    - Time periods required to approve applications (both developer & investor)
    - Survey of enterprises

- Status report on West Bank IFZ development

- (If applicable) Place advertisements for West Bank office staff

Comments: Like the mid-term survey, the survey conducted as part of the 12-month evaluation should include all approved & operating enterprises. Firms should be queried on their perceived strengths and weaknesses of PIFZA and the overall IFZ program, and their suggestions for improvements.

Month 12 (April) Activities & Milestones:

- (beginning of month) PIFZA Board Meeting:
- Review & approve work plan and budget for months 13-24
- Approve loan/grant assistance agreements for months 13-24
- PIFZA Executive Director presents 12-month evaluation results
- Signing of loan/grant assistance agreements for months 13-24, initiate disbursement process
- (If applicable) Interview and select West Bank office staff
- (If applicable) Select new office location for PIFZA West Bank office

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2.3 Summary

Whereas previous stages of the PIFZ regime's development have been characterized by numerous delays (many of which were due to circumstances outside of the PA's direct control), the stage reflected in this work plan will require careful attention to meeting deadlines. The GIE will soon complete building construction and be ready to commence operations. Any delays will cause investors to lose money, and will prevent the rapid creation of jobs and economic stimuli so crucial for the Palestinian economy.

Many of the tasks and milestones presented in the above work plan depend on the completion of previous tasks—i.e., they are interrelated to a large degree. Therefore, any delays at the beginning will most likely cascade and push subsequent task completion out further into the future. There have already been problems due to delays in scheduling the first PIFZA Board meeting, which was originally planned to take place no later than the end of March 1998. As of May 1, 1998, the PIFZA Board has not held its first meeting, although a tentative date of May 17^{th} was set prior to the consultant's departure from the field.

Any further delays in this critical milestone, as well as in several other key steps (e.g., approving and disbursing funds required for office start up and recruitment/hiring) are most likely to result in the inconvenient situation mentioned before: PIFZA being unprepared to manage things on the ground just as investors are ready to start-up operations. This will delay investments, and raise the likelihood that the GIE, and the PIFZ program as a whole, will generate negative publicity, form a bad reputation, and subsequently suffer reduced ability to promote and attract new investors. This will hurt PIFZA operationally, since a large portion of the revenue it depends on proceeds from the fees it charges to tenants. It will also hurt the Palestinian economy, and represent an injustice to the thousands of potential employment opportunities put on hold due to simple indecision and bureaucracy at the government level. Hopefully, such an outcome can be prevented.

The following chapters present the organizational and financial aspects of the Business Plan, building on the work plan presented in this chapter, and elaborated based on its content.

Chapter 3: Organizational Plan

3.1 Introduction

The following presents the proposed organizational plan for PIFZA, for both the short-term period immediately following the first Board meeting and start-up, as well as the longer-term period thereafter. Like any other organization, PIFZA will face changing conditions and new developments that may affect the underlying assumptions behind this plan. As such, the proposed structures and institutional functions and relations (particularly in the longer term) should be considered as projections, and not necessarily rigid definitions that cannot be subsequently modified. It should be the right and responsibility of PIFZA management, in particular its Executive Director, to monitor the progress and organizational needs of the agency, and make adjustments as deemed appropriate.

3.2 Fundamental Elements of Successful Organizational Development

Based on international experience with industrial and free zone regulatory bodies, it is possible to identify several key elements likely to be critical in assuring successful organizational development and performance of PIFZA. These elements should be incorporated into the overall approach to PIFZA's structure and function:

- **"Lean and Mean" Corporate Styled Organizational Approach.** It is essential that PIFZA remain true to its intended definition as an organization that includes private sector representation, and that it employ structures and functional approaches characteristic of efficient private sector bodies. This means unwavering attention to preserving PIFZA's status as a semi-autonomous agency separated from normal public sector rules, restrictions, and approaches. In particular, it is essential that PIFZA employees not be considered public servants, and that their salaries not be subjected to government pay scales. PIFZA should be structured and run, not like a typical government bureaucracy, but like a streamlined, responsive, private sector-oriented agency. Staff should be limited to an absolute minimum, which will help avoid the evolution of bureaucratic structures and procedures, as well as justifying (and giving PIFZA the capacity to pay) the relatively higher salaries required for its high-caliber professionals.

- **Delegation of Key Authorities and Responsibilities.** While the current version of the law assigns several important functions to its board, PIFZA will not function effectively unless many of these are delegated to the Executive Director. Like the boards of the most effective corporations, PIFZA's board must authorize the Executive Director to carry out important planning and day-to-day functions[1], and give him the flexibility to use his discretion and judgement in making functional and organizational decisions. This implies that the Executive Director will be held accountable for PIFZA performance, and that any unsatisfactory situations should be resolved not by taking authority away from him or her, but by replacement with someone more suitable. In turn, the Executive Director must employ a managerial approach that delegates key functions to his or her staff, and holds them responsible for their respective performance.

- **Hiring and Firing Flexibility.** When necessary, staff replacement through firing or forced resignations should be freely used at all levels of the organization, in accordance with relevant Palestinian law[2]. Likewise, hiring, promotions and/or non-monetary rewards tied to performance should be employed, allowing the Executive Director authority to do this at his or her discretion. By avoiding the rigid and bureaucratic rules on hiring and firing found in many public sector agencies, PIFZA will foster a more professional environment, establishing incentive frameworks that encourage highest performance. If on the contrary, political and/or family connections exert undue influence in this sphere, PIFZA will be seriously weakened, and will likely share the same fate of many failed zone programs in Africa and Latin America.

- **Proactive Role of Executive Director**. It will be essential to ensure that PIFZA's Executive Director is chosen and performs in such a way so as to guarantee a direct and continuous role in actively managing PIFZA. He or she must be involved with all PIFZA activities, continuously working with staff at all levels, in addition to coordinating with high-level authorities and investors at both the national and international level. The post should not be seen as requiring just a political "figurehead" who occasionally reports to the office, but rather, a full-time, seasoned professional with both political saavy

[1] These would include at a minimum: 1) the development of workplans; 2) the advertisement and promotion of IFZs; 3) the development of internal regulations and procedures regarding financial, administrative, and technical matters; 4) specifying the number of employees and main officers, supervising their work, and determining their salaries; 5) the approval of the use of experts and consultants; and 6) the receipt, evaluation, and approval/rejection of IFZ enterprise certificates. The first five of these functions are specified in the November 1997 version of the PIFZ law as being the responsibility of the Board, in Article 10 sub-paragraphs 1, 4, 5, 6, and 7 respectively. Article 12 of the same law clearly states that PIFZA's board may delegate these same functions to the Executive Director. Article 29 specifies that the sixth function—receipt, evaluation, and approval/rejection of IFZ enterprise certificates—shall be handled by the PIFZA Board. This is a crucial defect of the law, which should be remedied either by assuming that Article 10 sub-paragraph 9 combined with Article 12 would allow the Executive Director to rightly assume this as his or her responsibility, or by modifying the law (see proposed changes, in Annex X). The consultant considers it essential for PIFZA's success that these delegations/modifications be accomplished in the course of the initial board meeting. The 12-month work plan therefore assumes this.

[2] It will be important to ensure that PIFZA hiring and firing is treated under private sector provisions of the law, and not under normal governmental guidelines, which tend to be less flexible. If legal reform is required to do this, it should be done within the body of the PIFZA law (if possible) prior to its to the Legislative Council for its final approval.

and effective managerial skills. Ideally, he or she will possess an MBA and/or privates sector experience, along with a demonstrated record in areas related to regulatory functions and/or industrial development.

- **PIFZA Not to Undertake Functions Better Performed by the Private Sector.** PIFZA should not let itself evolve into an unduly large institution with too broad a scope of activities. It needs to see itself as a regulator and catalyst, but not necessarily an executor of many functions. For example, it should not only encourage, but insist that private developers wield most of the burden and costs of proposing new IFZs, including feasibility studies, preparatory ground work, and cost-benefit analyses in regard to any public financing of required off-site infrastructure. PIFZA may certainly contribute in a facilitative manner to such initiatives, taking advantage of multi-institutional Board composition and past experience to provide information and coordination as much as possible with existing staff. However, the investors (and perhaps interested donors and multilateral financing agencies) behind potential new projects must be willing and able to cover extraordinary costs, including short-term staff or consultants brought in (perhaps with PIFZA as counterpart) to deal exclusively with their development[3]. Those who insist, based on the GIE's development, that a large and substantial role should be played by PIFZA in regard to developing new projects must keep in mind the special circumstances surrounding this first project. In particular, they should anticipate the greater willingness of private developers to shoulder project development costs, since once the GIE is up and operating, and the legal and institutional development aspects of the program are largely achieved, developers will face less risks and uncertainties, and greater perceived benefits. Another example of how PIFZA should circumscribe its functions is in the provision of certain services. It is frequently more efficient to allow developers or specialized private sector firms to compete for and provide many services.

- **Measure Performance.** PIFZA management must make a pronounced effort to measure a number of key variables relevant to its performance. Among these are: 1) number of inquiries by potential investors and developers, and the time required to respond to each one; 2) minimum, maximum, and average times required to evaluate applications from investors and developers/operators; 3) number of jobs created on both a company and zone-wide basis; 4) magnitude and source countries of investment (company and zone-wide); 5) satisfaction of investors & identification of their needs and desires (based on periodic surveys. This implies the development of

[3] In many countries, free zone programs come under siege from politicians demanding that zones be created in their particular jurisdiction. Many countries have suffered large losses of public funds and failed zone development because of such influence—it is well known that projects selected and developed on political or social criteria, as opposed to economic criteria, are prone to failure. Insisting on private sector initiative in proposing and developing new zone projects helps to resolve this problem, and has been the key factor behind the successful free zone programs of countries around the world.

appropriate data bases, data collection and recording mechanisms. Efforts should also be made to gage results of marketing efforts (both of PIFZA and of individual developers), asking prospective investors how they found out about the program, and keeping track of news coverage, articles in journals, and perceived impact of advertisements. PIFZA staff should be held responsible for respective performance measures, and be given appropriate incentives (financial and/or non-financial) in their regard.

3.3 Approach to Creating One-Stop Shop Capabilities

Many experts and officials involved with PIFZA's development have rightly emphasized the need to create a simple, fast, and centralized capability for facilitating investment, business start-up and operations within IFZs. The term "one stop shop" is commonly used in this regard. Many people interpret this to mean different things, which should be no surprise—as seen in Box 1, many different approaches to one-stop-shops have been attempted.

In the short-term, and most likely into the medium to long-term as well, PIFZA's best option will be to organize itself according to the "Account Executive" or project officer model. This approach entails the designation of an account executive to handle a given investor as soon as they express interest in investing in an IFZ in Palestinian territory. The account executive's primary responsibility is to follow up on every possible detail related to getting the investor up and operating within the IFZ program. Such details should be considered in the broadest sense, to include such things as:

- Company registration
- Required licenses such as import & export licenses
- Work permits
- Providing information on all aspects of doing business in Palestine
- Logistical support
- Providing applications for PIFZ program, answering questions in their regard
- Other miscellaneous support for start-up and initial operations

A single account executive may handle up to 7 or more investor "clients" at a given time. However, in some cases it may be advisable to assign an account executive exclusively to an important investor, in the case of highly strategic, or large investments likely to generate high impacts in terms of jobs and economic stimulus. Account executives are normally younger in age, very dynamic, and are able to develop constructive relations with the various ministries and agencies relevant to start-up and operation of business. A "can-do" attitude is important, as is the ability to plan ahead, make contacts with the representatives of agencies in advance and obtain from them necessary forms, information requirements, etc. so as to minimize the time required once an investor is ready to proceed forward.

Box 1. The Mystique of "One-Stop Shops" for Investors[4]

"One-stop shop" has become a popular concept adopted by many governments around the world as part of their effort to encourage private investment. The basic idea of "one-stop shop" schemes is to provide investors with a single contact point where investors can go for all publicly available information and services that they need. In countries where multiple government approvals are required, for making investment, "one-stop shop" investment centers are expected to play a facilitating and coordinating role to speed up and ease the process for investors. Many variations exist under the name of "one-stop shop," but unfortunately, few such entities have indeed lived up to the implications of the name.

"One-stop shop" investment centers have appeared in various forms across the world. On one extreme, and in very few countries, attempts have been made to give these centers all embracing legal powers to make various decisions for investment -- the so called *real* "one-stop-shops." However, such attempts seldom succeed, as they prove impractical in most political contexts.

A number of countries, including Indonesia, have adopted an alternative approach. Short of providing legal powers to the investment centers, governments require various government authorities to *delegate* their powers of approvals to the investment centers. In this way legal approval powers are not transferred, they are merely delegated and can be taken back by the original authorities when they see appropriate. To-date this delegation approach has only worked in a few places and only when it is applied to the approvals of a relatively minor nature.

A more common form of "one-stop-shops," used in quite a number of countries including the Philippines, is to require all the relevant authorities to sit in the same office which presents "one-window" to investors. The investors are, supposed to meet all relevant authorities in a single visit to that office, to obtain all necessary clearances and approvals. In practice, however, this does not always happen. In many places where the flow of investment is small and not continuous, the investment offices cannot justify keeping senior staff from the various authorities. When only junior staff are present, investment offices cannot issue clearances but merely receive applications. As a result these "one-window" centers often become postage points for investors.

An alternative approach has worked well in a larger number of countries including Singapore and Ireland. This approach requires investment offices to appoint "project officers" to help investors. Each "project officer" is assigned a portfolio of investors, for whom they act as the single contact point for all needed facilitation and servicing, including obtaining all approvals and licenses from public sector authorities. This model is more investor-friendly, as it allows investors to know who exactly is helping them with their needs. The approach also appears relatively easy to manage as it allows the service centers to track the services its staff members provide to each investor.

4 Source: Adopted from FIAS, "Reforming and Strengthening Investment Administration and Servicing," Draft Report to the Arab Republic of Egypt, March 1998.

Ministry of Industry staff have already made agreements with other Ministries and agencies relevant to investment facilitation and start-up within IFZs, with the intention of ensuring certain degrees of delegation and/or coordination along the lines of the one-stop-shop concept. Investors will be able to undertake necessary start-up and operational procedures in most cases directly, and if not, indirectly through PIFZA. Among the most important arrangements in this regard are the following:

- **Company Incorporation/Registration**. This specialized activity will continue to be executed by the competent authorities now in charge: the commercial registry (under the Ministry of Justice in Gaza, and the Ministry of Economy and Trade in the West Bank). The consultant was unable to meet respective officials and ascertain the strengths or weaknesses of the current system. At a bare minimum, clear information should be made available (including translations in foreign languages as appropriate) on the general rules concerning corporate identities and registration of investment. In many countries with successful free zone and investment promotion agencies, a list of qualified lawyers and consultants who undertake registration on behalf of investors is maintained and distributed to new investors. PIFZA should consider charging a fee to these service providers for effectively undertaking "advertising" on their behalf, especially when referrals are made that result in billings.

- **Building permits, local taxes and fees**. PIFZA assumes all authority for assessing fees for land usage and issuing permits for building. These activities, otherwise normally under the authority of municipalities, are subsumed under PIFZA since it in effect acts as the municipal governing authority for designated IFZs.

- **Environmental Approvals and Monitoring**. MOI and PENA officials have agreed on the basic concept that IFZs, when proposed by developers, will be required to specify anticipated industrial mix and expected adverse environmental impacts, and propose necessary mitigation measures. While this would reduce the need to evaluate subsequent investments by individual manufacturers (assuming they fit the same profile), MOI and PENA have agreed that care will be taken to check each application. Who will conduct this evaluation will depend on the type of industry: A, B, or C.

  - Type A: For those identified by PENA as Type A industries (non-polluting, such as dry garment assembly), PIFZA's application will require only a brief description of environmental aspects of the investment, to be evaluated by PIFZA staff (copies of all applications will be sent to PENA for record keeping purposes only).

  - Type B: For Type B industries (certain levels of pollutants present, such as chemicals used for acid washing jeans), PIFZA will ask investors to fill out a supplementary application, which is being developed in coordination with PENA. A PENA designated staff member (initially working at PENA's office, but in the future, possible temporary or permanent location at PIFZA's office has been considered) will evaluate this more detailed application.

- Type C: For Type C industries (very large, heavy industries or those that use or produce highly dangerous pollutants—e.g., refineries) a full Environmental Impact Assessment will be required. PENA will provide PIFZA with the informational requirements of such EIAs so that they can be passed on to the investor. Evaluation will be conducted by PENA in these cases.

PIFZA staff will ideally be authorized to classify the industry as Type A, B, or C based on the list provided by PENA. PENA officials have indicated their intention to keep environmental approval procedures to a maximum of 1 to 5 days.

Monitoring will be conducted initially by PENA itself, until such time that a qualified environmental engineer/expert is designated by PENA and incorporated into its organizational structure. As seen in Figure 2, such a position is contemplated in the proposed long-term organizational structure.

- **Import & Export Licenses.** MOI staff have agreed with officials from the Ministry of Economy and Trade that PIFZA will be able to issue import and export licenses. This implies a need to design and implement an information/communication system that constantly keeps PIFZA linked to the central data base so that it can ascertain whether quotas have been exceeded (for goods included in the Paris agreement). PIFZA's Executive Director (and in the future, with proper access to the same information system, its Regional Managers) will have the authority to sign these licenses. Ideally, individual investors would be able to submit requests and documentation required for permits to the PIFZA customs officials, who would be trained to evaluate them and determine whether they are complete and acceptable or not. They would in turn pass them on to the Executive Director (future: Regional Manager) for his signature. In his absence, another PIFZA manager or staff member (perhaps the customs officer himself or herself) would be authorized to forward the request to another official with signature power (e.g., the relevant official at MOET). PIFZA should seek as part of its agreement with MOET that in such cases, permits will be expedited, taking into consideration the advice of PIFZA's respective staff.

- **Certificates of Origin.** Ideally, the Chamber of Commerce will delegate PIFZA with the task of issuing certificates of origin. The procedure should be quick, 1 day or less. It may be necessary to permit faxing of documentation, e-mailing of certificates, giving signing authority to the Customs Officer, Regional Managers, Operations Manager, and Executive Director of PIFZA.

- **Corporate Income Tax and VAT Exemptions.** Since the law gives PIFZA the authority to issue certificates to enterprises and permits to developers and operators, and the regulations of the same law establish tax exemption periods, income tax exemption would be a simple matter of submitting the associated certificate or permit to authorities. In terms of VAT exemptions, an agreement has been reached between MOI and the Ministry of Finance to give PIFZA's Executive Director the authority to issue VAT exemptions. Apparently, this will be done initially via zero invoicing for qualifying imports by qualified firms. Eventually, zero invoicing should be removed as a required mechanism—the law and regulations should make it clear that such taxes simply do not apply to qualified firms within the regime.

- **Resident Permits and Special Status I.D.s Required for PIFZA Officials and Investor/Developer/Operator Staff.** The "People" section of the protocol agreement between the PA and Israel, which is nearing final approval, contemplates PIFZA being able to request from Israel resident permits and identification required for living, working, and traveling through the Palestinian territories and Israel as required. Any investor needing such permits and i.d.s will be able to contact the designated PIFZA Account Executive and request them. The Account Executive in turn will review the request in coordination with the Operations Manager, proceeding to the drafting of a formal request letter to be signed by PIFZA's Executive Director and sent to the appropriate Israeli officials. Within the draft protocol agreement, a maximum 2-week turnaround time is specified in regard to the Israeli side's provision of permits and identification cards[5].

- **I.D.s for IFZ Workers.** As suggested in the draft SOP Manual, PIFZA would delegate the provision of identification cards to Developers and Operators of IFZs. They would coordinate with relevant Security Authorities for employee screening (see Chapter 3.3 of draft SOP Manual). PIFZA would specify a color coding system and minimum information requirements for identification cards, but developers and operators would be responsible for adhering to them. The draft internal protective covenant developed by PIEDCO includes provisions concerning identification distribution and retraction, as well as security arrangements for direct hires.

[5] To prevent undue delays for initial investors and/or developers and operators, PIFZA should actively seek provision of permit and I.D. templates as soon as the corresponding protocol is signed. This would hopefully jump-start any graphics or form development processes sooner rather than later, so that permits and I.D.s can be generated within the 2-week time period once they are needed by initial applicants.

3.4 Transition Strategy & Short-Term Organizational Structure

One of the most important stages of PIFZA's organizational development will be the beginning. Contractors and developers estimate that construction of off-site infrastructure and initial standard factory buildings (SFBs) will be completed around July of 1998. This means that PIFZA must be ready well before this time to undertake essential functions ascribed to it by the Law, and critical for preventing any delays once operations are ready to commence. Staff need to be trained, applications finalized, distributed, and evaluated, and several other preparatory activities must be done. In addition to time pressures, PIFZA's early phase of development will be critical in that the institution's reputation, image, and organizational "culture" will quickly begin to define themselves.

To maximize the chance of succeeding in the meeting of deadlines and the development of a positive image and culture, PIFZA needs to immediately set itself up in its own office space, not necessarily distant but definitely separated from the MOI. While it should maintain effective linkages and coordination with key staff within MOI (particularly those who have been involved with off-site infrastructure and new IFZ development activities), it nevertheless needs to make a clean break, and to quickly establish its own identity and "agency feel". PIFZA must take advantage of the opportunity to "launch" itself as a new, and even an innovative and exciting agency and distinguish itself from other institutions. This will foster higher employee morale, and help to prevent the transfer of certain habits or attitudes prevalent within MOI that may impede necessary organizational development and the fulfillment of objectives at PIFZA. For example, the idea of leaving the office at 2:30 p.m. as most MOI staff in Gaza do, clashes with the commitment and attitude needed within PIFZA. Hard work and occasional long hours—particularly during the start-up phase—are likely and should be expected. This implies the search for, selection, and preparation of suitable office space for PIFZA as early as possible.

It also means formally transferring responsibilities previously assumed by MOI staff to PIFZA staff, as soon as they are recruited and trained. MOI staff currently involved with GIE-related activities should be encouraged to train relevant PIFZA staff (in cases where MOI staff are not themselves selected to fill PIFZA staff positions). During this period of time, the MOI Industrial Estates Department would continue to exist, but a transition/training time would be defined for each employee (say, 1 month following the naming of corresponding PIFZA personnel who would take over). After this time, the MOI employee would either leave the Ministry (e.g., if he himself is brought into PIFZA, or if he secures a job with a private sector firm or another public agency[6]), or stay there but be

[6] Officials and consultants involved in the development of free zone programs in other countries often find employment in zone development and operation companies, investment promotion agencies, or zone factories. Many are valued for their familiarity with the regime and their close personal contacts with important officials. However, those without significant private sector experience may find it difficult to

assigned a different responsibility. As the last few MOI IE Department employees are transferred in this way, the IE Department should shift its focus to policy aspects of the PIFZ regime, and to supporting new IFZ development, and perhaps other supporting activities such as developing training programs for zone workers. Any leftover MOI staff would either be assigned new responsibilities at MOI[7], and/or subsequently encouraged/helped to find new positions in other government agencies, or preferably in private sector companies investing in the GIE.

In this way, one can anticipate a residual IE-related activity within MOI. However, the major portion of IFZ activities would transfer to PIFZA between the first months of PIFZA's work plan and new employee recruitment (June through July), through the period when most initial staff have been placed (July through August). As soon as someone at PIFZA is named in a position with a certain responsibility formerly handled by MOI staff, the staff member (if he is not the one named to the position at PIFZA) is notified by the Director General or Director of IE Department to the effect that he or she will be required to work in an initial training period with the new PIFZA staff member, and will later be transferred as discussed above.

MOI staff continuing to work on IFZ activities as per above would preferably do so under the guidance of PIFZA's Executive Director. If deemed appropriate by the Executive Director, MOI staff could be temporarily seconded under PIFZA. One possible scenario where this may be desirable is when the coordination and facilitation tied to the development of new IFZ projects requires dedicated staff beyond PIFZA's initial capacity.

By the end of July it is advisable and should be possible to fill-in PIFZA's short-term organizational structure (see Figure 1). As seen in the diagram, the initial structure includes 9 professional positions, although the salaries of three of these are assumed not to affect PIFZA's budget (USAID would cover the Resident Advisor for a 2-year period[8], while the Ministry of Finance or preferably PIEDCO would pay the salaries of the 2 Customs staff). A secretary is also assumed in the budget, although not shown in the figure. As such, PIFZA's total personnel count for purposes of developing its administrative budget comes to 7 in the

make such a major career change, especially if they are seen by investors as being bureaucrats or lacking needed skills.

[7] One such responsibility may be providing support to the Minister (Acting or Permanent) of Industry, to enable him to stay on top of PIFZA development and manage key issues related to his position as chairman of PIFZA's Board. A single person should be able to do this, as well as other support tasks in other subject areas other than industrial and free zones.

[8] It might also be advisable for USAID to cover salaries of one or two other PIFZA staff during this time: the Operations Manager and an Account Executive. This will help cover deficits, and help the organization avoid dependency on P.A. funds during its formative years. For purposes of budget projections, however, USAID support is only assumed for the Resident Advisor position (see Chapter 4).

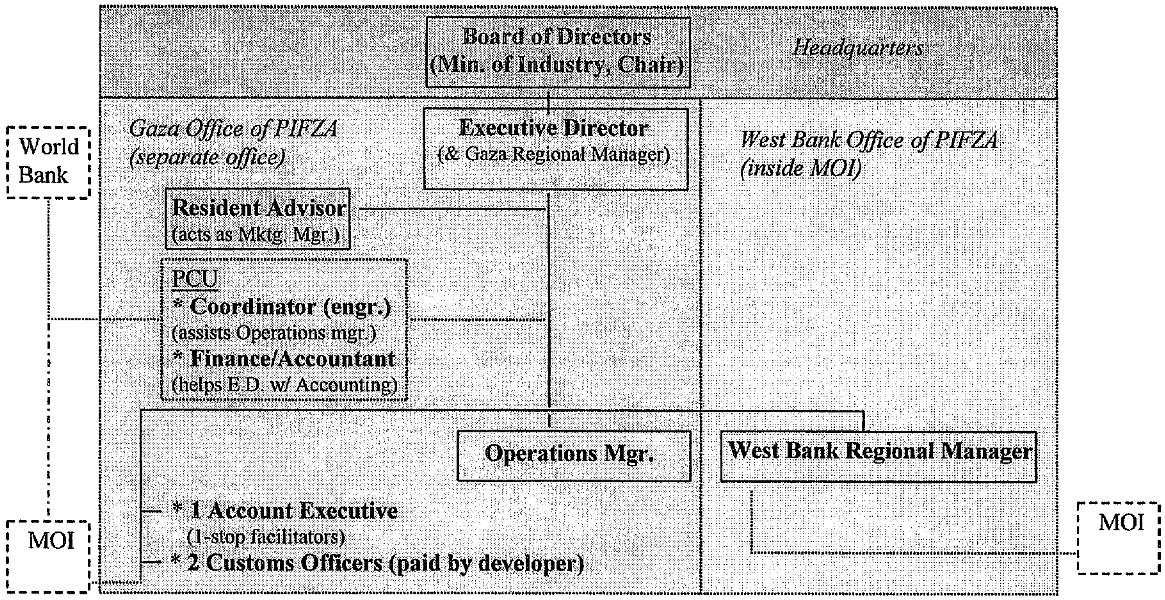
short-term. A brief description of each position and associated responsibilities and required skills is presented in Table 3.1.

Obviously, most activity, human and physical resources will be concentrated within the Gaza office at the beginning, due to the advanced stage of the GIE. Eventually, as new projects come on line in the West Bank, the situation will evolve toward balance between the two regions, and perhaps even shift toward a greater level of activity and people in the West Bank if more than one project begins to operate there. As seen in the following chapter, the Financial Plan assumes that by May of 1999, at least one new IFZ will be starting development and operation, warranting the opening of a stand-alone West Bank office for PIFZA (until this time, it is assumed that the West Bank Regional Manager will operate out of the MOI office in Ramallah).

As activity picks up and the workload on various staff becomes excessively heavy, the short-term organizational structure can evolve, with PIFZA bringing in new staff members as required. The Executive Director will likely move to bring someone new, or promote an internal staff member for the position of Operations Manager. Additional Customs officers will need to be brought in and trained (there should be at least two present when exports and/or imports commence in relation to GIE tenants). As the number of applications and recently operational enterprises increases, it will be necessary to hire additional Account Executives, since each one will likely be capable of handling between 5 to 7 at a time.[9]

[9] The investment promotion agencies of some countries sometimes assign one full-time account executive to facilitate and support investments by very large, strategically important investors. Such investors are not likely to appear in the early stages of the GIE's development, but PIFZA will want to be constantly attentive to the need to ensure adequate support for investment start-up activities.

Figure 3.1: Proposed PIFZA Short-Term Organizational Structure



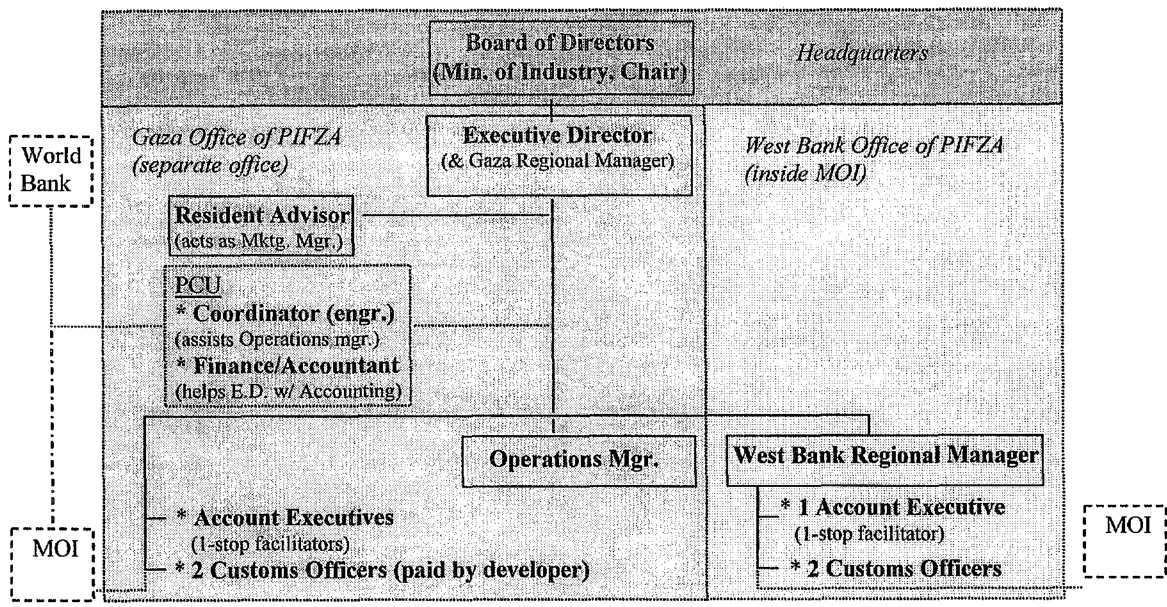
3.5 Medium-Term Organizational Structure

As mentioned above, as soon as a West Bank IFZ is almost ready to begin operations, it will be necessary to ensure an adequately staffed and fully equipped West Bank Regional office for PIFZA. The West Bank office would need staff similar to those employed from the beginning in Gaza, with the exception of certain staff who would be able to serve both Gaza and the West Bank no matter where they are located. The evaluation of new applications, whether from investors or new developers, provides one good example of a function that can be "centrally" handled.[10] If this "medium-term" stage occurs around the 13th month, and if it still has not been necessary to add additional gaza-based staff to the short-term structure described above, then the total number of PIFZA professional staff would increase from 9 to 12. A new account executive and two customs officers would join the existing Regional Manager at the new West Bank office. Also, a new secretary would be required. Since it is assumed, as for Gaza, that PIFZA would not pay the customs staff salaries for the West Bank, the actual number of new personnel added to the payroll of PIFZA would only be 2—the Account Executive and the Secretary. Again, as the number of investors increases and workload follows suit, it will be necessary to

[10] Of course, the need for high quality communications systems so that applications can be faxed, e-mailed, and constant communication ensured between both offices will be crucial. For this reason, a full complement of appropriate computers, telephone lines, and data transmission systems has been assumed in the proposed budget presented in Chapter 4.

augment staff in both West Bank and Gaza, but this should only be done at the last possible moment.

Figure 3.2: Proposed PIFZA Medium-Term Organizational Structure



3.6 Long-Term Organizational Structure

As time goes on, it will be necessary to add additional staff at various levels, and to specify and fill new positions in accordance with PIFZA's workload. Figure 2 presents a projected organizational structure corresponding to the longer term. As seen in this figure, PIFZA's central staff include a financial manager (and under him or her, an accountant); an assistant director; a marketing manager; and operations-level staff within the West Bank regional office. It should be emphasized that no solid demarcation should be assumed between the central Headquarters staff and the regional offices. Several of these staff may well be located within any one of PIFZA's offices. However, their functions will still be considered central in nature, and they will necessarily engage in ongoing coordination (including occasional visits to different sites as required). In this sense, PIFZA's Headquarters will be somewhat virtual.

Figure 3.1: Projected PIFZA Long-Term Organizational Structure

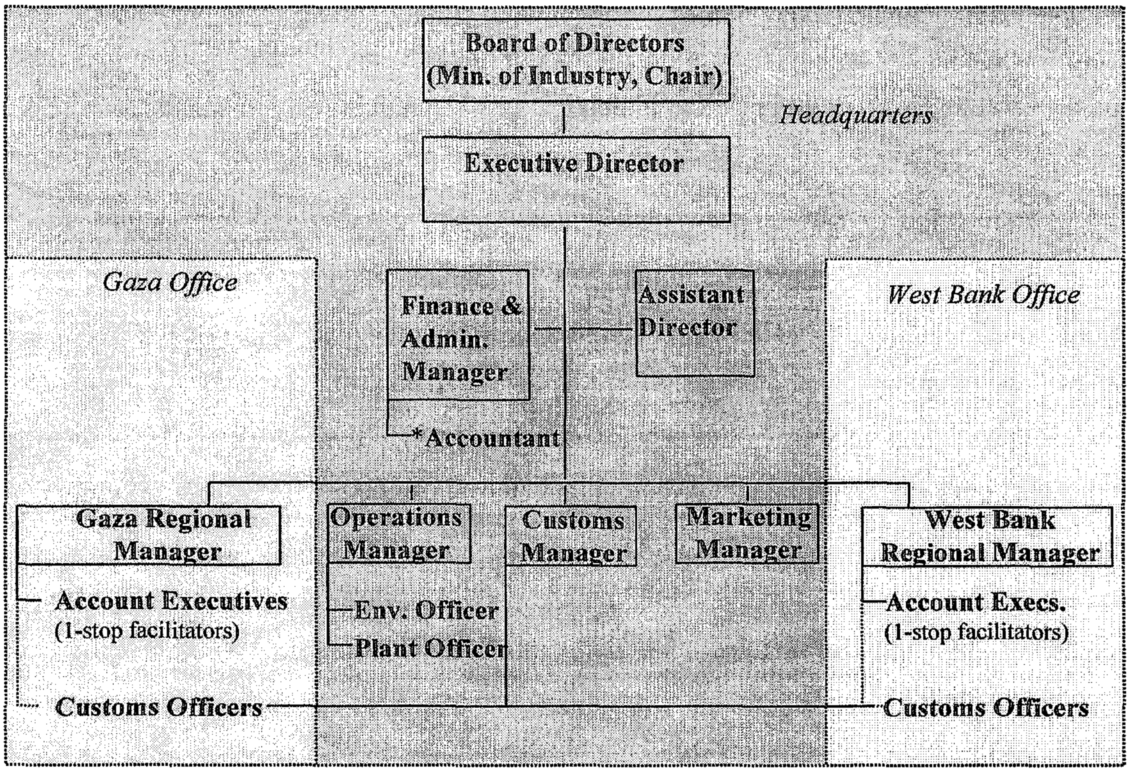


Table 3.1: Staff Position Descriptions: PIFZA Short-Term Organizational Structure

Position	Primary Responsibilities	Other Duties/Activities	Required Background/Skills
Executive Director	Directly & continuously manage PIFZA, providing planning, leadership, and direction for the agency. Involved with all PIFZA activities, working with staff at all levels, in addition to coordinating with high-level authorities and investors at both the national and international level. Should have or be delegated responsibility for approving enterprise applications, selecting staff, determining salary levels, hiring consultants, and facilitating promotion of IFZs. Negotiates with Israeli officials.	Non-voting Secretary to PIFZA Board; also serves as Gaza Regional Manager during the early phases (see position descriptions below).	Seasoned professional with both political savvy and effective managerial skills. Ideally, possesses an MBA, MPA, or equivalent, substantial private sector experience, along with a demonstrated record in areas related to regulatory functions and/or industrial development; min. 10 years related experience.
Gaza Regional Manager	(initial stage: filled by the Executive Director) Responsible for oversight and support of all IFZs in the Gaza region. Manages all staff directly below him, coordinates with other managers and reports directly to the Executive Director	Coordinates with other Gaza branch offices of relevant Ministries and Authorities, particularly MOI and others represented on the Board and relevant to existing and new project development & operation	Ideally an Industrial Engineer with additional education/training in business or public administration (MBA, MPA, or equivalent); experience in policies, regulations, and procedures relevant to investment and manufacturing useful;
West Bank Regional Manager	Responsible for oversight and support of all IFZs in the West Bank region. In early stages, responsibilities will center on development of new projects (e.g., Jenin, Nablus, etc.) Manages all staff directly below him, coordinates with other managers and reports directly to the Executive Director. Coordinates with other West Bank branch offices of relevant Ministries and Authorities, particularly utility providers and others represented on the Board and relevant to new project development	At beginning, works with Operations Manager, and is responsible for all associated responsibilities (see position description below).	Ideally an Industrial Engineer with additional education/training in business or public administration (MBA, MPA, or equivalent); experience in policies, regulations, and procedures relevant to investment and manufacturing useful; experience with feasibility studies and planning
Operations Manager	Responsible for smooth and efficient operations of regulatory and service activities of PIFZA, in particular the maintenance and operation of off-site infrastructure (if sub-contracted, Op. Mgr manages contractors). Primary responsibility for evaluating applications, calling in outside authorities as needed. Handles specific off-site infrastructure concerns at the technical level, manages all staff directly below, ensures regular monitoring	Collection and analysis of data relevant to IFZ performance, particularly in the technical area	Preferably a B.S. or Graduate degree in Industrial Engineering or a similar field; min. 8 years management and/or regulatory experience in a related field; well-rounded technical background combined with good interpersonal skills.

Position	Primary Responsibilities	Other Duties/Activities	Required Background/Skills
Account Executives	One-stop facilitators, assigned responsibility for specific investors from start-up through operations. Coordinates with other agencies for required permits, licenses, registrations, etc., plays lead role in facilitating application completion and subsequent timely evaluations and appropriate follow-up. Maintains up-to-date information on PIFZA investor tracking system	Periodic check-up of investors or projects implemented under his or her responsibility; collaborates with PIFZA and developer marketing efforts, particularly when site visits and general information is sought;	Business and/or engineering background (B.S. or preferably graduate degree) with excellent language and communication skills, diligent work habits. Minimum 5 years work experience. Marketing skills a plus.
Customs Officers	Responsible for handling procedures, documentation, monitoring and control of imports, exports, and related duty assessments.	Helps facilitate certificates of origin and import licenses, in coordination with Regional Manager and other Ministries/Authorities	Business or technical background with experience in customs and trade related procedures. Good quantitative skills essential, language skills a plus.
Resident Advisor	Assist Executive Director & other PIFZA staff during start-up phase. Provide training & insight based on international experience, serve as a liaison with USAID;	In the early stages, also serves as the Marketing Manager; liaison with other donors and agencies.	Expert in policy and business aspects of free zone & industrial estate development; Background in investment promotion useful; MBA, MPP or equivalent, minimum 8 years related experience.
PCU Coordinator	Reports to World Bank and MOI on the progress of the PIFZA-related credits and associated disbursements and fund usages	Assists Operations Manager to the extent possible with certain technical and/or financial issues	(Defined by MOI in coordination with the World Bank)
PCU Financial Analyst/ Accountant	Reports to World Bank and MOI on the progress of the PIFZA-related credits and associated disbursements and fund usages	Assists Executive Director to the extent possible in setting up an effective accounting system within PIFZA	(Defined by MOI in coordination with the World Bank)

3.7 Importance of Communication and Information Technology

Due to the separation of the West Bank and Gaza regions, and the resulting bifurcated structures and "virtual" core management and service activities, PIFZA must place a high priority on installing and effectively using modern communication and information technologies. LAN, WAN, and internet technologies must be utilized to facilitate communication and data interchange. Examples include the need for PIFZA to have access to up-to-date information on import quota availability for certain restricted goods (maintained by the Ministry of Economy and Trade), the faxing and/or e-mailing of blank and completed applications to investors and PIFZA staff responsible for their evaluation; the sending of relevant materials to PIFZA board members at least one week before board meetings; etc. The work plan and budgets therefore include adequate telephone lines, computer hardware and software, and communication equipment to give PIFZA this capability.

The development of a suitable Management Information System is also highlighted as an important institutional strengthening goal early in PIFZA's development. This is discussed in more detail in the Technical Assistance Analysis chapter.

Chapter 4: PIFZA 12-Month Financial Plan

This chapter contains the proposed financial plan for PIFZA's initial 12 months of operation. Although it focuses primarily on this first 1-year period, it also includes projections that go beyond this time frame. This is necessary in order to determine such things as "break-even point" for PIFZA's core operating budget (the time when projected income equals operating expenses), as well as overall financing needs until this point is reached.

The analysis presented in this chapter is based on two financial models. The first is the main financial model, which incorporates all primary administrative and regulatory functions and associated costs and revenues to assess the "core" financial performance of the authority. The second is a revised version of the off-site infrastructure model, based on an earlier model developed by the World Bank. This model is used to assess the financial performance of an imagined "off-site infrastructure unit" of PIFZA. The consultant considers it more convenient to separate financial analysis in this manner, so that the profits and losses of specific activities can more accurately be gaged.[1]

4.1 Main Financial Model

To develop the main financial model, the consultant worked closely with staff from PIFZA's PCU and the Ministry of Industry, using Microsoft Excel spreadsheet software. The consultant left an early "6-month" version of the model with the local counterparts in February/March of 1998. Upon the consultant's return in April of the same year, various aspects of this preliminary model were adjusted and updated based on information obtained by the local counterparts. Price and wage information was obtained based on comparable costs found in Gaza and the West Bank. Assumptions in terms of the scale of operations, the number of staff, etc. evolved after several iterations of looking at the model results, going back to check assumptions and make adjustments, re-considering PIFZA's role and its various activities and responsibilities, staff requirements, likely timing, etc. Finally, once a base model was agreed upon, it was then used to project financial performance of PIFZA under various scenarios. Each scenario involved changing key variables or assumptions to gage the corresponding impact, and to establish a range of expected outcomes which can be used for developing a strategy for managing PIFZA's finances over the short-term, 12-month period, and onward—at least until the medium term (3-4 years)

[1] Eventually, more precise financial models should be developed for each separate off-site infrastructure element, using the revised model presented in this chapter as a starting point. This will allow for still better understanding of respective performance, implicit subsidies and cross subsidies, etc.

4.2 Key Assumptions of the Main Financial Model

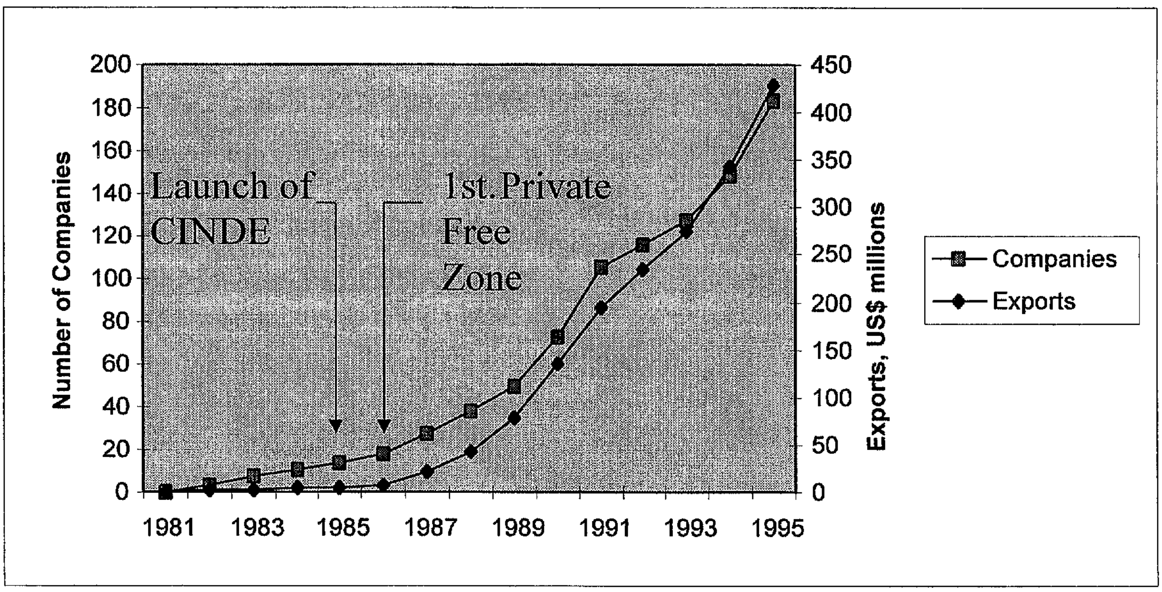
Among the most important assumptions and features of the main financial model are the following:

- Off-Site Infrastructure Costs and Revenues Excluded. The model deals primarily with core administrative costs and overhead related to PIFZA's oversight, regulatory, and promotional activities. While it may be true that PIFZA will be managing the installation and maintenance of various off-site infrastructure elements, it is also true that the exact way PIFZA will do this, interact with other relevant authorities, and extract revenues from fees has not yet been defined. Rather than speculate about how exactly this will be done, the main model leaves out off-site infrastructure altogether, excluding it from both the cost and revenue projections. Another way of seeing this is that the model assumes that a separate "offsite infrastructure unit" will spend additional money (including financing costs from the associated credits), but that it will also gain additional money from fees, hence it can be treated as a separate, self-sufficient unit, even though it formally may be a part of PIFZA. This assumption not withstanding, the model does include two staff members from the World Bank PCU as part of the core PIFZA administrative staff, as well as the financing costs associated with the World Bank credit used to pay their salaries. This is due to the dual roles these staff will likely play at the beginning.

- Modest Growth Rate of IFZs. In spite of current optimism about the expected demand for industrial space at the GIE and potential new sites in the West Bank, the consultant felt it important to scale back the projected number of tenants entering the PIFZ regime during the initial years. The model uses a less optimistic absorption profile than that used by the World Bank in previous models. Specifically, it assumes that, starting in June of 1998, two enterprises per month apply to enter the GIE. After 5 months at this rate, the number of applicants is reduced to one per month. It also assumes that other IFZs will come on line at the rate of one per year—i.e., a new zone is established in Month 13, another in Month 25, etc, until 4 zones are running. Each of these new zones experiences the same growth profile as that used for the GIE—2 applicants/month for 5 months, 1/month thereafter. Like previous models, the present model assumes an average of 1200 m2 of industrial space/enterprise (plus 400 m2 of open space), and a total employment generation of 80 employees/enterprise. However, the model was constructed to reflect the fact that operation is likely to be delayed until various months after an application is submitted. The model assumes this to be five months, which means that by the end of the first 12 months, only 11 enterprises will be operating and paying respective fees. By the end of 48 months, however, there is expected to be 119 firms in 4 IFZs—just over half the total amount projected by the World Bank for the GIE alone.

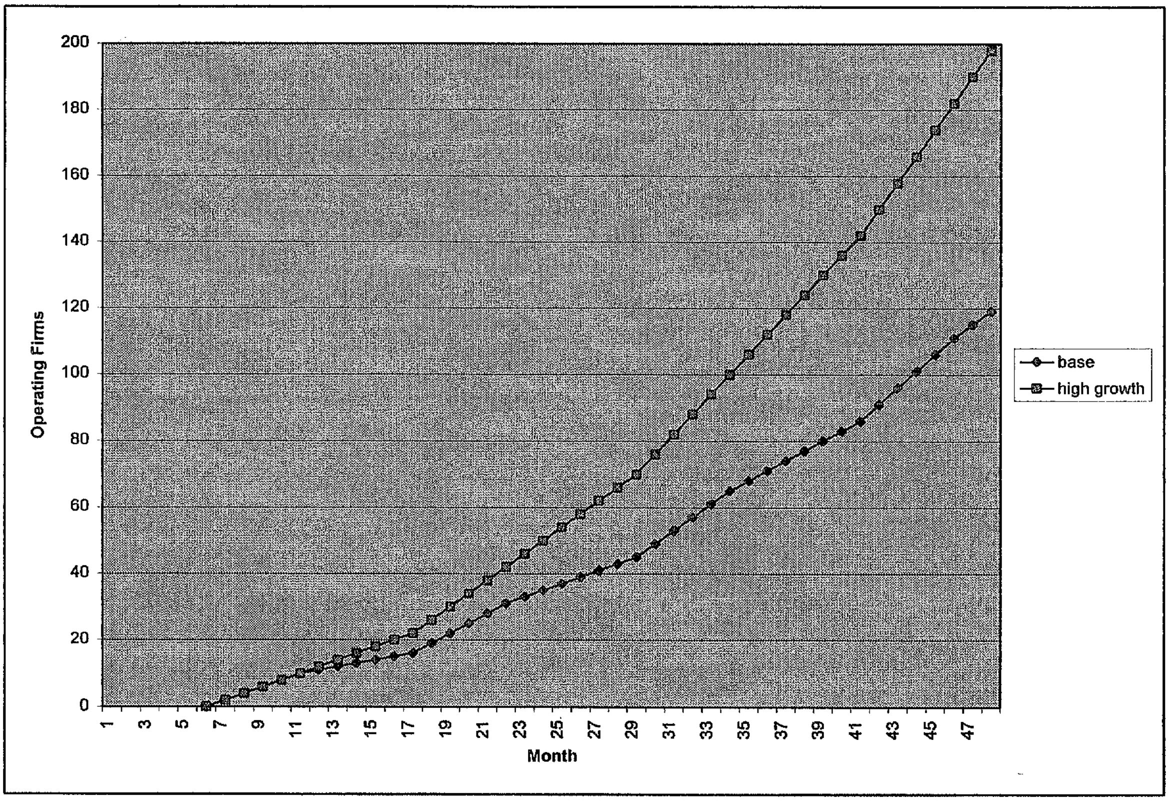
These assumptions are supported by the experience other countries with similar mixed-use industrial/free zone programs. It may well be that the GIE will attract higher numbers of tenants at a quicker pace, but for purposes of cash flow and planning for PIFZA, it is better to assume a relatively slower start-up period. This is due mainly to remaining uncertainties concerning the overall peace process, and in particular, the protocol agreement with Israel on movement of goods, as well as the inertia likely to be experienced at the beginning. A wait-and-see attitude can be quite typical during the early years of new zone programs, even among prospective tenants who exhibit enthusiasm at first. Also, one typically expects an s-shaped curve in the context of industrial or commercial real estate development—a slower beginning, a period of expanding and perhaps even exponential growth, followed by a slowing down and tapering off as projects mature and market demand is satisfied. An example of this can be seen in Figure 4.1, which shows the growth trajectory of Costa Rican Free Zones. Figure 4.2 shows the assumed growth trajectory of the base model for the PIFZ program.

Figure 4.1 Growth Trajectory of Costa Rican IFZs



Note: CINDE was the ambitious investment promotion agency supported by USAID between 1985 and 1992.
Source: Data provided by CINDE & TSG

Figure 2. Assumed Growth Trajectories of PIFZA Financial Model, Base & High Growth Scenarios



- Application Fees for Developers. The model assumes that all developers, including PIEDCO, pay a US $10,000 application fee just prior to operations ($2,000 upon submitting application, followed two months later by $8,000 after approval). Enterprises pay a total of US $1,000 for each application, again, 20 percent upon submittal, and the balance upon approval one month later.

- Higher Monthly Fees Assumed. With the more conservative growth profiles, it became obvious during early model iterations that fees would need to be adjusted upwards to cover required administrative costs of PIFZA. PIFZA's main source of revenue will be the fees it charges to tenants (although it may do this indirectly through charges levied on developers) on the basis of space occupied in IFZs. Thus, if it needs to cover costs with a lower number of tenants, each tenant's fees must be raised.

  The model assumes as a base monthly fee US$0.20/m2 of industrial space, which is 20 percent less than the fee used by the Corporation of Free Zones in Costa Rica. This base fee represents about 8 percent of the current industrial space rental price being offered at the GIE, thus it is expected to be acceptable, although further analysis may be required to substantiate this. The base model also assumes a monthly fee of US$0.10/m2 of open space. As discussed in the conclusions to this chapter, it is likely that during the first few years, a lower "promotional" fee might be necessary. For this reason, and for the purposes of gauging sensitivity to fee levels, a lower fee scenario was run, along with a higher fee scenario (see descriptions for Scenarios C and B below). Higher and lower fee assumptions were used in multiple additional scenarios, to gage the impact on financial performance of a wide variety of assumption combinations (again, see respective scenario descriptions below).

- Additional Monthly Fees Included. The model assumes that PIFZA will be able to generate other revenues through various fees. One specific fee is a charge on import/export declaration forms, which is assumed at US$5/form (each firm is assumed to use 4 forms per month once operational). Also, the model assumes that each operational firm will pay a total of US$25/month in "miscellaneous" fees. Such fees can be assumed to derive from any of a number of potential sources, such as parking permits, charges for identification badges, GIE-external parking areas, etc.

- Gradual Staffing-Up of PIFZA. As described in the Chapter 3 Organizational Plan, the preferred approach for structuring PIFZA and filling in key staff positions is a gradual approach, one that keeps PIFZA as "lean and mean" as possible during the short to medium term. The model assumes a fairly lean structure, although it does include staff for both Gaza and West Bank offices. The base model assumes a total of 9 staff during months 1-12, and then 13 staff starting in months 13 onward. However, one scenario assumes a "bare-minimum" organizational structure, cutting the total numbers down to 7 staff during the first 12 months, followed by 9 staff thereafter.

- Separate Office Space from the Beginning. The consultant considers it essential, even in minimized cost scenarios, to include in the budget office space rental and expenses for a separate, stand-alone office for PIFZA. Based on a number of factors (employee morale, infrastructure quality, creating the right corporate culture, need to distinguish itself from MOI and other public sector bodies, etc.), a separate office should be established immediately, and delayed. However, the model does assume a slight delay in the establishment of the West Bank office, assumed to start-up in Month 13, although PIFZA West Bank staff would start at the same time as in Gaza, using the MOI offices in Ramallah at first. This would concur with the same experience found in Gaza—initial project development supported from the offices of MOI, followed by formal PIFZA office establishment just prior to the beginning of operations at the GIE.

- PIFZA Staff Salaries Higher than Public Sector, but Lower than Private. The need to ensure competitive salaries for PIFZA staff cannot be overemphasized. As stated elsewhere in this business plan, if PIFZA is to achieve the same kind of success achieved in similar organizations around the world, it must heed the lessons of success and failure, and adopt a private sector-oriented approach that does not use government pay-scales as the basis for employee remuneration. The salaries proposed by the financial model during the short to medium term are approximately halfway between public and private sector salaries (see Table 4.1). This sits well with the fact that it effectively acts as a quasi private/public body, although it would be preferable to award salaries closer to private sector firms.

Table 4.1: PIFZA Staff Salaries Assumed by Model & Comparisons

PIFZA Management & Staff Positions	Proposed salaries	Private Sector	Difference	Public Sector	Difference	Equivalent Public Sector Positions
Executive Director	3000	5500	2500	2200	-800	Deputy Minister
West Bank Regional Manager	2200	2500	300	1700	-500	Director General (Class A)
Operations Manager	1800	2200	400	1200	-600	Engineer Class B
Engineer, Operations Department	1200	1500	300	800	-400	Engineer Class C
Project Officer 1, Gaza	1200	1500	300	600	-600	Engineer Class D
Project Officer 2, Gaza	1200	1500	300	600	-600	Engineer Class D
Project Develoment Officer, West Bank	1200	1500	300	600	-600	Engineer Class D
Customs Officer 1, Gaza	1200	1500	300	600	-600	High Level Customs Official
Customs Officer 2, Gaza	1200	1500	300	600	-600	High Level Customs Official
Secretary (Gaza)	800	1200	400	600	-200	Executive Secretary
Secretary (West Bank)	800	1200	400	600	-200	Executive Secretary
Kitchen employee (Gaza)	600	700	100	300	-300	Kitchen Employee
Kitchen employee (West Bank)	600	700	100	300	-300	Kitchen Employee
PCU Coordinator	2000	3000	1000	1700	-300	Director Mgr Class A
PCU Financial Officer	950	1500	550	800	-150	Financial Mgr. Class B
Total	19950	27500	7550	13200	-6750	
			38%		-34%	
			higher		lower	

Source: Data provided by PCU and MOI staff

- PIFZA does not Pay for Customs Staff Salaries. Based on the recommended policy put forth in the draft regulation (see Annex B; language concerning payment of customs salaries in mentioned in Article 28 of this regulation), the staff of customs officials located at IFZs is assumed to be covered by the developer. This would appear a reasonable assumption, although the Department of Customs will likely need to bear some additional costs due to the development of new forms, procedures, and other related costs.

4.3 Scenario Descriptions

Scenario A: Base Model. Scenario A incorporates all the base assumptions outlined above, particularly the monthly fees of US $0.20/m2 for industrial space and US $0.10/m2 for open space.

Scenario B: Increased Monthly Fees. Scenario B increases the monthly industrial space fee to US $0.25/m2, and the open space fee to US $0.15/m2. All other fees remain the same.

Scenario C: Reduced Monthly Fees. Scenario C reduces the monthly industrial space fee to US $0.15/m2, and cuts the open space fee to US $0.07/m2. All other fees remain the same.

Scenario 1: Financed West Bank Office. This scenario assumes that financing assistance will be secured to help cover a substantial portion of the West Bank office, including all staff salaries and a major portion of operating expenses. In order to gage the results under different fee assumptions, three versions of this scenario are run: Scenario 1A (base model fees w/ financed West Bank office); Scenario 1B (increased fees w/ financed West Bank office) and Scenario 1C (reduced fees w/ financed West Bank office).

Scenario 2: Reduced Staff. Scenario 2 cuts the number of staff during the first 12 months from 9 to 7; during months 13 onward, it assumes 9 instead of 13. In order to gage the results under different fee and financing assumptions, six versions of this scenario were run: Scenario 2A (reduced staff w/ base model monthly fees); Scenario 2B (reduced staff w/ increased fees); Scenario 2C (reduced staff w/ reduced fees); Scenario 2-1A (reduced staff w/ financed West Bank office and base model fees); Scenario 2-1B (reduced staff w/ financed West Bank office and increased fees); and Scenario 2-1C (reduced staff w/ financed West Bank office and reduced fees).

Scenario 3: Faster Growth. Scenario 3 looks at financial performance under an enhanced growth profile. The same number of IFZs are assumed (1 every 12 months for first 48 months, level thereafter), but each continues to receive 2 applications until the end of year 4. From the beginning of year 5, however, growth scales back to approximately 5 new applications/year for each IFZ, so that by the end of year 10, the total number of firms operating is 250—the same total assumed by the World Bank, albeit for the GIE alone, which means this scenario is still relatively more conservative. Three versions of this scenario were run: Scenario 3A (faster growth with base model fees); Scenario 3B (faster growth with increased fees); and Scenario 3C (faster growth w/ reduced fees).

4.4 Results of Main Financial Analysis

The following summarizes the results of running the main financial model for each of the scenarios described above. In this summary, "break even" refers to the point where income from fees becomes greater than operating costs. The detailed projections of costs and revenues which give these results are provided in Annex A.

Results of Scenario A: base model.

Number of months required to reach break-even: 41
Total deficit accumulated up to break-even: US $540,000
Total deficit accumulated during first 12 months: US $159,000
Total deficit accumulated, months 1-24: US $414,000

Results of Scenario B: increased monthly fees.

Number of months required to reach break-even: 36
Total deficit accumulated up to break-even: US $460,000
Total deficit accumulated during first 12 months: US $156,000
Total deficit accumulated, months 1-24: US $390,000

Results of Scenario C: reduced monthly fees.

Number of months required to reach break-even: 47
Total deficit accumulated up to break-even: US $645,000
Total deficit accumulated during first 12 months: US $162,000
Total deficit accumulated, months 1-24: US $436,000

Results of Scenario 1A: financed West Bank office w/ base model fees:

Number of months required to reach break-even: 32
Total deficit accumulated up to break-even: US $258,000
Total deficit accumulated during first 12 months: US $125,000
Total deficit accumulated, months 1-24: US $245,000

Results of Scenario 1B: financed West Bank office w/ increased fees:

Number of months required to reach break-even: 27
Total deficit accumulated up to break-even: US $224,000
Total deficit accumulated during first 12 months: US $122,000
Total deficit accumulated, months 1-24: US $221,000

Results of Scenario 1C: financed West Bank office w/ reduced fees:

Number of months required to reach break-even: 37
Total deficit accumulated up to break-even: US $312,000
Total deficit accumulated during first 12 months: US $128,000
Total deficit accumulated, months 1-24: US $267,000

Results of Scenario 2A: reduced staff w/ base model fees:

Number of months required to reach break-even: 35
Total deficit accumulated up to break-even: US $353,000
Total deficit accumulated during first 12 months: US $123,000
Total deficit accumulated, months 1-24: US $307,000

Results of Scenario 2B: reduced staff w/ increased fees:

Number of months required to reach break-even: 32
Total deficit accumulated up to break-even: US $298,000
Total deficit accumulated during first 12 months: US $120,000
Total deficit accumulated, months 1-24: US $282,000

Results of Scenario 2C: reduced staff w/ reduced fees:

Number of months required to reach break-even: 41
Total deficit accumulated up to break-even: US $416,000
Total deficit accumulated during first 12 months: US $126,000
Total deficit accumulated, months 1-24: US $329,000

Results of Scenario 2-1A: reduced staff w/ financed W.B. office & base model fees:

Number of months required to reach break-even: 29
Total deficit accumulated up to break-even: US $190,000
Total deficit accumulated during first 12 months: US $101,000
Total deficit accumulated, months 1-24: US $186,000

Results of Scenario 2-1B: reduced staff w/ financed W.B. office & increased fees:

Number of months required to reach break-even: 25
Total deficit accumulated up to break-even: US $162,000
Total deficit accumulated during first 12 months: US $98,000
Total deficit accumulated, months 1-24: US $162,000

Results of Scenario 2-1C: reduced staff w/ financed W.B. office & reduced fees:

Number of months required to reach break-even: 33
Total deficit accumulated up to break-even: US $223,000
Total deficit accumulated during first 12 months: US $104,000
Total deficit accumulated, months 1-24: US $208,000

Results of Scenario 3A: faster growth w/ base model fees.

Number of months required to reach break-even: 31
Total deficit accumulated up to break-even: US $378,000
Total deficit accumulated during first 12 months: US $153,000
Total deficit accumulated, months 1-24: US $360,000

Results of Scenario 3B: faster growth w/ increased fees.

Number of months required to reach break-even: 27
Total deficit accumulated up to break-even: US $333,000
Total deficit accumulated during first 12 months: US $150,000
Total deficit accumulated, months 1-24: US $328,000

Results of Scenario 3C: faster growth w/ reduced fees.

Number of months required to reach break-even: 34
Total deficit accumulated up to break-even: US $443,000
Total deficit accumulated during first 12 months: US $156,000
Total deficit accumulated, months 1-24: US $389,000

4.5 PIFZA's Offsite Infrastructure "Unit"

The main financial model described above covers primarily the administrative and regulatory side of PIFZA's operations. To gain a more complete picture of PIFZA's financial situation, however, it is necessary to look at the impact of offsite infrastructure on the Authority's overall financial position. Specifically, for purposes of the present 12-month financial plan and overall "business" plan package, *it is essential that early period financial deficits be estimated, and that arrangements for their coverage be made.* If this is not done, PIFZA will run the risk of having an IFZ with several investors ready to begin operations, but without all the necessary utilities services in proper functioning order.

The deficits generated by offsite infrastructure investment and operation are inherent in the nature of such projects, and were assumed by both USAID and the World Bank in the various grants and credits arranged to support them. Basically, the situation is similar to that of the early deficit years in the main financial model—the relatively low initial number of tenants at the GIE cannot generate the revenues needed for full cost recovery through purchases of utility services at reasonable per unit prices. It takes time for the revenue base to build up sufficiently, and in the particular case of the GIE, the time required to reach "break-even" can be as long as 10 years or more.

Although it was outside the scope of the present consulting assignment to develop complete financial models for each infrastructure element, it *was* possible to make some preliminary projections of the total deficits that can be expected during the first 4 years of off-site infrastructure operation. Specifically, the consultant worked with staff from the World Bank's PCU (within the present MOI/future PIFZA since March 1998) to "revise" the financial model used as the basis for the US $10 million loan for offsite infrastructure. Using this updated model, projections were made for the net income for years 1 through 4.

Several adjustments to this pre-existing model were necessary, and they produced results significantly different from those of the original model and the various financial arrangements that use it as a base. First, the growth profile was moderated substantially, using the same assumptions presented above in regard to the main PIFZA financial model. Secondly, the timing had to be shifted somewhat, due to the various delays that have pushed project start-up further into the future than expected. Thirdly, errors in spreadsheet formulae and equations were detected and had to be corrected. Some of these may have been due to the fact that the consultant was given an older version of the financial model, before final corrections were made. Finally, the original model incorporated not only off-site infrastructure, but as well general administrative costs of PIFZA, along with the revenue stream associated with the per-m2 PIFZA fee anticipated for tenants. Since these had already been taken into account in the main financial model presented above, they had to be removed from the "revised" model. (Annex E includes a summary of this model & the updated projections based upon it.)

Table 4.3 presents the results of using the revised offsite infrastructure financial model to project net income for the first 4 years of PIFZA's operation. As seen in this table, deficits are substantial throughout this period—US $940,000 during months 1-12 (from May 1998 to April 1999); and between $1.1 and 1.3 million thereafter.

Table 4.2: 4-Year Projections of Off-Site Infrastructure Income

	Months 1-12	Months 13-24	Months 25-36	Months 37-48
Net Income, Offsite Infrastructure	-$940,000	-$1.1 million	-$1.3 million	-$1.1 million

Source: Revised Financial Model presented in Annex E; disk copy of model left with PCU staff.

A copy of the revised offsite infrastructure model was left with the PCU/PIFZA-MOI staff, and advice was provided on making subsequent refinements. This model should serve as an essential tool for developing scenarios and proposals for appropriate fee structures and billing arrangements with relevant parties (i.e., public utility regulatory agencies, PIEDCO, and private sector firms providing services). Indeed, the consultant considers it crucial that work begin immediately in this regard.

4.6 Employment Generation

Aside from the costs and revenues tied to PIFZA's budget, it is important to take into consideration some of the external benefits that PIFZA's operation will allow. One of the most relevant of these is employment generation.

It is not possible to predict the exact number of new jobs that the PIFZ program can be expected to generate, due to uncertainty in a large number of factors. However, based on the experience of other countries, and using some crude, but conservative assumptions, it is possible to establish a general order of magnitude estimate, and take this into consideration as policy makers debate supporting PIFZA's initial deficits.

Using the assumed base case growth profile of operating enterprises within the IFZ program (see description under assumptions, above), and applying an employees/firm ratio of 80:1[2], it is possible to project employment generation within the PIFZ program (see Figure 4.3). Additionally, if one adds some simple skill and salary level assumptions, it is possible to estimate approximate impact in terms of salaries generated from new jobs (see Tables 4.2 and Figure 4.4, respectively). As seen in these figures, the new job benefits are substantial, implying that financing PIFZA's early deficits should be seen as a wise investment.

Table 4.3: Assumptions for Wage Generation

Factor	Assumption
Total No. of Workers/Firm	80
Number of Exec. Directors/Firm	1
Other Managers	5% of (total workers – 1)
Technical Staff	10% of (total workers – 1)
Unskilled Labor	85% of (total workers – 1)

[2] This is the same ratio assumed by the World Bank in their financial and social impact estimations. Although some firms may employ substantially higher numbers of workers (into the thousands is typical of garment assembly operations, for example), several smaller firms offset this, and thus the average of 80 can be seen as a reasonable assumption.

Figure 4.3: Projected Cumulative Employment Generation, PIFZ Program

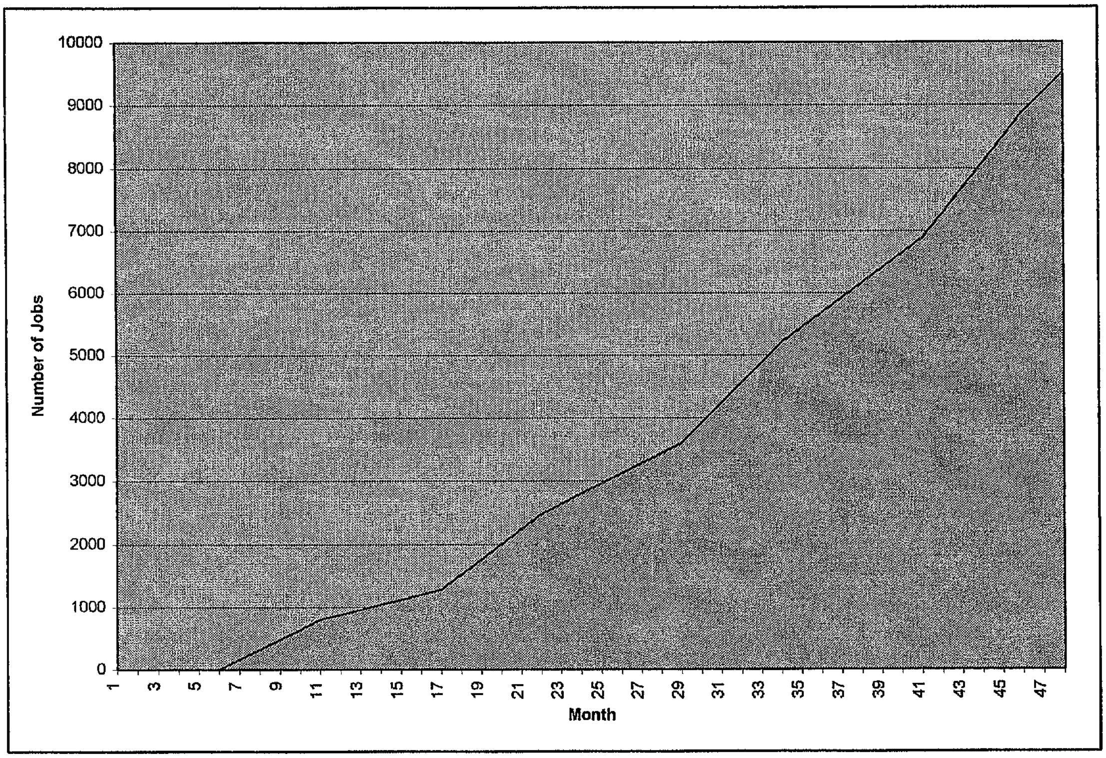
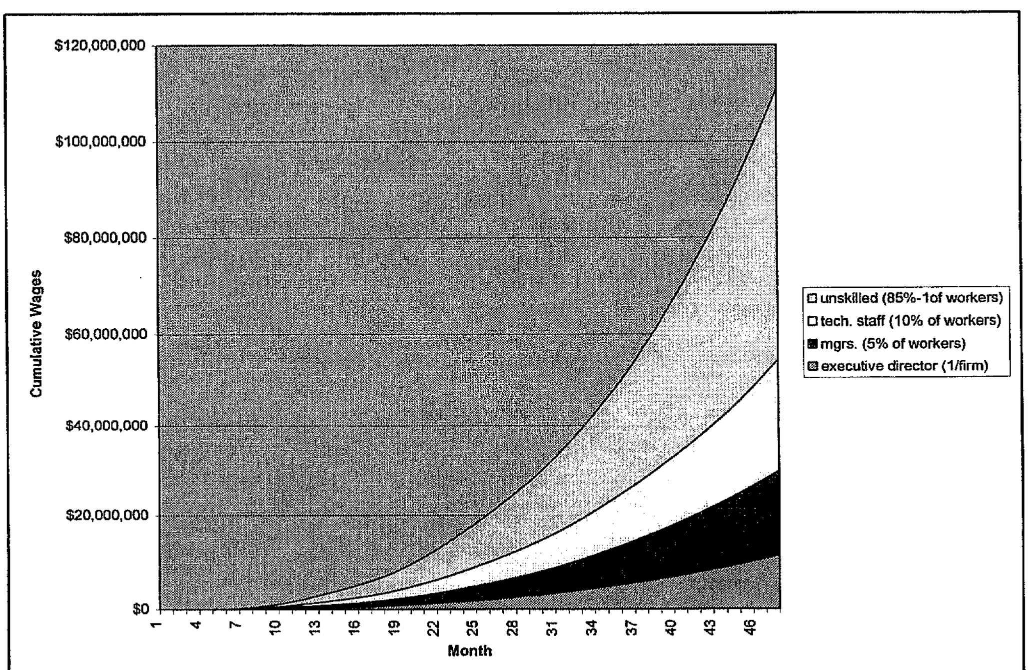


Figure 4.4: Cumulative Wages Generated within PIFZ Program, 4 years



Note: wages based on Table 4.1 assumptions; wages for unskilled assumed as $400/month.

4.7 Conclusions

By examining the results of the analysis summarized above, one can draw several general conclusions about the financial plan of PIFZA during the first 12 months and beyond:

- PIFZA is a viable institution in the medium to long term, but it requires short-term financial support. Since its main revenue source is the monthly fee and the base of this revenue builds up gradually over time, PIFZA will run deficits for the first 2 to 4 years, exclusive of off-site infrastructure expenses and revenues. After this time, PIFZA's core administrative and regulatory functions will quickly acquire a positive financial profile, allowing expansion of services, contributing to new development projects, paying back debts and becoming a net contributor to the treasury. This needs to be considered along with the employment generation, export and general economic development stimuli that can be expected, similar to the experience of other developing countries with high quality IFZ institutions created in the mold of lean, mean, and competitive private sector-oriented organizations.

- However, the dual office structure increases costs and decreases financial performance. The special circumstances in Palestine which create the need for separate offices lead to unfortunate inefficiencies. PIFZA is less able to capitalize on economies of scale, since expanded IFZ development in the West Bank implies the need to set up somewhat duplicative offices. The goal of nonetheless trying to centralize certain functions that can be provided to both areas regardless of the location of personnel has been stated in Chapter 3; aside from this, another important conclusion is that procuring financing for the establishment of a second PIFZA office in the West Bank (between US $200,000 and $400,000 during the first 4 years) would help tremendously—the overall deficit is reduced by more than 50%, and break even occurs 7 to 8 months earlier. For this reason, the work plan presented in Chapter 2 includes as a key activity the search for and solicitation of grant assistance and financing for the West Bank office.

- Reducing staff to a bare minimum will help to avoid exaggerated deficits and reduce the time to break-even substantially. If the staff is held to 7 during months 1-12 (no kitchen staff, only 1 account executive per office, a single staff in West Bank until office commencement in month 13), and then 9 thereafter (3 or 4 of which are located at the West Bank office), then break-even occurs 4 to 6 months earlier, and overall deficits are reduced by approximately 36 percent.

- It may be necessary, from a promotional perspective, to start PIFZA's fees at the reduced level. However, if after a certain period of time it becomes apparent that PIFZA operating costs are higher and the market would bear higher fees, it would be necessary to consider upward adjustments. The IFZ program in Costa Rica has left the nominal fee untouched over many years, which in real terms means a gradual reduction in the fee, at the rate of inflation. PIFZA may consider a similar approach, if a somewhat higher fee is used early on in order to cover operating costs with the relatively smaller revenue base during the early years.

- PIFZA should seek sources of grant money and donated technical assistance as much as possible. MOI officials have already made concerted efforts to develop assistance programs with donors (USAID in Gaza, and German agencies in Jenin). As PIFZA gets up and running, such efforts should continue, with a particular eye toward covering capital investment costs associated with the West Bank office and the infrastructure associated with the various proposed IFZ sites in that area.

- Using financing from the credit provided by the World Bank to the PCU will also help. To the extent that PIFZA uses these funds to cover, not only the two PCU staff included in the model's budget, but also other PIFZA staff and equipment (office space, copiers, vehicles, etc.), the deficits will be smaller, break-even times shorter, and the overall financial burden lower, due to the concessionary terms of the loans. Likewise, the PCU staff should be taken advantage of as much as possible to undertake a wide variety of support activities, to the extent that this is permitted under the terms of the loan.

- A "Virtual" One Stop Shop will be needed at the beginning, based on the Account Executive approach. Section 3.3 of Chapter 3 explained the basic principles of the account executive approach to one-stop shops. Due to its limited revenue base and lack of institutional capacity at the beginning, PIFZA will probably be better off if it lets other established institutions such as PENA provide staff and undertake various regulatory functions corresponding to their existing field of experience. PIFZA staff will act as facilitators, a specific "account executive" being assigned to each investor/applicant. This will help reduce the number of PIFZA staff and ensure lower deficits and faster break-even points.

- In the worse case scenario based on the main financial model, break-even occurs after almost 4 years, with a total accumulated deficit of US $645,000. This is slightly more than 0.6 percent of the accumulated worker income projected to be generated by the same time—i.e., by the 47th month of PIFZA's operation, some US $104 million will have been paid to IFZ workers. In this same worst-case scenario, the deficit during the first 12 months comes to approximately US $162,000

- However, when the initial 12-month deficit of offsite infrastructure is taken into consideration (approx. US $940,000), the total 12-month deficit climbs to a much higher level—US $1.585 million for the worst-case scenario. Even for more moderate case scenarios, such as the one recommended for use as the basis for financial planning (see recommendations below), this large deficit from offsite infrastructure elevates the total deficit to almost US $1.1 million during the first year.

- Projected Employment and Associated Income Generation from New Workers are Substantially High, and would Compensate for Funds Given to PIFZA to help it during its early months of deficit. By the end of year 4, the PIFZA program will have generated approximately 9,500 jobs, with a cumulative wage bill of US $110 million-- money that would not have been generated in the absence of PIFZA. By year 10, with 250 enterprises operating, the PIFZA program will be generating approximately US $13.4 million monthly ($161 million annually) in new salary income for Palestinian workers. Additional revenues from tariffs paid on goods imported through the IFZ to Palestinian territory, additional taxes generated from indirect employment generation, future revenue streams resulting from increased profits and eventual expiration of tax holidays granted to FZ firms should also be remembered, although no effort was made in this analysis to quantify these figures.

4.8 Recommended Financial Plan

Based on the aforementioned conclusions, the following presents the recommended financial plan for PIFZA to follow during the first 12 months of its operation:[3]

1. PIFZA should use Scenario 2C as the basis for requesting support money from potential sources. This scenario represents a good faith effort to lower the number of staff and associated costs to an absolute minimum, while maintaining the "reduced" promotional PIFZA monthly fees of US $0.15/m2 for industrial area and US $0.07 for open space. Under this scenario, break-even is achieved in 41 months (3.4 years), and total accumulated deficit up to this point excluding off-site infrastructure losses amounts to approximately US $416,000.

2. Decide how much of the World Bank credit will be used to cover additional costs not assumed in the model. As mentioned above, this should be maximized to the extent possible under the terms of the World Bank loan and taking into consideration other relevant factors (e.g., availability of alternative sources of donated or concessionary financial support; ease of

[3] These recommendations reflect the consultant's opinion based on his understanding of the present situation in both Gaza and the West Bank. Once PIFZA designates its Executive Director, conditions may change or new aspects of the environment may warrant adjustments to this plan. It should be the duty of the new Executive Director to re-assess the situation at the time the post is assumed, take these recommendations into consideration, and then develop an updated financial plan proposal accordingly, to be presented to the Board for approval.

disbursal/procurement procedures; subsequent levels of administrative complexity; etc.)

3. During the month of May, the MOI should seek to finalize agreements on fee structures, billing arrangements, and financing of projected deficits associated with off-site infrastructure. PIFZA may expect to retain revenue generating fees on the per-unit costs of delivered utility services, but their level may be negotiated downward if the relevant authorities agree to provide financing for initial deficits.

4. At the first PIFZA Board Meeting, a proposal for requesting funding support from donors and the PA should be presented & if possible, approved. This request, again based on Scenario 2C, would be in the amount of US $156,000 for the first 12 months to cover non-offsite infrastructure deficits, plus any off-site infrastructure deficits not covered through arrangements with the Utility Authorities as per 3 above, minus any additional procured grants, and minus funds that PIFZA decides should be used from the World Bank credit to cover capital and operational costs beyond those assumed in the main financial model. (see 2 above). It would be preferable to have any support money for this first year disbursed all at once into a special account set up by PIFZA.

5. Prior to requests for additional support to cover deficits expected from months 13 onward, PIFZA should make an erstwhile effort to secure new grant assistance and financing, especially for the West Bank office. Results of these efforts should be reflected in the final proposed budget and requests for support issued by PIFZA near the end of the first 12 months. If it succeeds in securing financing for a substantial portion of the West Bank office expenses, the relevant scenario would then become 2-1C (a substantial improvement over the originally assumed Scenario 2C), assuming other aspects remain unchanged.

6. During start-up phase, hire staff immediately, but only the bare minimum required to get PIFZA up and running, with the salaries referred to in Table 4.1. This corresponds to the approach of Scenario 2, and demonstrates a good faith effort by PIFZA to minimize its short-term negative fiscal impact.

7. Do not try to save money by setting up PIFZA within existing MOI facilities. The money saved is relatively small, the infrastructure is poor, the problems caused by employee morale would be exacerbated at MOI, and undesirable working habits (e.g., reduced working hours) would have a higher likelihood of being transferred. The entire organizational culture needs to start out fresh and distinct, as described in Chapter 3.

8. Aggressively seek alternatives for generating short-term revenue for PIFZA. One of the more interesting possibilities is the sale of potable

water, either through pipes, truck delivery, or bottling. This might be particularly beneficial at the beginning, when installed capacity far exceeds demand of initial tenants, and PIFZA needs to cover especially wide deficits. Another option is the use of tolls or other fees for trucks passing over the new connector road, although as assumed in this model, all such revenues (and the loan and debt servicing associated with them) are not included.

9. Quickly establish a Financial Management System that will allow for day-to-day financial transactions to be carried out, recorded, reviewed, and analyzed periodically to assess the financial position of PIFZA, anticipate any potential problems in cash flow, update the financial model presented here and develop new projections and associated requests for financing when the need arises. The system should include a data base to track payments of all relevant fees by developers and enterprises.

10. Also at an early stage, set up independent accounts at an appropriate local banking institution. A capital account could be set up, along with a checking account for month-to-month cash flow purposes. The check signing authority should probably be given to the Executive Director, along with the financial manager, in an either/or fashion.

11. Use PCU financial manager/accountant as PIFZA's main financial accountant and office manager. This will save money and prove the most productive, particularly after the PCU is eventually dissolved, and associated staff can be absorbed into PIFZA's medium to long term organizational structures. The organizational charts presented in the previous chapter are based on this assumption.

Chapter 5: Technical Assistance Analysis

5.1 Introduction

Until now, the Palestinian Industrial and Free Zone program has received technical assistance in the form of short term visits by consultants specialized in various disciplines. While this has provided valuable support to the program's development at key junctures, the lack of a more permanent presence by consultants or advisors has led to certain problems. One of these is the lack of continuity by a given consultant. New consultants require time to develop the required understanding of the specific context of the West Bank and Gaza. With the many changes in technical experts that have occurred over the past 3 years, each one has gone through their own "learning curve". Another problem has been the delays between individual assignments—it has proven somewhat cumbersome to set up the TA missions in a piecemeal fashion. Without being able to refer to seasoned experts and facilitate training and support on an as-needed basis, the public officials and staff of the MOI have taken longer to develop the policy and regulatory framework to develop, and have suffered delays in establishing the bases for the new authority, PIFZA.

USAID's plan to support a more substantial, longer-term technical assistance effort should go a long way in resolving such problems, and ensuring successful institutional and operational development of the PIFZ program at one of its most important stages. The GIE is less than two months from becoming operational, and PIFZA is slated to begin its role as overseer and regulator of the regime before the end of May, 1998. As stated in earlier chapters, the reputation and image of the program will largely be defined during the upcoming months, thus it is important to make every effort possible to provide required technical assistance.

The following presents a preliminary analysis of likely technical assistance (TA) needs during this critical time. This builds upon previous inputs on potential TA components made by other consultants, adding insight gathered from recent interactions with MOI staff and other relevant stakeholders.

5.2 Structure & Duration of TA

The TA should likely be structured as a longer-term project (see below) incorporating both long-term staff, as well as several short term activities. The resident advisor would serve as team leader throughout the life of the project. This advisor would manage the sequenced arrival of specific short-term TA, based on a proposed work plan, but allowing for flexibility to accommodate the dynamic environment on the ground.

The idea of supporting a 2-year program instead of the originally conceived one-year effort is very appropriate. It will take at least this long for PIFZA to establish its office, hire and train new staff, and establish the systems and procedures necessary for PIFZ regulation and promotion. Experience dictates that delays in various aspects of the GIE can be expected, especially given the current state of relations between Israel and the Palestinian Authority. Indeed, it may be useful to allow for a six month to 1-year contract extension after the first 24-month period, depending on the state of advance at that time.

5.3 Long Term Consultants

Resident Advisor[1]. The consultant proposed for the resident advisor position will play an instrumental role. The ideal candidate must possess solid experience in free zone and industrial estate development. Both private sector experience, as well as public or quasi-public regulatory, oversight, and promotional[2] experience, is required. Due to the political issues and high level negotiations which form the context of the project, the Resident Advisor should also possess demonstrated skills in managing complex projects in a highly charged political environment. Interpersonal skills will be fundamental, as will be an approach characterized by intensive, side-by-side work and training with counterparts at all levels of PIFZA, from the Chairman of the Board and Executive Director down to the lowest positions in the organization.

The resident advisor would conduct his or her work in such a fashion so as to transfer a maximum of knowledge to local counterparts. The goal should be to leave behind a system that will be self supporting and sustainable in the wake of USAID's support two years from now and beyond.

MOI officials have expressed their desire to have a resident advisor from a nearby country if this is possible. Their main concern appears to be familiarity with local customs and ways of doing business, as well as language skills, although most people dealing with the Resident Advisor will be able to speak

[1] Tasks and responsibilities for the Resident Advisor were included in an earlier document entitled "Proposed Technical Assistance Program for the Institutional Building of the Palestinian Industrial Zone Authority-PIZA". Although some of these tasks are no longer applicable, the majority still apply.

[2] Promotion should not be considered as one of the most important activities of the TA, since the first priority should be making PIFZA operational and ensuring sufficient regulatory, oversight, and monitoring capability, in a user-friendly manner. However, it will be necessary to coordinate promotional activities with PIEDCO, and assist PIFZA in adopting practices which will assist rather than hinder overall promotional efforts. Therefore, a Resident Advisor should possess keen insight into promotion, even if he or she has not worked directly as a marketer/promoter of IFZ projects.

English or other languages (German, and to a degree French are also spoken by several staff and officials).

Other Key PIFZA Staff Positions. USAID should seriously consider funding one or two additional PIFZA staff people during the two year duration of the TA. The two main reasons for this are: 1) PIFZA needs financial support during the first 2 years to cover deficits caused by the relatively low start-up base of revenue due to lower numbers of tenants paying fees; and 2) in lieu of such support, the money to cover the salaries of these positions will most likely need to be requested from the P.A. Basically, a mechanism is needed to ensure high quality people from the outset, and to get the organization's culture formed and momentum moving in the right direction.

At present, the most likely positions that USAID could consider funding are the Operational Manager, and one of the Account Executives contemplated for the Gaza Regional Office, who will be assigned primarily to the GIE project & associated investors[3].

5.4 Short-Term TA:

An earlier matrix of potential TA components proposed a number of different short-term activities that could be directed toward PIFZA's organizational development. Some of these are no longer appropriate, due to various reasons. For example, the proposed "administrative accounting system" will need to be designed and implemented well before the expected September start-up of USAID's 2-year TA. For this reason, it will probably be more appropriate for PIFZA to use allocated funds from the World Bank credit, drawing on associated technical assistance support to access experts able to help PIFZA to get the accounting and financial management system up and running[4] right away. Other activities proposed in the matrix have already been achieved, such as design of the organizational/managerial structure, and certain parts of the security and customs procedures. Promotional activities, such as developing a comprehensive promotional strategy (also included in the matrix), may still form a part of the proposed TA, but this should be phased in at the later stages, well after ensuring that PIFZA is fully operational and well on top of its regulatory responsibilities.

Based on insight gathered during recent visits, along with discussions held with MOI officials, the following priorities for short-term TA were identified:

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[3] Roles and responsibilities of these positions are described in Chapter 3.

[4] USAID's support for a broader MIS system is nevertheless likely to be an important component of the overall TA package. For this reason, PIFZA should be encouraged to structure the World Bank tender process so that whatever financial management/accounting system is used, it will be fully compatible with appropriate MIS systems to be implemented with USAID support subsequently.

1. Implement a System, Train Staff and do Follow-Up Monitoring and Evaluation for *IFZ Application Procedures*. A tracking system needs to be developed for monitoring compliance with deadlines for investor applications, and issue required correspondence, certificates, etc. Account Executives in PIFZA's investor service facilitation center will require training and guidance as they begin to interact with investors on a daily basis. Process flow charts will need to be developed and analyzed periodically.

2. Develop a Management Information System and Data Base for keeping track of key statistical information on a zone and enterprise basis, incorporate data entry into general PIFZA procedures, include internal PIFZA administrative financial and administrative information inputs, etc. Training to PIFZA staff on using the data base & MIS system for report generation, analysis, etc would be provided. Information would include investment levels, number and types of employment, types of products imported and exported, services used/offered, etc.

3. Finalize customs and security procedures, forms, and systems for monitoring, inspecting, and conducting audits of IFZ enterprises. In spite of the draft customs manual and proposed documentation left by earlier USAID consultants, it is necessary to do further work in operationalizing customs procedures and training staff on the ground in appropriate techniques for facilitating customs control at the GIE. Security arrangements also need to be verified and fine tuned based on actual activities on the ground. Ideally, a three person team would be formed, two customs experts (one a free zone expert, the second an expert in computerized systems) joined by an expert on security. These would work in parallel during the earliest stages of the TA, most likely in a series of about three one-month field assignments separated by one month segments of home office work. Training would be a primary emphasis, so budgets for workshop materials, seminar rooms and equipment should be included.

4. Environmental Evaluation, Monitoring, and Enforcement Activity. It would be useful to include an activity related to environmental aspects of PIFZA's oversight of the GIE. This could be directed to PENA, but with necessary participation and coordination of PIFZA. It would be nice to include training, and perhaps exposure tours to associated staff of PENA. Aside from improving institutional capacity in this important area, an activity structured in this manner would create a more conducive incentive structure to encourage PENA's cooperation with the overreaching goals and requirements of the PIFZA program.

5. Strategic Planning Activity. Many Palestinians likely to occupy key management and staff positions within PIFZA are unfamiliar with strategic planning tools and techniques. These are expected to be extremely important during the early stages of PIFZA's development, thus it is recommended that strategic planning be included as a specific TA activity. Strategic planning should occur on three levels:

   a. Internal Level within PIFZA (defining a vision, concrete goals, and a plan of action; managing human resources and developing employee evaluation and incentive systems; etc.);
   b. Inter-Institutional level (working with other authorities and line ministries involved in key regulatory and operational issues relevant to PIFZA—facilitating workshops, joint committees, and developing joint strategies for such things as one-stop shop operations, etc.); and
   c. Privatization and Commercialization Strategies Level (unbundling operation and maintenance of off-site infrastructure, encouraging private sector provision of services, developing and executing appropriate management contracts, tender processes, and incentive structures to maximize benefit to PIFZ program).

6. Marketing and Promotion Activity. This should be started sometime after the first year of the TA project's execution. The emphasis should be on complementing, rather than duplicating or supplanting, the marketing efforts made by PIEDCO and any other private IFZ developer. A particular emphasis should be placed on bringing the GIE to the attention of investors from outside the Palestinian territories, whether in the region or beyond. Suggestions contained in previous reports and feasibility studies as to the most likely markets should be taken into consideration, but it may be necessary to conduct an updated assessment of target markets based on the early performance of the GIE and its initial investor base. USAID assistance in supporting a short-term specialist in marketing/promotion would be valuable, especially considering that PIEDCO's budget alone will not allow for comprehensive promotional activities.

Annex A. Main Financial Model for PIFZA

A.1. Consolidated Budget, Income, & Cash Flow Projections
A.2. Revenue Worksheet
A.3. Graphs of Scenario Results:

Scenario (S.)A: Base Model. Scenario A incorporates all the base assumptions outlined above, particularly the monthly fees of US $0.20/m2 for industrial space and US $0.10/m2 for open space.

S.B: Increased Monthly Fees. Scenario B increases the monthly industrial space fee to US $0.25/m2, and the open space fee to US $0.15/m2. All other fees remain the same.

S.C: Reduced Monthly Fees. Scenario C reduces the monthly industrial space fee to US $0.15/m2, and cuts the open space fee to US $0.07/m2. All other fees remain the same.

S1: Financed West Bank Office. This scenario assumes that financing assistance will be secured to help cover a substantial portion of the West Bank office, including all staff salaries and a major portion of operating expenses. In order to gage the results under different fee assumptions, three versions of this scenario are run: S1A (base model fees w/ financed West Bank office); S1B (increased fees w/ financed West Bank office) and S1C (reduced fees w/ financed West Bank office).

Scenario 2: Reduced Staff. Scenario 2 cuts the number of staff during the first 12 months from 9 to 7; during months 13 onward, it assumes 9 instead of 13. In order to gage the results under different fee and financing assumptions, six versions of this scenario were run: S2A (reduced staff w/ base model monthly fees); S2B (reduced staff w/ increased fees); S2C (reduced staff w/ reduced fees); S2-1A (reduced staff w/ financed West Bank office and base model fees); S2-1B (reduced staff w/ financed West Bank office and increased fees); and S2-1C (reduced staff w/ financed West Bank office and reduced fees).

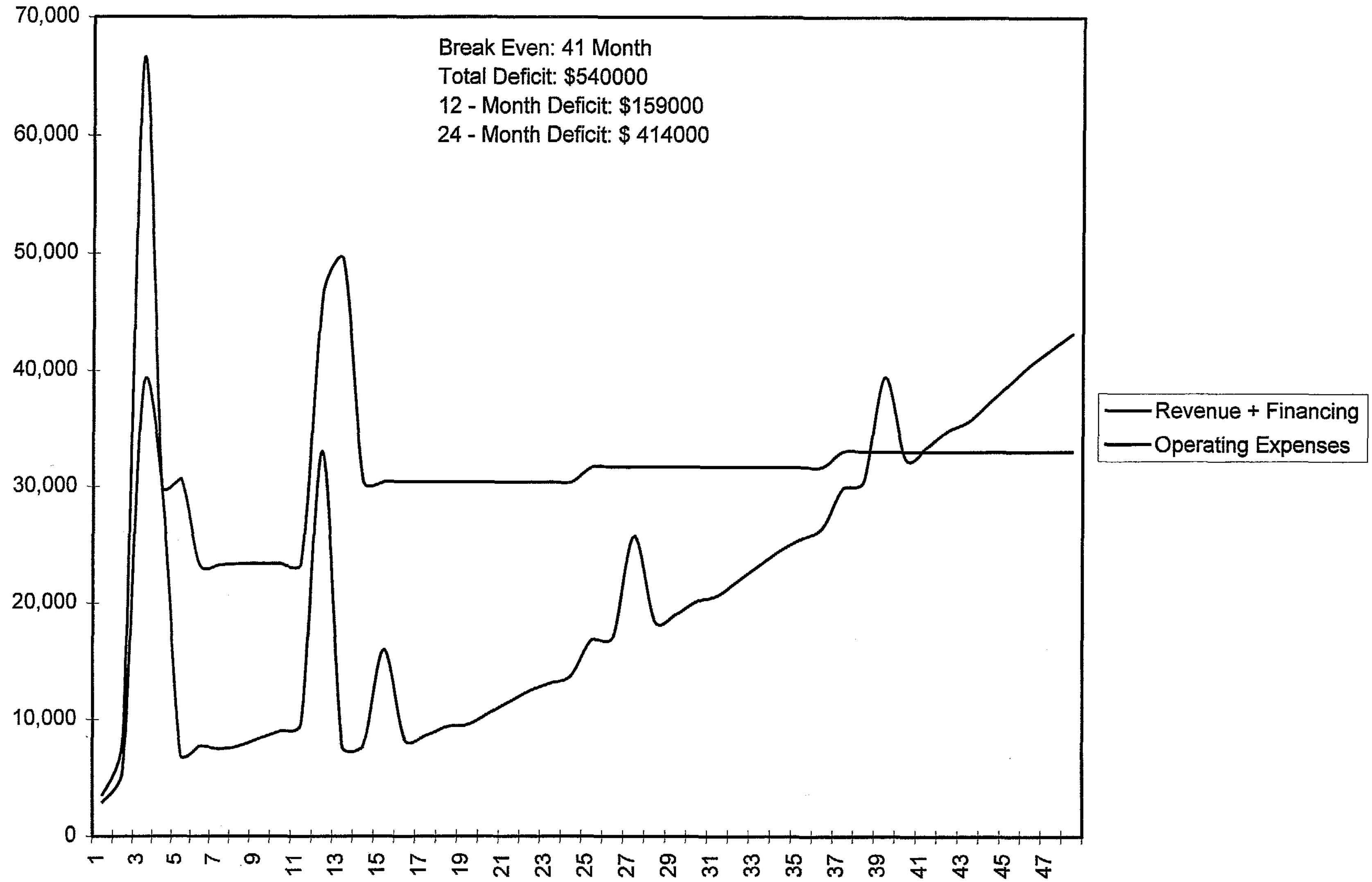
Scenario 3: Faster Growth. Scenario 3 looks at financial performance under an enhanced growth profile. The same number of IFZs are assumed (1 every 12 months for first 48 months, level thereafter), but each continues to receive 2 applications until the end of year 4. From the beginning of year 5, however, growth scales back to approximately 5 new applications/year for each IFZ, so that by the end of year 10, the total number of firms operating is 250—the same total assumed by the World Bank, albeit for the GIE alone, which means this scenario is still relatively more conservative. Three versions of this scenario were run: S3A (faster growth with base model fees); S3B (faster growth with increased fees); and S3C (faster growth w/ reduced fees).

PIFZA 12-Month Budget: Cash Flow Statem	May	June	July	August	eptember	October	November	December	January	February	March	April
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Revenue												
PIFZA fees,	0	2,400	2,000	10,000	2,000	2,000	2,450	2,700	3,350	4,000	4,650	4,975
sub-total, revenue	0	2,400	2,000	10,000	2,000	2,000	2,450	2,700	3,350	4,000	4,650	4,975
Operating Expenses												
Initial Base Staff Salaries:												
Executive Director	0	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
West Bank Regional Manager	0	0	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Operations Manager	0	0	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800
Engineer, Operations Department (start mo	0	0	0	0	0	0	0	0	0	0	0	0
Project Officer 1, Gaza	0	0	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Project Officer 2, Gaza	0	0	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Project Develoment Officer, West Bank	0	0	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Project Officer 2, West Bank												
Secretary (Gaza)	0	0	800	800	800	800	800	800	800	800	800	800
Secretary (West Bank)												
Kitchen employee (Gaza)	0	0	600	600	600	600	600	600	600	600	600	600
Kitchen employee (West Bank)												
PCU Coordinator	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
PCU Accountant	950	950	950	950	950	950	950	950	950	950	950	950
Resident Advisor	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benifits (20% of total)	590	1,190	2,990	2,990	2,990	2,990	2,990	2,990	2,990	2,990	2,990	2,990
Total Initial Base Staff Salaries	3,540	7,140	17,940	17,940	17,940	17,940	17,940	17,940	17,940	17,940	17,940	17,940
Office Expenses												
Operating Expenditures												
Office Space			1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Utility Charges - Electricity & Water				200	200	200	200	200	200	200	200	200
Utility Charges - Telephone Bills			1,400	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Maintenance of Vehicles								100	100	100	100	100
Insurance of Vehicles				50	50	50	50	50	50	50	50	50
Transportation		200	200	200	200	200	200	200	200	200	200	200
Fuel				300	300	300	300	300	300	300	300	300
Entertainment		100	100	100	100	100	100	100	100	100	100	100
Kitchen Equipment/monthly expenses				150	150	150	150	150	150	150	150	150
Travel (fuel, per diem, Accom. , etc.)			300	300	300	300	300	300	300	300	300	300
Internet Access install/monthly charge			50	50	50	50	50	50	50	50	50	50
Stationary, papers, and forms			100	200	300	300	300	300	300	300	300	300
Newspaper Advertisements (Recruit&Procure)		600	300	150	150	150	150	150	150	150	150	150
Depreciation				486	544	700	700	700	700	700	700	700
Interest Expense	2	4	27	39	42	46	49	52	55	58	61	79
Other Expenses		100	100	100	100	100	100	100	100	100	100	100
sub-total, operating expenses	2	1,004	3,577	5,025	5,186	5,346	5,349	5,452	5,455	5,459	5,462	5,479
Capital Expenditures												
Computers (2000 each)			6000		6000							
Printers (1500 each)			3000		1500							
Copy Machine (10000 each)			10000									
Fax Machine (700 each)			700									
Office Furniture (desks, chirs, ...etc.)			2100	7000								
Vehicle (23000 each)			23000									23000
sub-total, capital expenditures	0	0	44800	7000	7500	0	0	0	0	0	0	23000
Total Operating Expenses	3,542	8,144	66,317	29,965	30,626	23,286	23,289	23,392	23,395	23,399	23,402	46,419
Operating Balance	-3,542	-5,744	-64,317	-19,965	-28,626	-21,286	-20,839	-20,692	-20,045	-19,399	-18,752	-41,444
Financing sources												
World Bank Loan (PCU Staff)	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950	2,950
World Bank Loan (Equipment & Expenditur	0	300	33,550	16,750	2,050	2,750	2,050	2,050	2,050	2,050	2,050	25,050
XAID												
USAID Grant (office equip. & furn., 1-mo.delay)												
USAID Grant (Resident Advisor)												
sub-total	2,950	3,250	36,500	19,700	5,000	5,700	5,000	5,000	5,000	5,000	5,000	28,000
Post Financing Balance (O.B.- Financing)	-592	-2,494	-27,817	-265	-23,626	-15,586	-15,839	-15,692	-15,045	-14,399	-13,752	-13,444
Cumulative	-592	-3,086	-30,902	-31,167	-54,794	-70,380	-86,219	-101,911	-116,957	-131,355	-145,107	-158,551

PIFZA 12-Month Budget: Cash Flow Statem	May	June	July	August	eptember	October	ovember	ecember	January	February	March	April	May	June
	onth 13	onth 14	onth 15	onth 16	Month 17	onth 18	onth 19	onth 20	onth 21	onth 22	onth 23	onth 24	onth 25	onth 26
Revenue														
PIFZA fees,	7,700	7,625	15,950	8,275	8,600	9,375	9,550	10,525	11,500	12,475	13,125	13,775	16,825	17,075
sub-total, revenue	7,700	7,625	15,950	8,275	8,600	9,375	9,550	10,525	11,500	12,475	13,125	13,775	16,825	17,075
Operating Expenses														
Initial Base Staff Salaries:														
Executive Director	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,150	3,308	3,308
West Bank Regional Manager	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,310	2,426	2,426
Operations Manager	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,890	1,985	1,985
Engineer, Operations Department (start mo	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,260	1,260
Project Officer 1, Gaza	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,323	1,323
Project Officer 2, Gaza	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,323	1,323
Project Develoment Officer, West Bank	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,323	1,323
Project Officer 2, West Bank	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,260	1,260
Secretary (Gaza)	840	840	840	840	840	840	840	840	840	840	840	840	882	882
Secretary (West Bank)	800	800	800	800	800	800	800	800	800	800	800	800	840	840
Kitchen employee (Gaza)	630	630	630	630	630	630	630	630	630	630	630	630	662	662
Kitchen employee (West Bank)	600	600	600	600	600	600	600	600	600	600	600	600	630	630
PCU Coordinator	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,100	2,205	2,205
PCU Accountant	998	998	998	998	998	998	998	998	998	998	998	998	1,047	1,047
Resident Advisor	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benifits (20% of total)	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	3,900	4,094	4,094
Total Initial Base Staff Salaries	23,397	23,397	23,397	23,397	23,397	23,397	23,397	23,397	23,397	23,397	23,397	23,397	24,567	24,567
Office Expenses														
Operating Expenditures														
Office Space	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,750	1,838	1,838
Utility Charges - Electricity & Water	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Utility Charges - Telephone Bills	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Maintenance of Vehicles	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Insurance of Vehicles	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Transportation	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Fuel	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Entertainment	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Kitchen Equipment/monthly expenses	225	225	225	225	225	225	225	225	225	225	225	225	225	225
Travel (fuel, per diem, Accom. , etc.)	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Internet Access install/monthly charge	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Stationary, papers, and forms	525	525	525	525	525	525	525	525	525	525	525	525	525	525
Newspaper Advertisements (Recruit&Procure	158	158	158	158	158	158	158	158	158	158	158	158	165	165
Depreciation	700	700	700	700	700	700	700	700	700	700	700	700	700	700
Interest Expense	79	79	79	79	79	79	79	79	79	79	79	79	79	79
Other Expenses	200	200	200	200	200	200	200	200	200	200	200	200	210	210
sub-total, operating expenses	6,987	6,987	6,987	6,987	6,987	6,987	6,987	6,987	6,987	6,987	6,987	6,987	7,092	7,092
Capital Expenditures														
Computers (2000 each)	4000													
Printers (1500 each)	1500													
Copy Machine (10000 each)	10000													
Fax Machine (700 each)	700													
Office Furniture (desks, chirs, ...etc.)	2800													
Vehicle (23000 each)														
sub-total, capital expenditures	19000	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	49,384	30,384	30,384	30,384	30,384	30,384	30,384	30,384	30,384	30,384	30,384	30,384	31,659	31,659
Operating Balance	-41,684	-22,759	-14,434	-22,109	-21,784	-21,009	-20,834	-19,859	-18,884	-17,909	-17,259	-16,609	-14,834	-14,584
Financing sources														
World Bank Loan (PCU Staff)														
World Bank Loan (Equipment & Expenditur														
XAID														
USAID Grant (office equip. & furn., 1-mo.de														
USAID Grant (Resident Advisor)														
sub-total	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Post Financing Balance (O.B.- Financing)	-41,684	-22,759	-14,434	-22,109	-21,784	-21,009	-20,834	-19,859	-18,884	-17,909	-17,259	-16,609	-14,834	-14,584
Cumulative	-200,235	-222,994	-237,427	-259,536	-281,320	-302,329	-323,162	-343,021	-361,905	-379,814	-397,072	-413,681	-428,515	-443,099

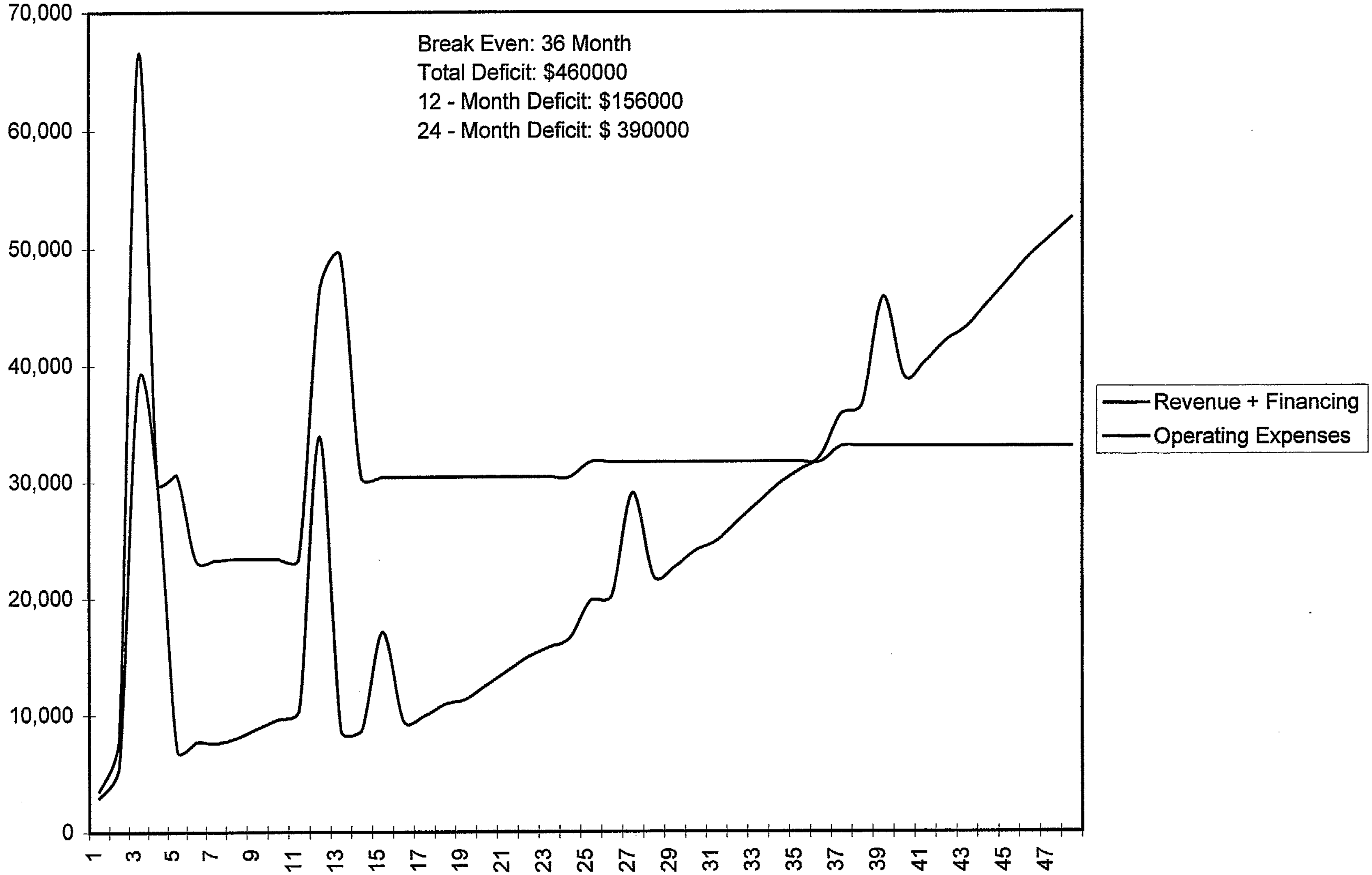
PIFZA 12-Month Budget: Cash Flow Statem	July onth 27	August onth 28	ptember onth 29	October onth 30	ovember onth 31	ecember onth 32	January onth 33	February onth 34	March onth 35	April onth 36	May onth 37	June onth 38	July onth 39	August onth 40
Revenue														
PIFZA fees,	25,725	18,375	19,025	20,125	20,625	21,925	23,225	24,525	25,500	26,475	29,850	30,425	39,400	32,375
sub-total, revenue	25,725	18,375	19,025	20,125	20,625	21,925	23,225	24,525	25,500	26,475	29,850	30,425	39,400	32,375
Operating Expenses														
Initial Base Staff Salaries:														
Executive Director	3,308	3,308	3,308	3,308	3,308	3,308	3,308	3,308	3,308	3,308	3,473	3,473	3,473	3,473
West Bank Regional Manager	2,426	2,426	2,426	2,426	2,426	2,426	2,426	2,426	2,426	2,426	2,547	2,547	2,547	2,547
Operations Manager	1,985	1,985	1,985	1,985	1,985	1,985	1,985	1,985	1,985	1,985	2,084	2,084	2,084	2,084
Engineer, Operations Department (start mo	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,323	1,323	1,323	1,323
Project Officer 1, Gaza	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,389	1,389	1,389	1,389
Project Officer 2, Gaza	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,389	1,389	1,389	1,389
Project Develoment Officer, West Bank	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,389	1,389	1,389	1,389
Project Officer 2, West Bank	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,260	1,323	1,323	1,323	1,323
Secretary (Gaza)	882	882	882	882	882	882	882	882	882	882	926	926	926	926
Secretary (West Bank)	840	840	840	840	840	840	840	840	840	840	882	882	882	882
Kitchen employee (Gaza)	662	662	662	662	662	662	662	662	662	662	695	695	695	695
Kitchen employee (West Bank)	630	630	630	630	630	630	630	630	630	630	662	662	662	662
PCU Coordinator	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,205	2,315	2,315	2,315	2,315
PCU Accountant	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,047	1,100	1,100	1,100	1,100
Resident Advisor	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Fringe benifits (20% of total)	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,094	4,299	4,299	4,299	4,299
Total Initial Base Staff Salaries	24,567	24,567	24,567	24,567	24,567	24,567	24,567	24,567	24,567	24,567	25,795	25,795	25,795	25,795
Office Expenses														
Operating Expenditures														
Office Space	1,838	1,838	1,838	1,838	1,838	1,838	1,838	1,838	1,838	1,838	1,929	1,929	1,929	1,929
Utility Charges - Electricity & Water	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Utility Charges - Telephone Bills	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Maintenance of Vehicles	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Insurance of Vehicles	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Transportation	350	350	350	350	350	350	350	350	350	350	350	350	350	350
Fuel	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Entertainment	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Kitchen Equipment/monthly expenses	225	225	225	225	225	225	225	225	225	225	225	225	225	225
Travel (fuel, per diem, Accom. , etc.)	300	300	300	300	300	300	300	300	300	300	300	300	300	300
Internet Access install/monthly charge	50	50	50	50	50	50	50	50	50	50	50	50	50	50
Stationary, papers, and forms	525	525	525	525	525	525	525	525	525	525	525	525	525	525
Newspaper Advertisements (Recruit&Procure	165	165	165	165	165	165	165	165	165	165	174	174	174	174
Depreciation	700	700	700	700	700	700	700	700	700	700	700	700	700	700
Interest Expense	79	79	79	79	79	79	79	79	79	79	79	79	79	79
Other Expenses	210	210	210	210	210	210	210	210	210	210	210	221	221	221
sub-total, operating expenses	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,092	7,192	7,203	7,203	7,203
Capital Expenditures														
Computers (2000 each)														
Printers (1500 each)														
Copy Machine (10000 each)														
Fax Machine (700 each)														
Office Furniture (desks, chirs, ...etc.)														
Vehicle (23000 each)														
sub-total, capital expenditures	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Operating Expenses	31,659	31,659	31,659	31,659	31,659	31,659	31,659	31,659	31,659	31,659	32,987	32,998	32,998	32,998
Operating Balance	-5,934	-13,284	-12,634	-11,534	-11,034	-9,734	-8,434	-7,134	-6,159	-5,184	-3,137	-2,573	6,402	-623
Financing sources														
World Bank Loan (PCU Staff)														
World Bank Loan (Equipment & Expenditur														
XAID														
USAID Grant (office equip. & furn., 1-mo.de														
USAID Grant (Resident Advisor)														
sub-total	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Post Financing Balance (O.B.- Financing)	-5,934	-13,284	-12,634	-11,534	-11,034	-9,734	-8,434	-7,134	-6,159	-5,184	-3,137	-2,573	6,402	-623
Cumulative	-449,033	-462,317	-474,951	-486,485	-497,519	-507,253	-515,687	-522,821	-528,980	-534,163	-537,301	**-539,874**	-533,472	-534,095

PIFZA 12-Month Budget: Cash Flow Statem	ptember onth 41	October onth 42	ovember onth 43	ecember onth 44	January onth 45	February onth 46	March onth 47	April onth 48
Revenue								
PIFZA fees,	33,350	34,775	35,600	37,225	38,850	40,475	41,775	43,075
sub-total, revenue	33,350	34,775	35,600	37,225	38,850	40,475	41,775	43,075
Operating Expenses								
Initial Base Staff Salaries:								
Executive Director	3,473	3,473	3,473	3,473	3,473	3,473	3,473	3,473
West Bank Regional Manager	2,547	2,547	2,547	2,547	2,547	2,547	2,547	2,547
Operations Manager	2,084	2,084	2,084	2,084	2,084	2,084	2,084	2,084
Engineer, Operations Department (start mo	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323
Project Officer 1, Gaza	1,389	1,389	1,389	1,389	1,389	1,389	1,389	1,389
Project Officer 2, Gaza	1,389	1,389	1,389	1,389	1,389	1,389	1,389	1,389
Project Develoment Officer, West Bank	1,389	1,389	1,389	1,389	1,389	1,389	1,389	1,389
Project Officer 2, West Bank	1,323	1,323	1,323	1,323	1,323	1,323	1,323	1,323
Secretary (Gaza)	926	926	926	926	926	926	926	926
Secretary (West Bank)	882	882	882	882	882	882	882	882
Kitchen employee (Gaza)	695	695	695	695	695	695	695	695
Kitchen employee (West Bank)	662	662	662	662	662	662	662	662
PCU Coordinator	2,315	2,315	2,315	2,315	2,315	2,315	2,315	2,315
PCU Accountant	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Resident Advisor	0	0	0	0	0	0	0	0
Fringe benifits (20% of total)	4,299	4,299	4,299	4,299	4,299	4,299	4,299	4,299
Total Initial Base Staff Salaries	25,795	25,795	25,795	25,795	25,795	25,795	25,795	25,795
Office Expenses								
Operating Expenditures								
Office Space	1,929	1,929	1,929	1,929	1,929	1,929	1,929	1,929
Utility Charges - Electricity & Water	350	350	350	350	350	350	350	350
Utility Charges - Telephone Bills	1,700	1,700	1,700	1,700	1,700	1,700	1,700	1,700
Maintenance of Vehicles	100	100	100	100	100	100	100	100
Insurance of Vehicles	50	50	50	50	50	50	50	50
Transportation	350	350	350	350	350	350	350	350
Fuel	300	300	300	300	300	300	300	300
Entertainment	150	150	150	150	150	150	150	150
Kitchen Equipment/monthly expenses	225	225	225	225	225	225	225	225
Travel (fuel, per diem, Accom. , etc.)	300	300	300	300	300	300	300	300
Internet Access install/monthly charge	50	50	50	50	50	50	50	50
Stationary, papers, and forms	525	525	525	525	525	525	525	525
Newspaper Advertisements (Recruit&Procure	174	174	174	174	174	174	174	174
Depreciation	700	700	700	700	700	700	700	700
Interest Expense	79	79	79	79	79	79	79	79
Other Expenses	221	221	221	221	221	221	221	221
sub-total, operating expenses	7,203	7,203	7,203	7,203	7,203	7,203	7,203	7,203
Capital Expenditures								
Computers (2000 each)								
Printers (1500 each)								
Copy Machine (10000 each)								
Fax Machine (700 each)								
Office Furniture (desks, chirs, ...etc.)								
Vehicle (23000 each)								
sub-total, capital expenditures	0	0	0	0	0	0	0	0
Total Operating Expenses	32,998	32,998	32,998	32,998	32,998	32,998	32,998	32,998
Operating Balance	352	1,777	2,602	4,227	5,852	7,477	8,777	10,077
Financing sources								
World Bank Loan (PCU Staff)								
World Bank Loan (Equipment & Expenditur								
XAID								
USAID Grant (office equip. & furn., 1-mo.de								
USAID Grant (Resident Advisor)								
sub-total	0	0	0	0	0	0	0	0
Post Financing Balance (O.B.- Financing)	352	1,777	2,602	4,227	5,852	7,477	8,777	10,077
Cumulative	-533,743	-531,966	-529,364	-525,136	-519,284	-511,807	-503,030	-492,953


Break Even: 41 Month
Total Deficit: $540000
12 - Month Deficit: $159000
24 - Month Deficit: $ 414000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
19
21
23
25
27
29
31
33
35
37
39
41
43
45
47
Revenue + Financing
Operating Expenses

69

SA-new.xls


Break Even: 36 Month
Total Deficit: $460000
12 - Month Deficit: $156000
24 - Month Deficit: $ 390000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
19
21
23
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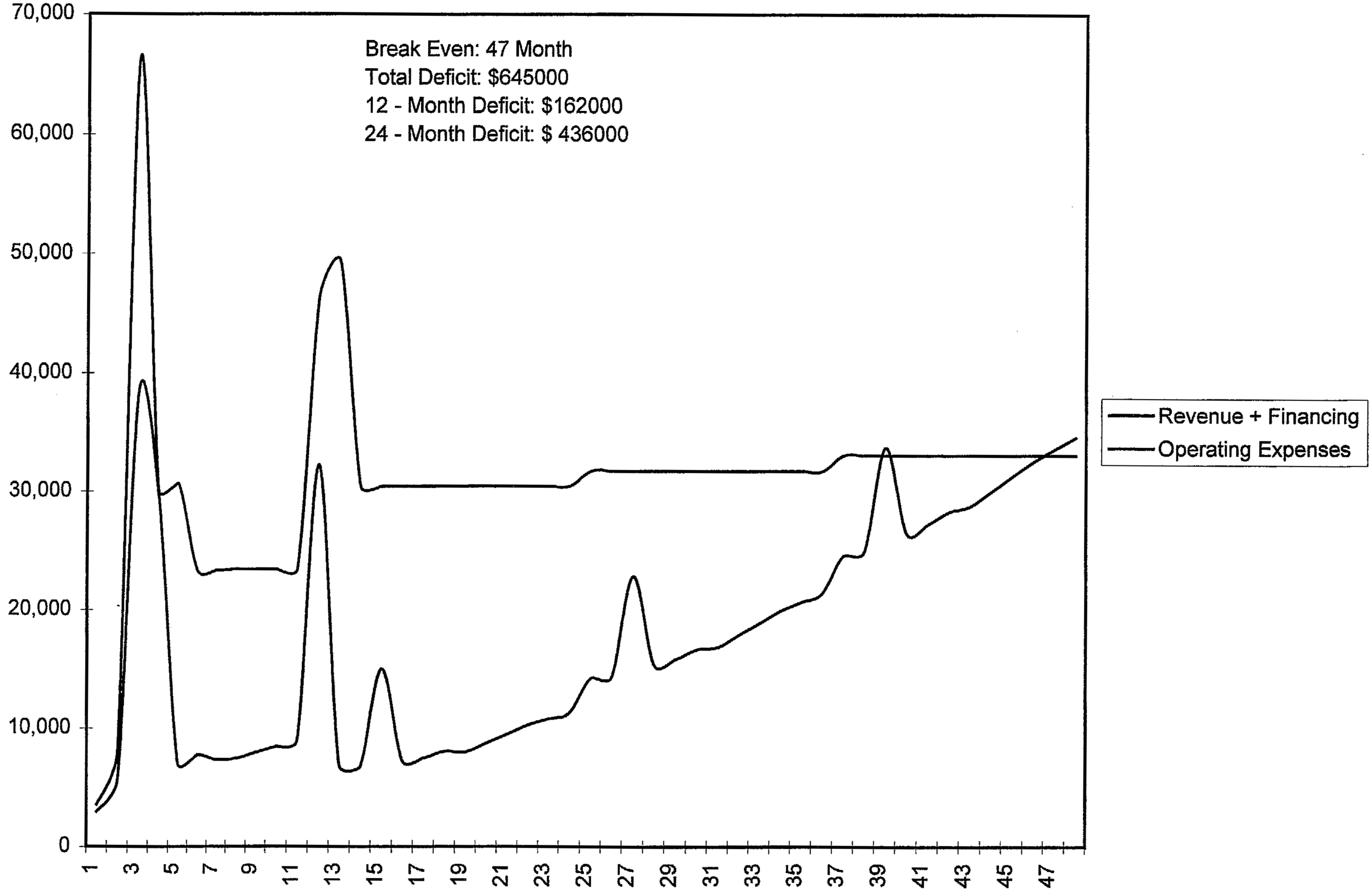
27
29
31
33
35
37
39
41
43
45
47
Revenue + Financing
Operating Expenses

69

SB.xls


Break Even: 47 Month
Total Deficit: $645000
12 - Month Deficit: $162000
24 - Month Deficit: $ 436000
Revenue + Financing
Operating Expenses
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
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7
9
11
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17
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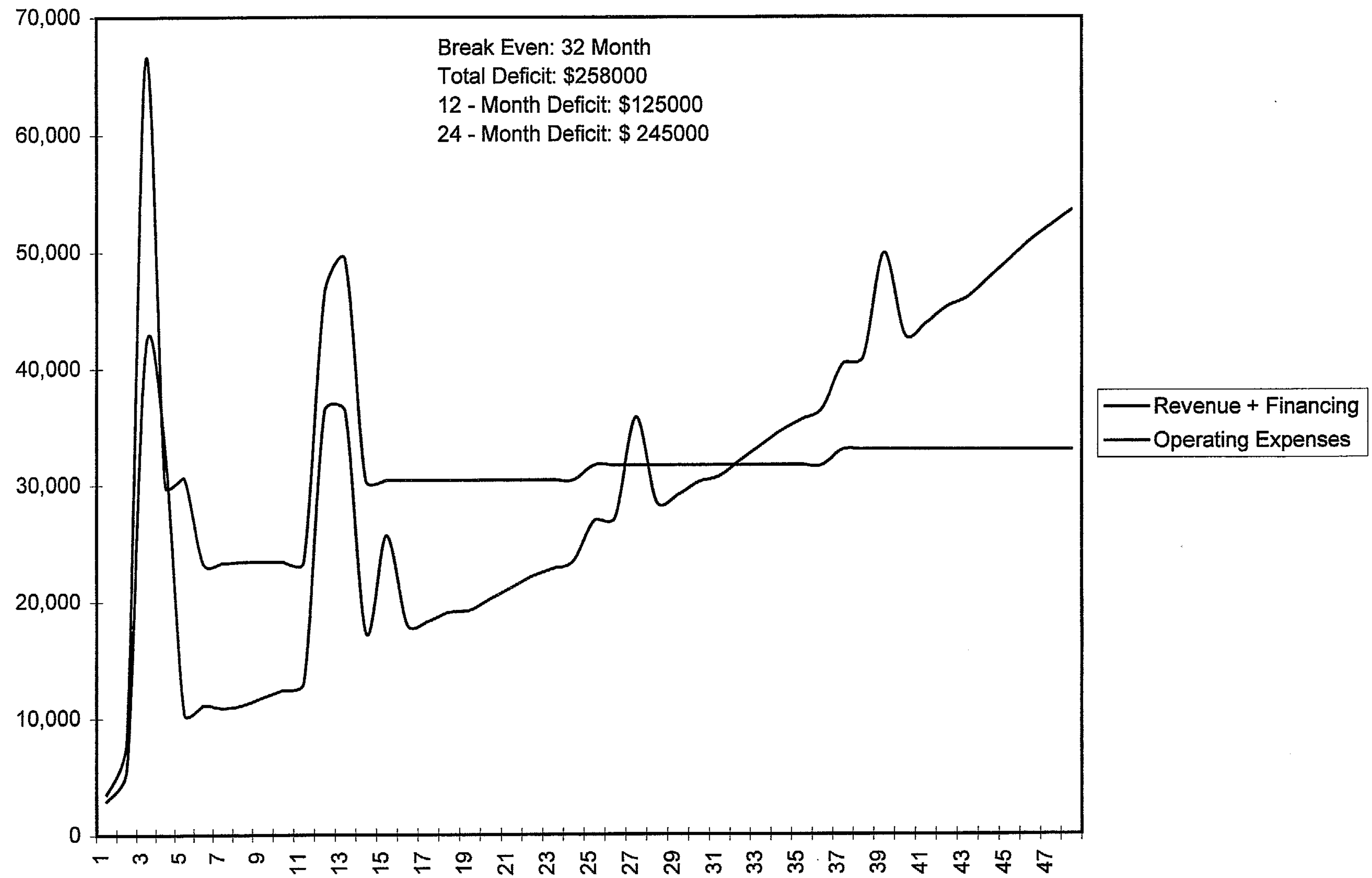
41
43
45
47

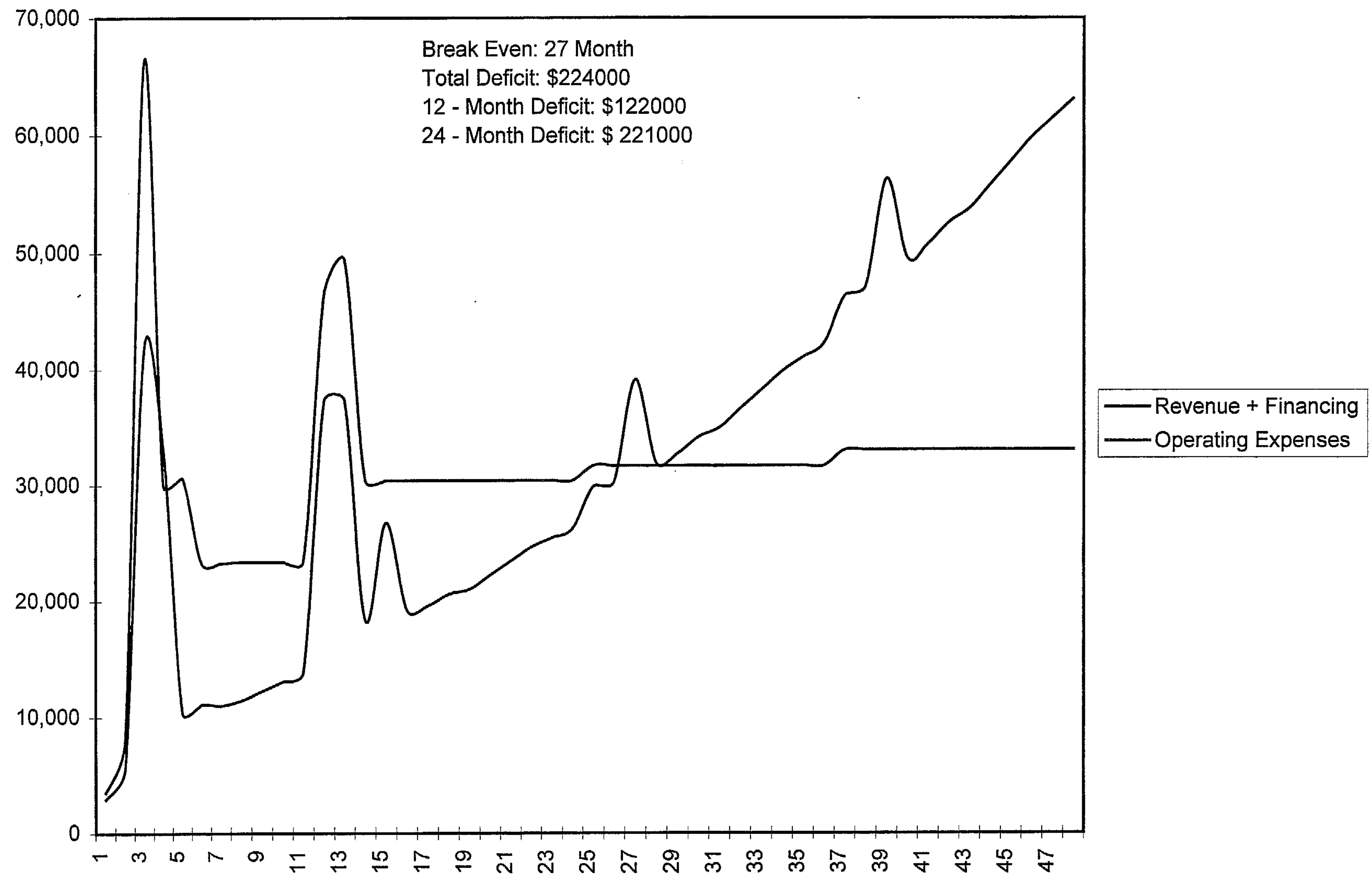
SC.xls

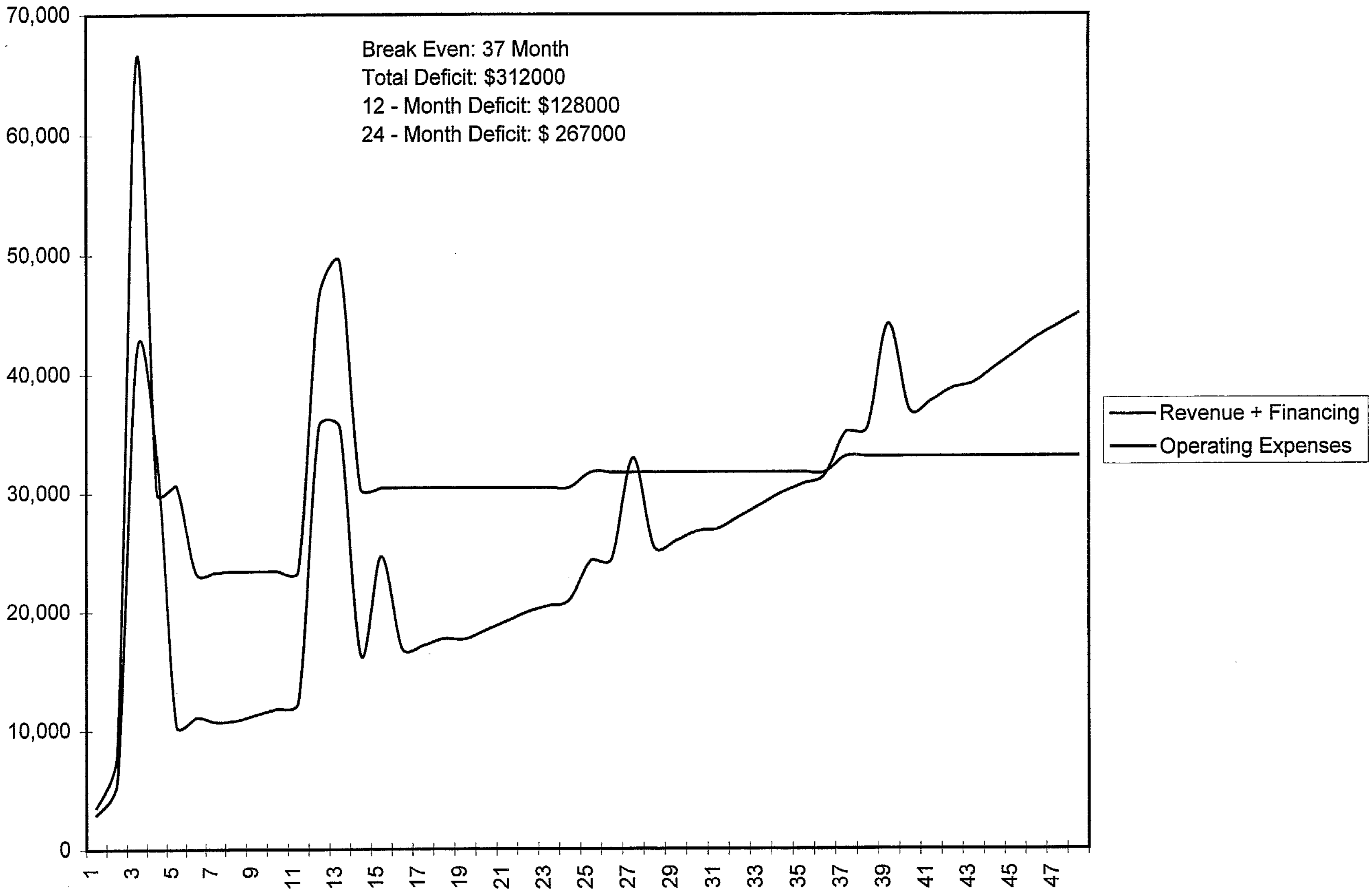


70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Break Even: 32 Month
Total Deficit: $258000
12 - Month Deficit: $125000
24 - Month Deficit: $ 245000
1
3
5
7
9
11
13
15
17
19
21
23
25
27
29
31
33
35
37
39
41
43
45
47
Revenue + Financing
Operating Expenses

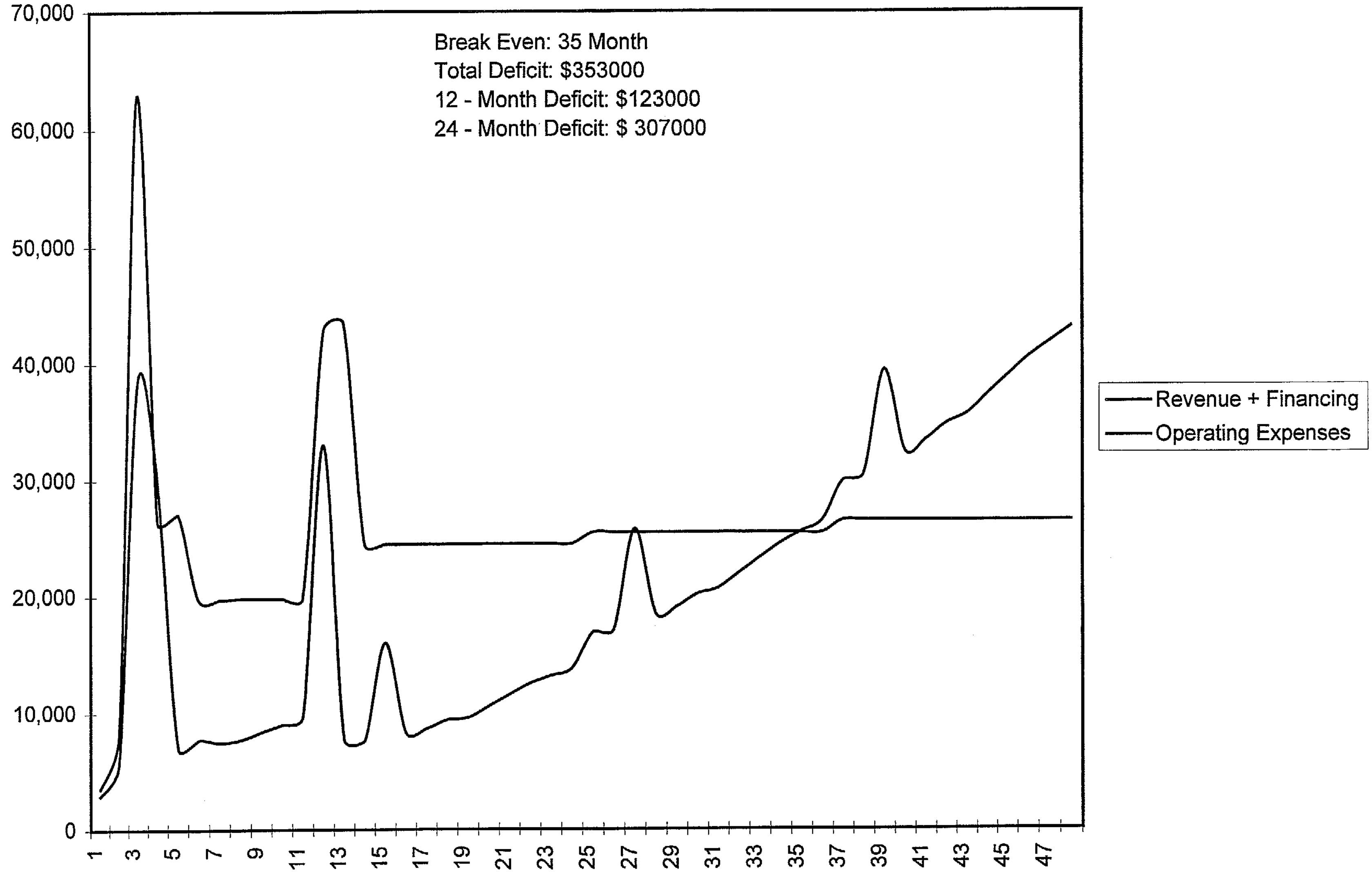
69

S1A.xls


70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Break Even: 27 Month
Total Deficit: $224000
12 - Month Deficit: $122000
24 - Month Deficit: $ 221000
Revenue + Financing
Operating Expenses
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47

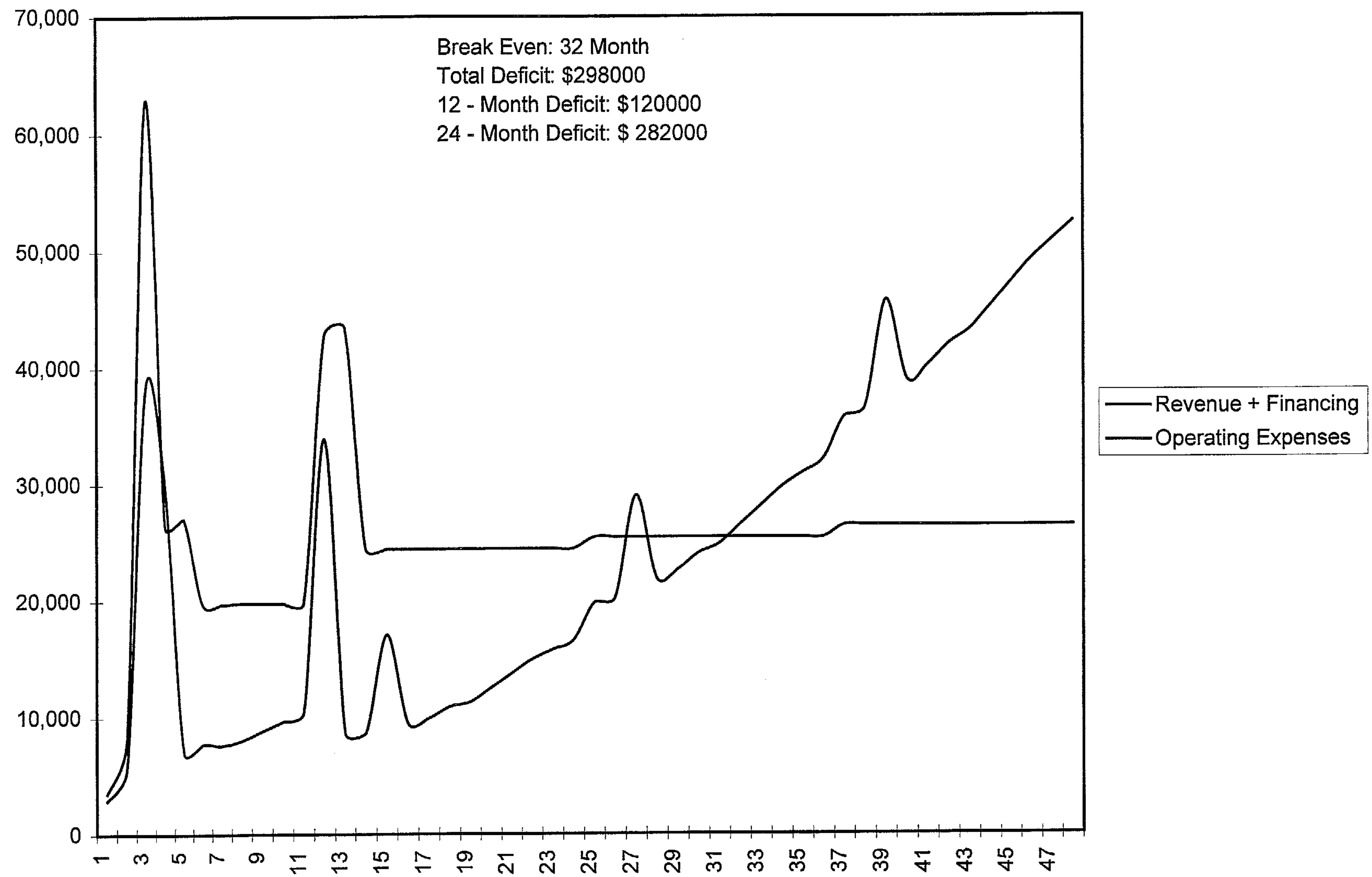

Break Even: 37 Month
Total Deficit: $312000
12 - Month Deficit: $128000
24 - Month Deficit: $ 267000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
19
21
23
25
27
29
31
33
35
37
39
41
43
45
47
Revenue + Financing
Operating Expenses

S1c.xls



Break Even: 35 Month
Total Deficit: $353000
12 - Month Deficit: $123000
24 - Month Deficit: $ 307000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47
Revenue + Financing
Operating Expenses

S2A.xls


Break Even: 32 Month
Total Deficit: $298000
12 - Month Deficit: $120000
24 - Month Deficit: $ 282000
Revenue + Financing
Operating Expenses
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
19
21
23
25
27
29
31
33
35
37
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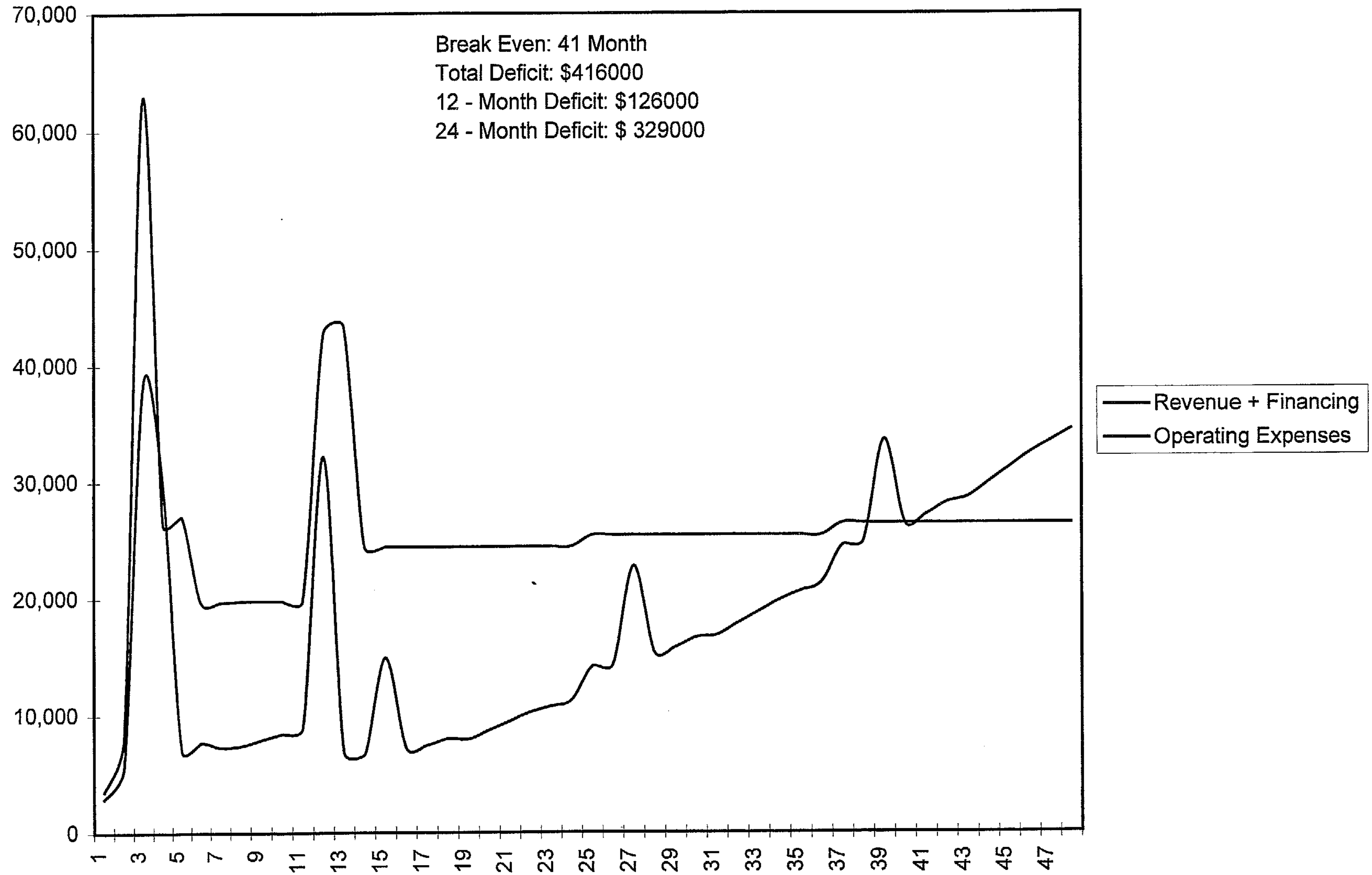
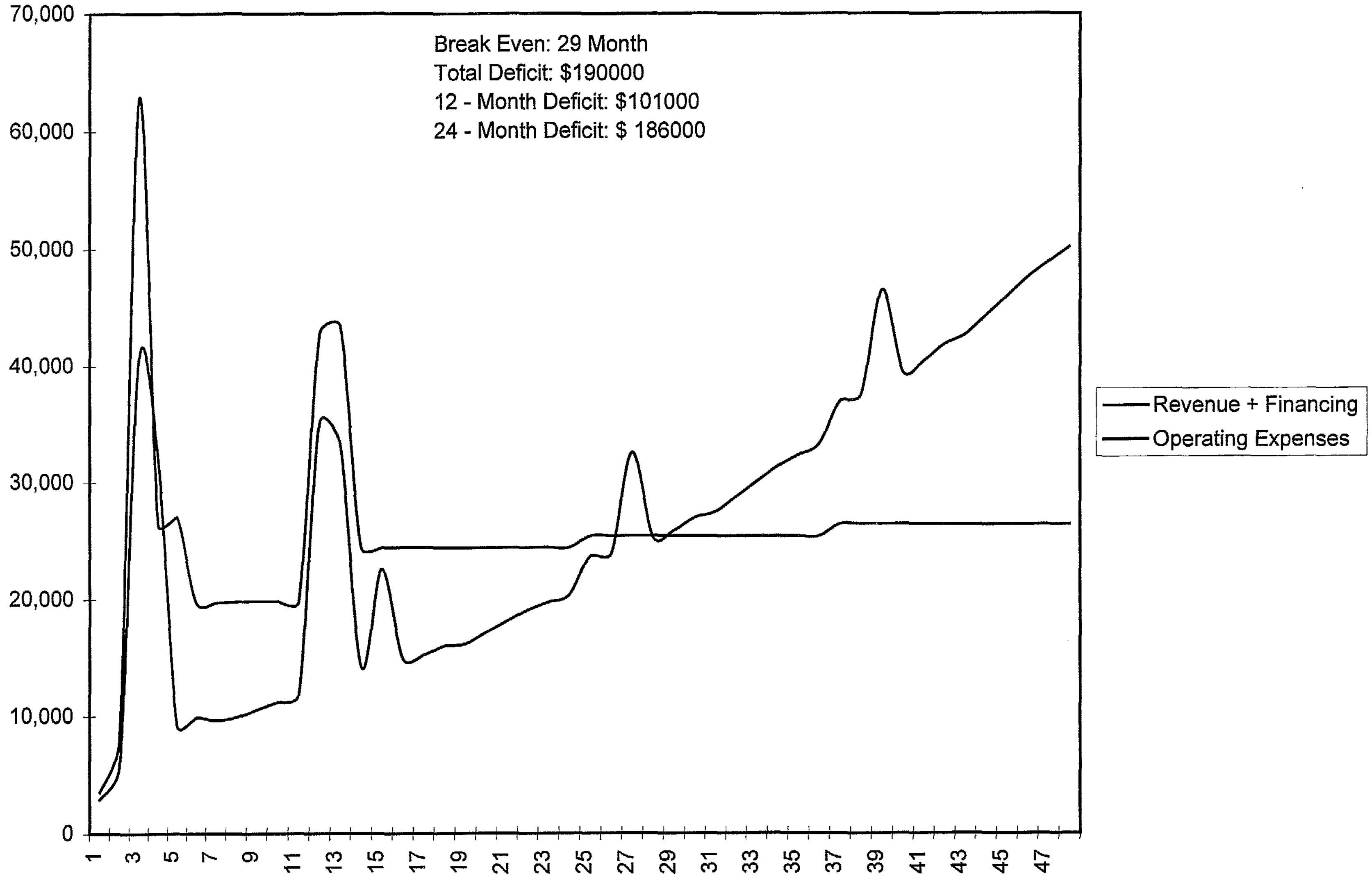
41
43
45
47

S2B.xls



Break Even: 41 Month
Total Deficit: $416000
12 - Month Deficit: $126000
24 - Month Deficit: $ 329000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
19
21
23
25
27
29
31
33
35
37
39
41
43
45
47
Revenue + Financing
Operating Expenses

S2C.xls



Break Even: 29 Month
Total Deficit: $190000
12 - Month Deficit: $101000
24 - Month Deficit: $ 186000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
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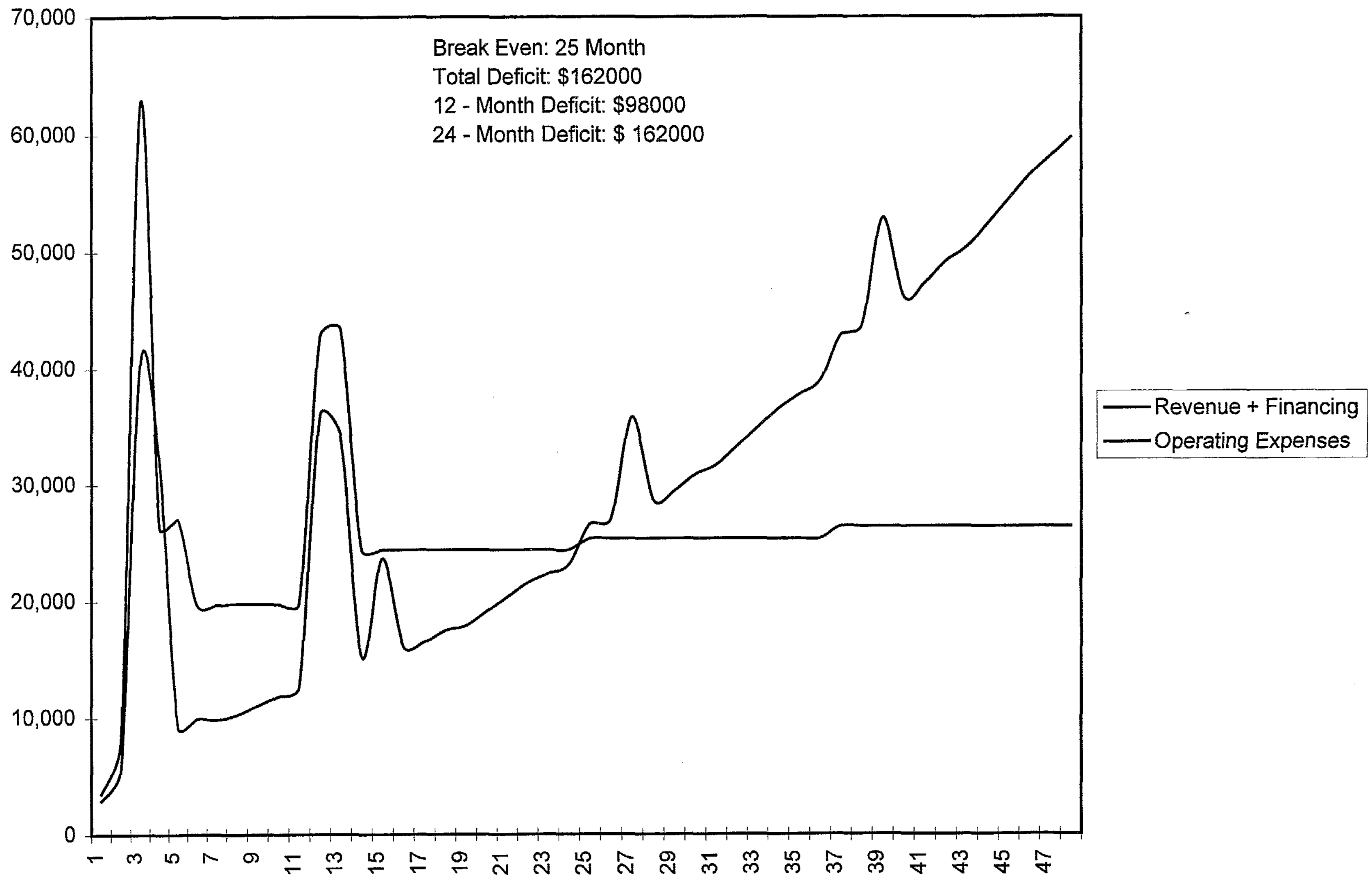
Revenue + Financing
Operating Expenses

S2-1A.xls

69


Break Even: 25 Month
Total Deficit: $162000
12 - Month Deficit: $98000
24 - Month Deficit: $ 162000
70,000
60,000
50,000
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30,000
20,000
10,000
0
1
3
5
7
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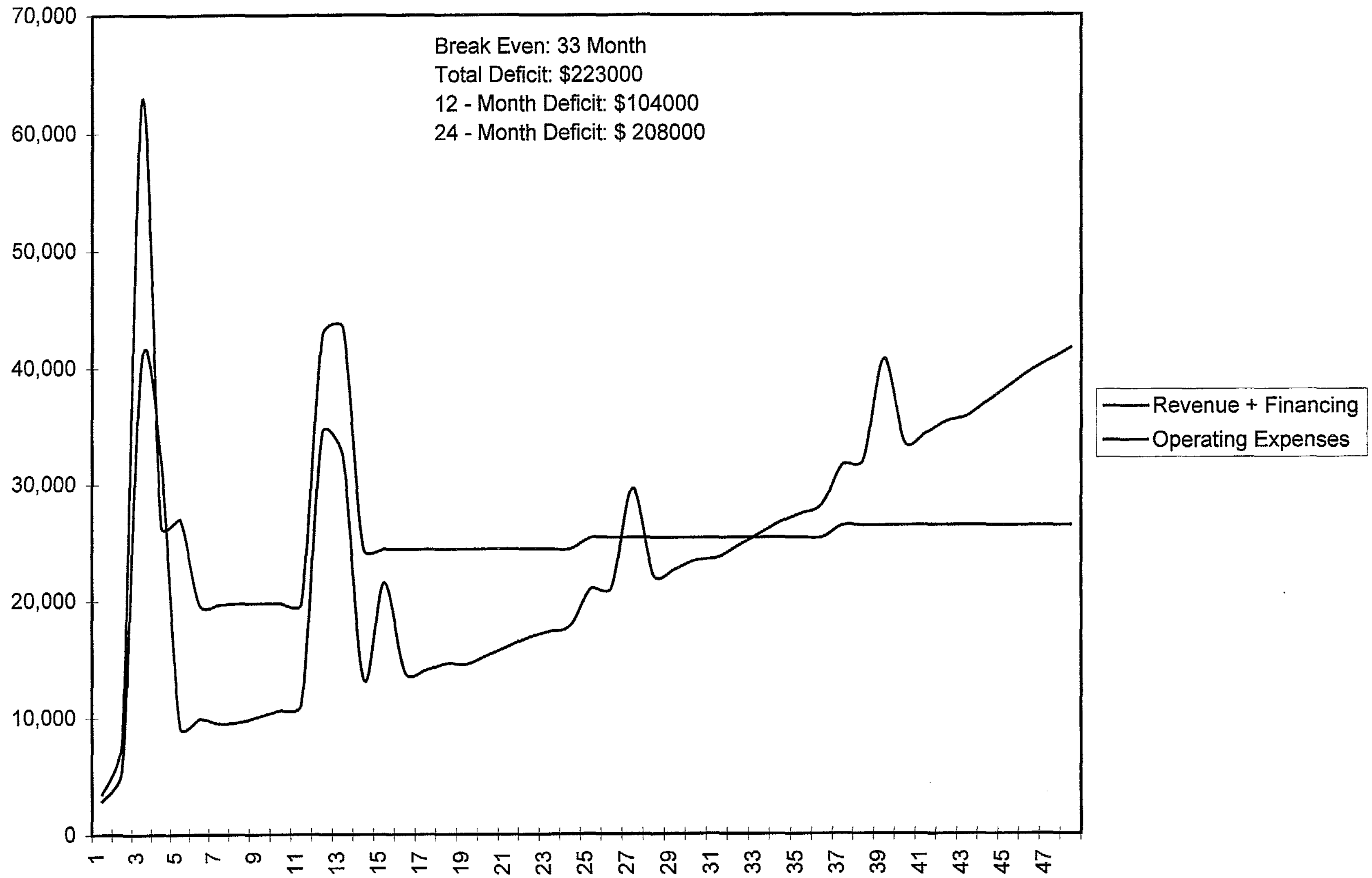
Revenue + Financing
Operating Expenses

S2-1B.xls


Break Even: 33 Month
Total Deficit: $223000
12 - Month Deficit: $104000
24 - Month Deficit: $ 208000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
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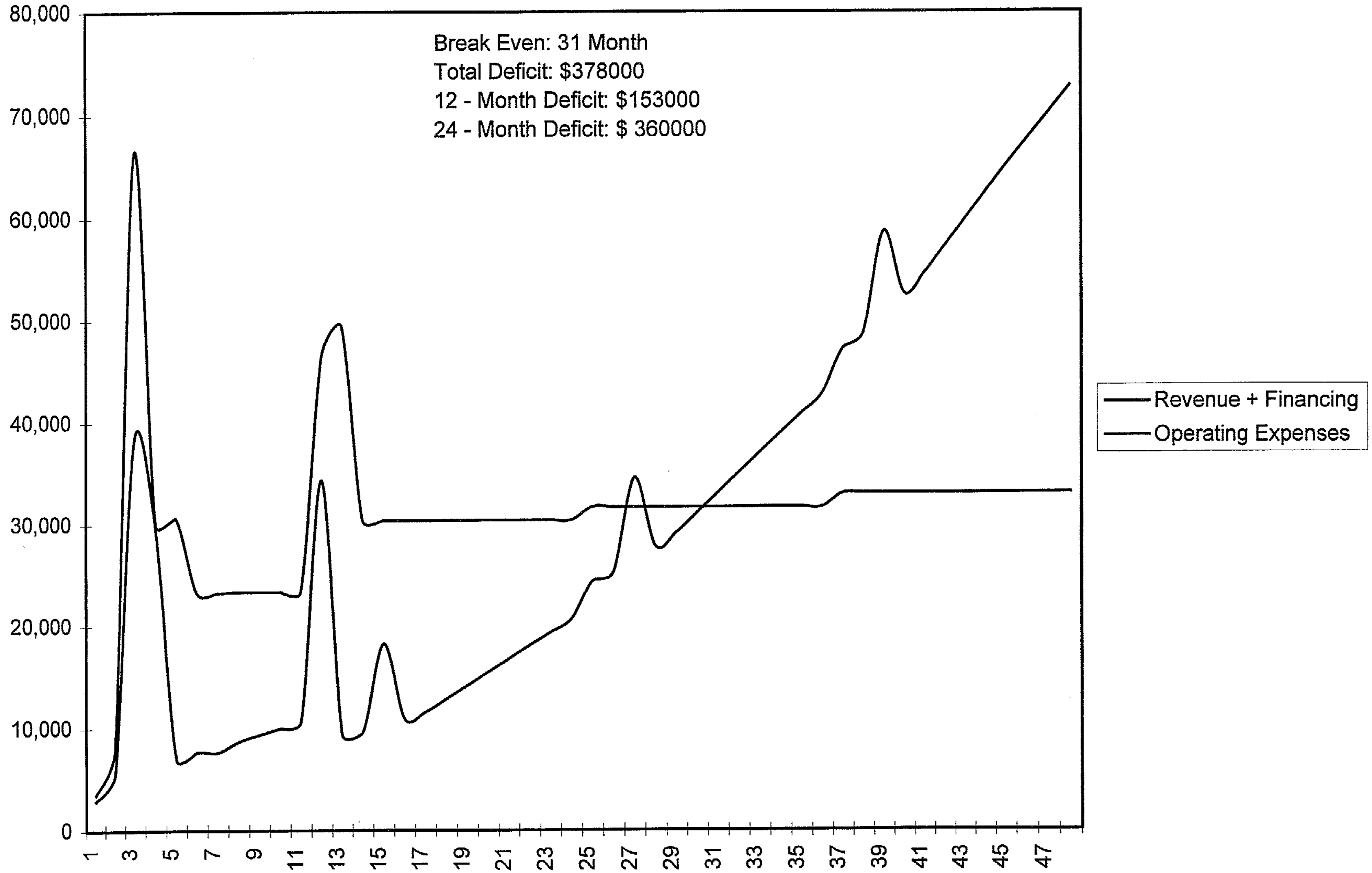
Revenue + Financing
Operating Expenses

S2-1C.xls



Break Even: 31 Month
Total Deficit: $378000
12 - Month Deficit: $153000
24 - Month Deficit: $ 360000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1
3
5
7
9
11
13
15
17
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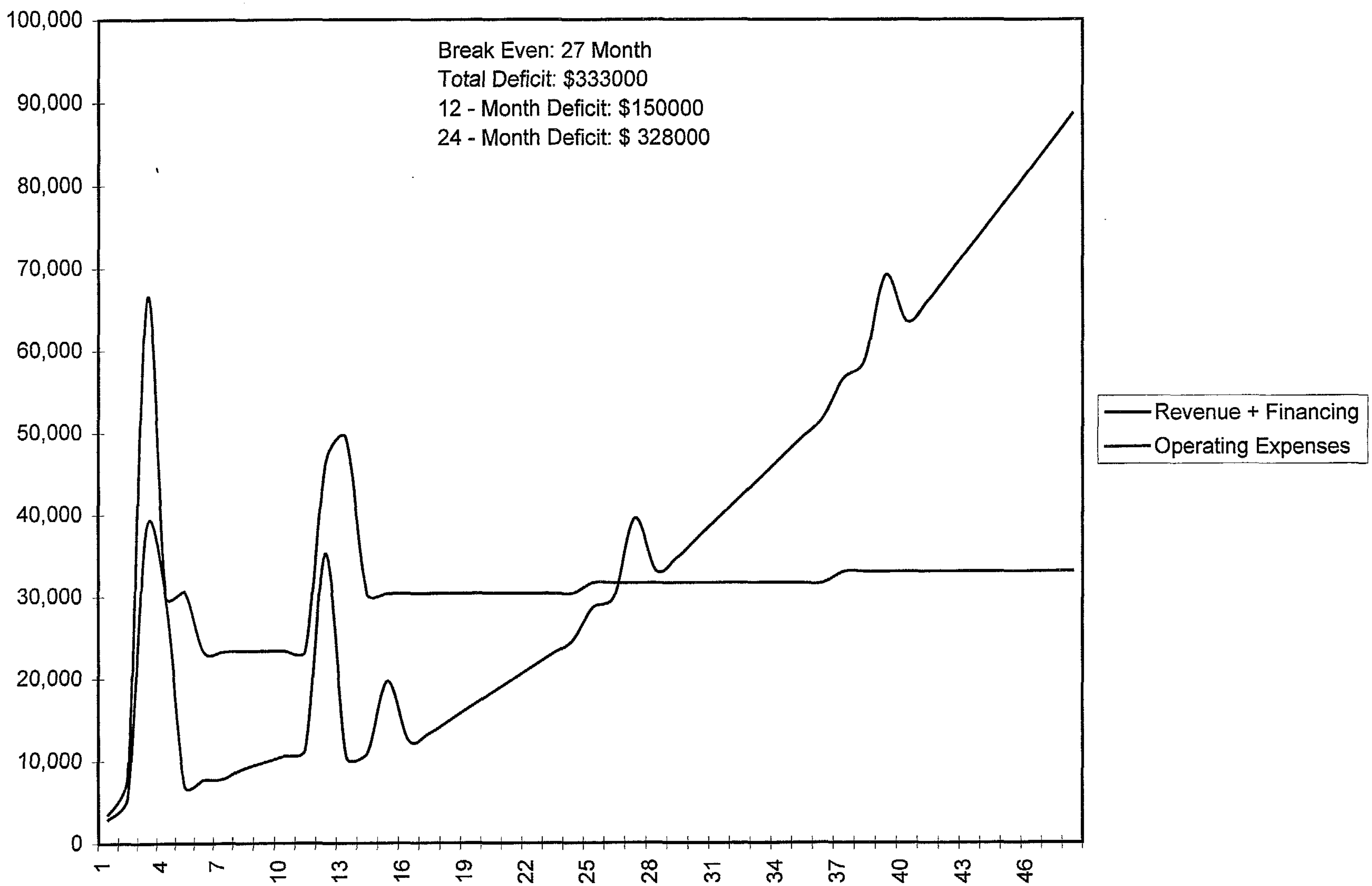
Revenue + Financing
Operating Expenses

S3A.xls


Break Even: 27 Month
Total Deficit: $333000
12 - Month Deficit: $150000
24 - Month Deficit: $ 328000
Revenue + Financing
Operating Expenses
100,000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
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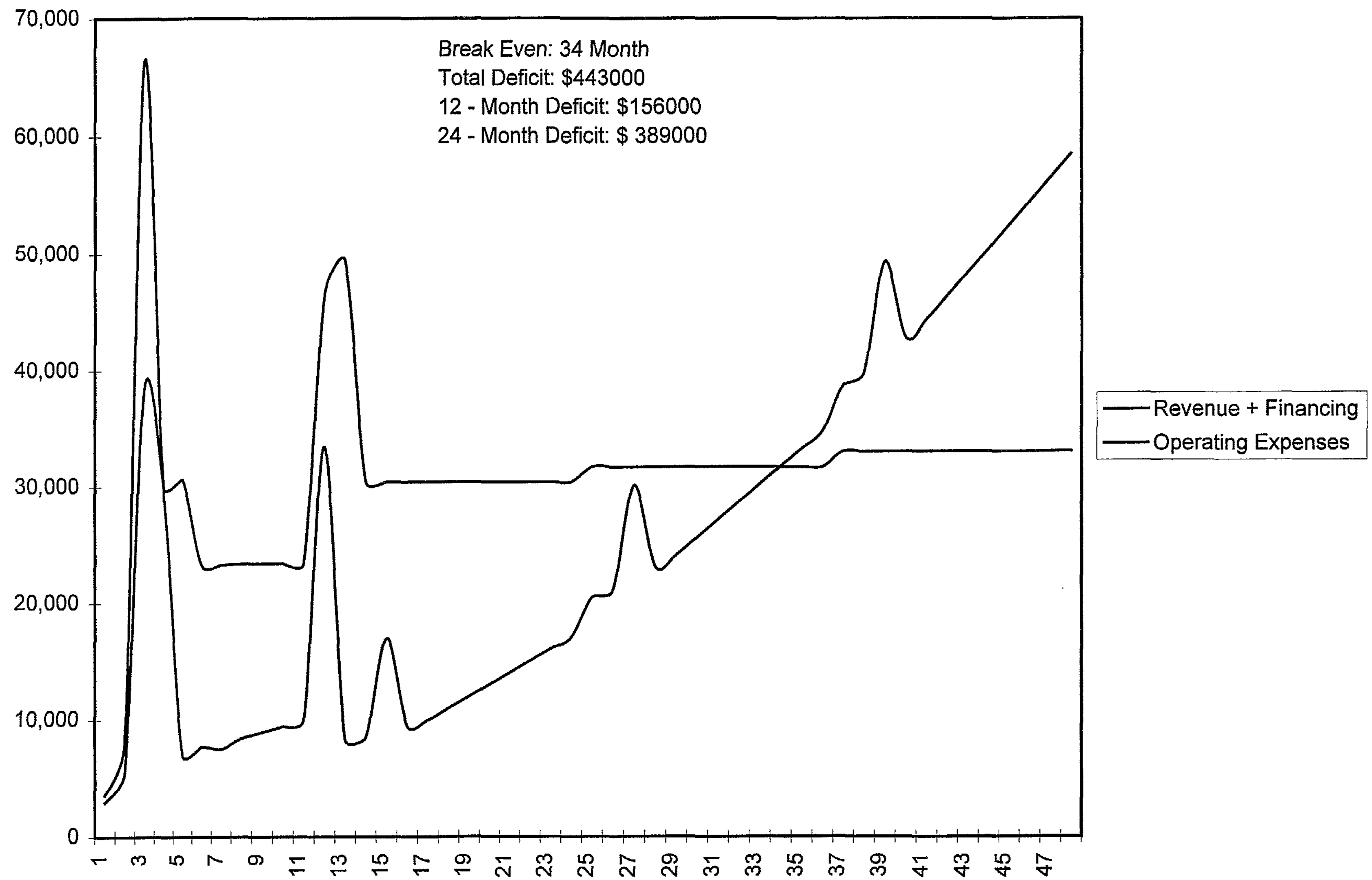
S3B.xls



Break Even: 34 Month
Total Deficit: $443000
12 - Month Deficit: $156000
24 - Month Deficit: $ 389000
Revenue + Financing
Operating Expenses
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
1 3 5 7 9 11 13 15 17 19 21 23 25 27 29 31 33 35 37 39 41 43 45 47

S3C.xls

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Annex B: Draft Regulation for PIFZ Law (4/24/1998 Version), Drafted by Vincent Ruddy, TSG Senior Consultant

(draft regulation for PIFZ Law, 4/24/1998)

CHAPTER 1: DEFINITIONS & GENERAL PROVISIONS

Article 1. Legal Authority of the PIFZ Law and PIFZ Regulations.

(a) This Order will set forth the Implementing Regulations necessary to implement the provisions set forth in the Palestinian Industrial and Free Zone Law (hereafter "PIFZ Law"). These Regulations may be cited as the Palestinian Industrial and Free Zone Regulations, 1998, or also referred to as the "Regulations."

(b) In these Regulations, "PIFZ Law" shall mean Law No. -- of [date] establishing the Palestinian Industrial and Free Zone Regime.

(c) The PIFZ Law and the Regulations contained in this Order shall be the only law, regulations, or legally authoritative measure defining and governing PIFZ entities and the Palestinian PIFZ regime, except as otherwise noted in the PIFZ Law or Regulations.

(d) All applications, certificates and other documents required within the framework of this Order shall be written in both English and Arabic, and all applications, appeals, and other written materials may be submitted to the Palestinian Industrial and Free Zone Authority (PIFZA) in either English or Arabic; however, the original and official Arabic version of the Law and its Regulations shall be the legally binding text.

(e) In these Regulations, "PIFZ entity" or "PIFZ entities" shall refer to all PIFZ Developers, PIFZ Operators, and PIFZ Enterprises.

(f) In these Regulations, the definitions used conform to those cited in Article 1 of the PIFZ Law.

Article 2. Establishment and Nature of the Palestinian Industrial and Free Zone Authority (PIFZA)

(a) PIFZA shall be a non-profit body vested with the powers of a corporation and operated according to commercial principles, its regulatory functions and obligations notwithstanding.

(b) To carry out its functions under the PIFZ Law, the PIFZA is vested with the following powers:

(1) to succeed in its corporate name, to sue and be sued in such corporate name, and to adopt, alter, and use a corporate seal which shall be judicially noticed;

(2) To adopt, amend, and repeal its by-laws;

(3) to enter into, make, perform, and carry out contracts of any kind which are necessary to the realization of its legal purposes with any person, firm, or corporation, public or private;

(4) to exercise oversight functions over the Industrial Zones and Industrial Free Zones established under the auspices of the PIFZ Law and its Regulations; and,

(5) to promulgate all necessary rules and perform any measures necessary to implement the PIFZ regime, provided they are consistent with the actual and implied intent of the PIFZ Law and these Regulations.

(c) The PIFZA shall be legally constituted and organized within thirty (30) days following the adoption of these Regulations as specified in Article (last one).

CHAPTER 2: FUNCTIONS OF THE AUTHORITY

Article 3. Limitation of Personal Liability

In the course of carrying out the functions specified in Article 4 of the PIFZ Law, neither the Board of Directors, nor any of its members or employees of the PIFZA, shall be personally liable for an act which is done or purported to be done in good faith by such person, on the direction of the Authority, or in the performance or intended performance of any duty or exercise of any power under the PIFZ Law or its Regulations.

CHAPTER 3: PIFZA STRUCTURE & ADMINISTRATION

Article 4. Organizational Structure of PIFZA.

The PIFZA shall consist of the following:

(1) a Director General;

(2) a Board of Directors; and,

(3) additional staff as necessary to carry out its functions while satisfying the Authority's mandate to operate on a commercial basis.

Article 5. Selection and Governance of the PIFZA Board of Directors.

(a) In accordance with Article 5 of the PIFZ Act, four (4) of the ten (10) members of the Board of Directors shall represent the private sector. Two (2) of these members shall be representatives of Industrial Free Zone Developers. Prior to the existence of formally approved IFZ Developers, the Minister of Industry shall invite two private sector potential developers with demonstrated interest and capacity to send one representative each to serve on the Board. IFZ Developers, upon receiving official approval as such, shall replace the initial representatives with their own representatives in the order they were appointed, unless they are one and the same, in which case the original membership shall continue. Once there are more than two (2) officially approved IFZ Developers, the two representatives to the Board shall be selected by the IFZ Developers by means of a common vote, with each IFZ Developer entitled to nominate one representative, and vote for two. Elections shall take place one (1) year after the official approval of the third IFZ Developer, and then be held at two year intervals thereafter, or upon the resignation of any standing IFZ Developer representative Board member, whichever comes first.

(b) The other two (2) private sector representatives to the Board of Directors shall be nominated by the Chambers of Commerce and Industry and Unions of Industrialists, as stated in Article 8 of the PIFZ Law. The term of office for these elected private sector members of the Board shall continue to be two (2) years, with no member serving more than two (2) consecutive terms. The Chambers of Commerce and Industry and Unions of Industrialists shall inform the Minister of Industry of the two representatives they have selected at least one (1) week prior to the first PIFZA Board Meeting.

(c) The Board of Directors shall draft and adopt corporate by-laws governing all meetings and rules of procedure of the Board not addressed by the PIFZ Law or its Regulations, including but not limited to internal rules regarding voting procedures, members' absences and resignations, and the compilation and distribution of minutes for each meeting and delineation of agenda items for future meetings.

(d) The Board shall meet as often as its business requires, but it shall meet at least once per month in agreement with the PIFZ law[1].

Article 6. Activities and Responsibilities of the Director General

(a) The Director General shall be appointed by the Board of Directors, and his/her conditions and terms of employment, including remuneration, shall be set by the Board.

(b) The Director General shall be the chief executive of the PIFZA and shall carry out the duties of the Authority in accordance with the overall direction of the Board.

(c) In addition to those activities and responsibilities specified in Article 11 of the PIFZ Law, the Director General shall have the following duties:

(1) provide up-to-date information necessary for the formulation of appropriate decisions by the Board, and to submit for the consideration of the Board such policies or measures as considered necessary to carry out the purposes of the PIFZ Law and its Regulations;

(2) sign agreements and contractual documents on behalf of the PIFZA;

(3) submit a quarterly report to the Board on the activities of the PIFZA and the progress of the Palestinian Industrial and Free Zone program;

(4) open and operate bank accounts in the name of the PIFZA;

(5) represent the PIFZA in all meetings with third parties, whether public or private or domestic or foreign;

(6) delegate part of his powers and functions on a temporary, as-needed basis to the PIFZA staff to serve in his absence; and,

(7) exercise such other powers and functions as may be vested in him by the Board.

(d) In order to ensure the smooth and efficient functioning of PIFZA, to allow it to meet its legal obligations, and to uphold its fundamental character as indicated in Article 2 paragraph (a) of this Regulation, the Board of Directors shall, in agreement with Article 12 of the PIFZ Law, delegate the following functions to the Director General: those specified by the PIFZ Law in Article 10 paragraphs 1, 2, 5, 6 (with the exception of appointing a Director General for the Authority), and 7; and those specified in Article 29 of the PIFZ Law.

[1] Monthly meetings may be required at the beginning of the PIFZA's operations, but such a frequency may not be practical at later stages. It is suggested that subsequent modifications to the law include changes to the specified meeting frequency, using wording that would allow more flexibility and less frequency of meetings.

(e) To call for an extraordinary Board meeting, the Director General must send invitations approved and signed by the Chairman of the Board to all Board Members or their designated representatives no less than one (1) week in advance of the proposed meeting date.

CHAPTER FOUR: FINANCE

Article 7. Sources of Funding.

(a) The funds arising out of the activities of the Authority, referred to in Article 14 paragraph 3 of the PIFZ Law, shall include fees charged to Industrial and Free Zone Developers, Operators, and Enterprises for applications and monthly contributions, as well as any penalties or fines assessed due to infractions of the PIFZ Law as stipulated in Article 46 of the same.

(b) The monthly contributions and application fees shall be assessed at the following rates:

(1) Monthly contributions shall be paid by the Developer or Operator of each IFZ at a rate of US$0.14 per square meter of occupied under-roof space per IFZ Enterprise in the zone per month (US$0.14/sq.m./month). In the case of uncovered or open space owned rented, used, or occupied by tenants for storage or other production related activities, a monthly contribution of $0.07/sq.m./month shall be paid by the Developer or Operator. The minimum assessment from any Developer or Operator per Enterprise shall be US$70/month, regardless of the actual space occupied, and the maximum contribution of each Developer or Operator per Enterprise shall not exceed US$1,400, regardless of the actual under-roof space occupied.[2] The contribution shall be assessed per zone, and the payment shall be made by the Operator or the Developer, as determined by the contractual arrangements between the two parties.

(2) Application fees shall be assessed at the rate of US$10,000 for IFZ Developers and Operators, and US$1000 for IFZ Enterprises.[3] Twenty percent (20%) of the fee must be paid upon submitting applications to PIFZA and shall be non-refundable, while the remaining eighty percent (80%) must be paid upon issuance of approval by PIFZA.

(c) As necessary, the Board of Directors of the PIFZA may periodically revise these fees and charges, provided that such revision does not occur at intervals of less than one (1) year. The domestic currency equivalent of the fees and charges, which will continue to be paid in U.S. dollars, may not increase by more than the local consumer price index for the previous year.[4]

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2 Alternatively, these fees may be assessed in Israeli shekels.

A maximum contribution is established so as not to unfairly discriminate against large firms. Even though a typical IFZ enterprise occupies 1,000 to 3,000 sq.m., a minimum fee is set at US$70/month (equal to the monthly rate multiplied by 500m2), rather than at a higher figure, so as not to penalize smaller IFZ firms. For administrative simplicity, the assessment is applied only to the developer/operator, who then passes on the fee -- to the extent and in whatever form it chooses -- to individual enterprises.

3 Since application fees are a source of up-front funds for the PIFZA, these could be raised further. Application fees for Developers should not exceed US$25,000, however, and the maximum fee for IFZ Enterprises should not exceed US$1000 (Turkey, for example, charges US$5000 per enterprise, which is excessive).

4 If the local annual rate of inflation is 20 percent, it is not desirable to have application fees increase by 20 percent in dollar terms, although the local inflation rate will affect the PIFZA's operating costs. This linkage mechanism will limit the actual increase in dollar terms, while covering the PIFZA's costs; assuming, of course, that the NTS is devalued vis-a-vis the US dollar sufficiently to offset the rate of inflation.

Article 8. Accounts & Controls

(a) For purposes of managing its own budget, PIFZA will have the right to open independent accounts at banks or financial institutions. Such accounts will not be considered to be part of the Palestinian Authority's central budget, although they may hold funds contributed by the same to PIFZA, as contemplated in Article 14 paragraph 1 of the PIFZ Law.

(c) The chartered accountant appointed by the Board of Directors to audit the PIFZA's accounts shall conduct an independent audit within 6 months of the completion of each fiscal year from the beginning of the PIFZA's operations. A report containing a full summary of audit findings shall be delivered to the Chairman and made available to other Board Members as required.

CHAPTER FIVE: ESTABLISHMENT OF INDUSTRIAL ESTATES AND INDUSTRIAL FREE ZONES

Article 9. Designation of Industrial Estates and Industrial Free Zones Proposed by Developers

(a) All parties interested in receiving designation as an IFZ Developer and availing themselves of the benefits and incentives contained in the PIFZ Law must submit a completed IFZ Developer application to the PIFZA. The application shall be made on an application form issued by the PIFZA and shall be accompanied by the correct application fee.

(b) Each IFZ Developer must own, lease, or have an option to purchase or lease all the land within the Proposed Zone Area, and must hold a bona fide contract for such land. In the case of land that is to be leased, the Developer must have access to the land for a minimum of thirty (30) years. The contract for the land, a copy of which must be submitted with the IFZ Developer Application, must be legally enforceable pursuant to the following provisions of the Palestinian legal code:

[applicable provisions to be completed by a Palestinian lawyer.]

(c) A completed IFZ Developer application shall contain the following information and items:

(1) the appropriate fee must be enclosed (see Article 7 paragraph (b) sub paragraph (2)).

(2) adequate identification of the developer, including (for natural persons) copies of national identity card, passport, or other official identification document, or (for corporate entities) identification of key managers (Chairman of the Board, President, Director General).

(3) Identification of shareholders with more than ten (10) percent of the share capital.

(4) Notarized duplicate of the articles of association (for corporations only).

(5) One or more bank reference and credit reference.

(6) List of relevant existing business activities.

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(7) Geographic location, and description of the existing and planned economic activities in that location.

(8) Brief project implementation plan, including a schedule for construction and operationalization of the zone.

(9) Summary of market analysis.

(10)Technical description of the project, including a physical master plan, description of the facilities, buildings, and service roads, planned infrastructure, precise geographic and physical location, and proposed security measures to ensure lawful operation in accordance with the PIFZ law and Regulations.

(11)Statement of needed infrastructure within and adjacent to the zone, and indication of developer's contribution to the same.

(12) A copy of the pre-investment engineering or technical analysis to demonstrate that the site's soil conditions, hydrology, infrastructure availability, vegetation, and area land-use are compatible with the proposed type of zone development[5];

(13)An environmental impact assessment (EIA)[6], including evidence that appropriate devices for environmental management will be installed.

(14)Sources of funds for zone development.

(15)Capital cost estimates, five-year financial plan and proof of financial viability.

(16)a copy of the executed contract, in accordance with subsection (b) above, demonstrating that the Developer has full legal access and authority to the land comprising the proposed IFZ

(17)Notarized signature of the applicant(s), certifying the correctness of figures/data/information and documents furninsed and agreeing to furnish further information as may be required by PIFZA, as well as having read, understood, and agreeing to abide by the law and regulations of the PIFZ program.

(d) Developers which propose to provide, distribute, and/or operate basic services such as power or telecommunications within the IFZ, must demonstrate their capabilities to deliver such services, or must show that they shall be contracting for such services with other competent entities or authorities.

(e) Each applicant shall submit five (5) notarized copies of the Developer's application to the PIFZA, one (1) copy of which must be an original.[7] Upon receiving the five completed copies of the application form, PIFZA staff shall review the application to determine that it is complete.

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[5] This requirement should be added to the Standard Operating Procedure Manual Section 2.1.A.2.

[6] The EIA is not specified in the draft SOP Manual, and should likely be added (Section 2.1.A.2)

[7] It is typical practice for most investment applications (including non-IPZ investments) worldwide to be notarized, including investments made in liberal investment climates such as Singapore and Panama. Under liberal investment regimes, such notarization can be completed in the investor's home country, by the Embassy's legal counsel (or appointed representative if there is no diplomatic representation in that country). (Under less liberal regimes, the investor must travel to the proposed country of investment to receive notarization.) Notarization provides a useful initial legal authorization of a document's authenticity; if, however, it is completely at odds with typical Palestinian legal practice, it can probably be eliminated.

(1) If the application is complete, the PIFZA shall issue within one (1) business day a receipt to the applicant, a copy of which will be sent, along with one of the application copies, to the Chairman of the Authority, in agreement with Article 17 of the PIFZ Law.

(2) If the application is not complete, it shall be returned to the applicant within one (1) business day with a letter specifying missing information or materials. The applicant will then have an opportunity to re-submit the application. If judged to be complete, PIFZA will follow the procedures indicated in (1) above. If judged not to be complete, the application will be formally rejected for consideration by PIFZA. A single appeal of this decision can be made, at his own expense, by the applicant. In such cases, a party mutually agreed upon by PIFZA and the applicant shall review the application and determine whether or not it is complete. If this party deems the application to be complete, PIFZA will follow the procedures indicated in (1) above.

(f) In order to support the decision of the Board on whether to approve or reject complete applications, PIFZA staff, under the direction of the Director General, shall evaluate the same, using objective and transparent criteria and procedures. This evaluation shall be completed within three (3) weeks of the date marked on the official receipt, so that the resulting recommendation can be distributed by the Chairman, along with the application copy he must send, to the Board of Directors, as specified in Article 17 of the PIFZ Law. Application copies shall not be sent or shown to, nor shall they be voted upon by the IFZ Developer representative members of the Board, since these have a vested interest and should be prohibited from participating in any decision or recommendation as per Article 7 of the PIFZ Law.

(g) The Board of Directors shall vote on whether to approve or reject an application at the next regularly scheduled Board meeting that occurs after the application is distributed to Board members, or if this is not possible, at an extraordinary Board meeting which shall be called no later than one (1) month after the Board of Directors receives the application.

(1) if the Board votes to reject the application, PIFZA shall inform the applicant of the reasons for the rejection within one (1) week of the decision, clearly stating the information or modifications that must be adopted, if possible, in order to receive approval. A revised application can then be re-submitted to the Chairman who will then re-distribute it to the Board of Directors so that it can vote on it a second time. This vote shall be considered definitive.

(2) If the Board votes to approve the application, the Chairman shall immediately send its recommendation, along with a copy of the application and any other supporting documentation, to the Council of Ministers.

(h) The Council of Ministers will review the application and recommendation of the PIFZA Board and either approve or disapprove the designation of the associated geographical area as an IFZ within one (1) month of receiving the application and recommendation from the Board, in agreement with Article 18 of the law.

(1) If the Council of Ministers approves the designation, PIFZA shall notify the applicant within five (5) days of the Council's decision. PIFZA shall draft a Concession Contract, which shall refer to the specific Council of Ministers' decision and specify any necessary terms and conditions pursuant to the agreement to develop and/or operate the designated zone. The Concession Contract shall include specific location and activities information as specified in Article 20 of the PIFZ Law.

(2) If the Council of Ministers disapproves the designation, it shall give its reasons, in accordance with Article 18 of the PIFZ Law. PIFZA shall notify the applicant in writing of the disapproval and associated reasons. If the Council indicates that the basis for the reasons cannot be changed by subsequent modifications to the application, then the decision shall be considered final, and no appeal shall be considered. If the Council indicates that subsequent application modifications may alter the basis for reasons causing its disapproval, the applicant may attempt to revise and re-submit the application once and only once, with the procedures indicated in (e) through (h) being followed. The decision of the Council of Ministers with regard to any re-submitted application shall be considered final and no appeal shall be granted.

(i) In order to qualify for and receive the benefits and incentives under the PIFZ law, any party that received a concession contract to develop and/or operate an IFZ prior to the issuance of the PIFZ Law and the present Regulation must submit an application, to be received and processed by PIFZA according to paragraphs (a) through (g) above, inclusively.

Article 10. Designation of Industrial Estates or Industrial Free Zones Proposed by PIFZA.

(a) General Requirements. In order to maximize the market orientation of the PIFZ program and minimize potential conflicts of interest, PIFZA shall require that qualified private developers express interest in developing a given site as an IFZ before PIFZA begins the process of recommending its designation to the Council of Ministers. In the case of private land or land for which the developer has already acquired legal rights through purchase, lease, rental, or other appropriate contract, the completed application submitted by the developer will be considered to demonstrate private developer interest, and the designation procedures specified in the previous Article of the present Regulation will apply. In other cases, particularly those involving publicly-owned land, PIFZA may deem it necessary to initiate the designation process prior to receiving applications from potential developers. In such cases, PIFZA will still require evidence of private developer interest, as well as other minimum requirements before recommending the granting of IFZ status to the Council of Ministers.

(b) Specific Requirements for PIFZA-Initiated IFZ Designation. Before recommending the designation of an IFZ for which no completed application from a potential developer has been received, PIFZA shall require each of the following:

(1) An expression of interest from a minimum of one (1) potentially qualified private developer. Potentially qualified private developers are those which have demonstrated experience in related fields, particularly construction or property development of industrial and commercial projects, and which possess adequate financial capacity by themselves or together with identified partners and/or financial institutions to develop an IFZ.
(2) A pre-feasibility study. Said study shall include assessments of market demand, potential environmental impacts, logistical, financial and technical issues, particularly infrastructure and utility requirements and associated costs and benefits from a public perspective.

(c) Support of PIFZA for Meeting Requirements for PIFZA-initiated designation. PIFZA shall provide, to the extent possible given its budget, and without prejudice to its primary responsibilities of regulating existing IFZs and ensuring their smooth operation, assistance to proponents of IFZs on publicly owned land so that the requirements specified in (b) (1) and (2) of the present Article can be met. In particular, PIFZA will utilize its contacts and experience to attempt to bring potential new sites to the attention of prospective developers. PIFZA may also help identify experts and sources of funds to support the execution of pre-feasibility studies, and share any relevant information it possesses which is not of a confidential nature.

(d) Procedure for PIFZA to recommend the designation of an IFZ for which developer applications have not been received. For potential projects meeting the requirements specified in (b) (1) and (2) of the present Article, PIFZA staff, under the direction of its Director General, shall verify that there is an expression of interest by a legitimate qualified developer and evaluate the pre-feasibility study. The Director General shall issue the results of this verification and evaluation to the PIFZA Board at its next regularly scheduled meeting. The Board shall then vote on whether or not to recommend to the Council of Ministers that it designate the respective site as an IFZ.

(1) If the Board votes to recommend designation, it will immediately forward its recommendation, along with the feasibility study and any other supporting documents, to the Council of Ministers, which will issue its decision within one (1) month. If the Council of Ministers then approves the designation, PIFZA will issue an Order designating the IFZ, referring to the respective approval of the Council of Ministers. If the Council disapproves the designation, PIFZA will inform the respective parties within one (1) week of the decision, providing the reasons given. The decision of the Council of Ministers cannot be appealed.
(2) If the Board votes to not recommend designation or declares that information is insufficient to make a decision, PIFZA will inform the respective parties within one (1) week of the decision, providing the reasons indicated by the Board. In the case that information is insufficient to make a decision, additional information may then be gathered by proponents and re-submitted to PIFZA, at which time the same procedure shall be used to evaluate and vote on possible recommendation.

Article 11. Designation of Special Industrial Free Zones (SIFZs)[8]

(a) General Criteria for Establishing SIFZs. Single factories or company complexes that wish to be designated as SIFZs must meet all requirements which apply to Developers/Operators of IFZs. In addition, they must be Enterprises capable of being classified according to paragraph (a) of Article 20 of the present Regulation.

(b) Criteria for New Enterprises. To qualify for SIFZ status, Enterprises which have not yet been established must meet one or more of the following criteria:

(1) engage in an activity which, for physical reasons related to the industrial production processes involved, is not appropriate to be carried out in close proximity to other enterprises.
(2) Have a need to be close to a raw material whose production or extraction is not feasible within a normal IFZ.

(c) Criteria for Existing Enterprises. In order to qualify for SIFZ status, Enterprises which are already established and operating in Palestinian territory must meet one of the criteria listed in paragraph (b) above, OR posssess production facilities whose transfer to a

[8] Prior draft versions of the law allowed for the creation of SIFZs, but the final version passed by decree in November did not. Due to the fact that many export-oriented firms may not be able to establish or re-locate within normal IFZs, the consultant suggests that such SIFZs be allowed. The required corresponding modifications to the law are described in the fax memorandum from the consultant to the MOI dated April 25, 1998. If the suggested changes are not achieved by the Legislative Council before passing the final version of the Law, it may or may not be advisable to leave this Article in the Regulation, depending on the reasons given by the Council for leaving it out, and other factors.

designated FZ would not be feasible due to difficulties in moving fixed assets or financial costs related to moving. In addition, existing enterprises must comply with both of the following criteria:

(1) have properly discharged their tax, customs and social liabilities at the time of their application;
(2) have attached to their application certificates of non-indebtedness from the Ministry of Finance, Customs, and the Taxation Department. No other certificates of non-indebtedness shall be required.

(d) Application Procedures. For the designation of Special Industrial Free Zones (SIFZs), procedures will be similar to those applying to IFZ developers, except that approval by the Council of Ministers may not be required in certain cases, as indicated in Article (new Article number to be determined). SIFZ Applications will be submitted to PIFZA following the procedures specified in Article 9 paragraphs (a) through (g) inclusive, with the exception of sub-paragraph (2) of the last paragraph.

(1) Fees. Application fees and subsequent monthly contributions will be the same as those specified for Developers/Operators in Article 7 paragraph (b) of the present Regulations.
(2) Complete Applications. Information required in complete applications will be the same as that specified in Article 9 paragraph (c) of the present Regulation. In addition, the applicant must include information on expected numbers of workers, expected volumes of import and export by product and source country/destination, expected frequency of shipments and principle modes of transport. Applicants must also provide a plan showing that the following physical security measures will be met: a solid perimeter wall or fence 3 meters high or more; controlled entrances and exits for persons and goods which are located on same side of wall/fence; and a facility for Customs and security officials located near the same entrance/exit.

(e) Approval Procedures. The procedure for final approval of SIFZ designation will depend on whether the proposed site is already approved by competent authorities for the proposed activities of the Applicant:

(1) For Sites already approved for the proposed activity. If the Board votes to approve the application, PIFZA will notify the applicant within five (5) days. PIFZA shall draft a Concession Contract, which shall specify any necessary terms and conditions pursuant to the agreement to develop and/or operate the designated zone. The Concession Contract shall include specific location and activities information as specified in Article 20 of the PIFZ Law.
(2) For new sites or those not yet approved by the competent authorities for the proposed activity. If the Board votes to approve the application, the procedures will be the same as those specified in paragraph (g) sub-paragraph (2) through paragraph (i) of Article 9 of the present Regulations, inclusive.

Article 12. Duration and Extent of FZ and/or IZ Designation

(a) The designation of an industrial free zone granted to a geographic area of the territory of the West Bank or Gaza shall be valid for a definite period of time, which in the case of a Zone established on a leased land cannot exceed the term of the lease and which shall in no case exceed 49 years.

(b) Notwithstanding the period of this designation, and in accordance with the rules and regulations established in Section 7 regarding violations, fines, and disputes, a developer/operator in certain prescribed cases may lose the right to operate an FZ and/or IZ. In such cases, however, the designation of the FZ and/or IZ, as configured, will remain, although the developer or operator may lose the right to manage the zone.

CHAPTER SIX: DEVELOPMENT OF INDUSTRIAL ESTATE AND/OR INDUSTRIAL FREE ZONES AND THEIR OPERATION

Article 13. Selection of Developers for IFZs whose designation is initiated by PIFZA

(a) After designation by the Council of Ministers of an IFZ on publicly controlled land, PIFZA will proceed to identify and select an appropriate developer, who will be awarded a concession to develop and operate the IFZ.

(b) The standard practice for selecting developers and awarding concessions in such cases will be a public tender, which PIFZA will organize and carry out in such a way so as to promote the widest possible participation of interested parties. The procedure of the tender shall guarantee equal treatment of and opportunities to all interested parties.

(c) In order to comply with the requirement specified in the previous paragraph, PIFZA shall publish an announcement in at least one of the major national newspapers, and clearly specify the terms and conditions of the tender in a bidding document that shall be available to interested parties who request it on or after the published invitation announcement. The bidding document shall include a minimum period for the presentation of offers of at least one (1) calendar month, and shall specify the monetary guarantee required by all bidders, this being fixed by the PIFZA Board.

(d) Interested parties will be able to object to the bidding document for alleged procedural flaws, or if they believe the conditions or specifications contained therein are unfairly prejudiced against them or violate the principle of equal opportunity. In such cases, the interested party must present a duly founded written protest to the PIFZA Board within the first third of the bidding period specified in the bidding document. The Board will immediately undertake to decide on the validity of the protest within the remaining two thirds of the bidding period. In the case that the protest is determined to be valid and amendments to the bidding document are deemed necessary, the amendments shall be communicated to all interested parties and the period for the presentation of offers will be newly initiated from the date of the amendments' publication.

(e) All offers shall comply with the requirements of the bidding document, and shall include duly completed applications supplied by PIFZA for developers/operators and any other specified documents.

(f) The offers will be opened on the date and at the time and place indicated in the bidding document in the presence of the officials designated by PIFZA. Bidders or their representatives shall have the right to attend the opening of bids.

(g) The Board shall proceed to adjudicate within a maximum period of one (1) calendar month of the opening of bids. With respect to the result of the Board's decision, the only allowable recourse shall be the anullment of the tender. Protests shall only be accepted from legitimate bidders accepted by the PIFZA for participation in the tender. To be accepted by PIFZA, protests must be presented in writing within five (5) working days following the announcement of the results of the tender.

(h) Once the tender is completed, the Executive Power shall emit the agreement that will contain the concession of the development and operation of the IFZ, the award of attendant regime benefits afforded to developers/operators under the PIFZ Law, and a copy of the Order which designates the relevant site as an IFZ.

(i) Within three (3) calendar months following the publication of the agreement that awards the concession, the developer/operator shall present himself or a legally authorized representative to the PIFZA to sign a contract which will contain the terms and conditions established in the agreement, and upon signature, shall render a guarantee of good faith compliance that the Board shall have determined and specified in the bidding document. If the contract is not signed within the period specified in this paragraph, the selected developer/operator shall lose the concession.

(j) The selected developer/operator of the IFZ cannot cede or transfer, whether totally or partially, its concession except only in exceptional cases and when the Board authorizes such transfer in writing.

(k) The Board reserves the right to recommend the revocation of a concession in any moment for reasons of public interest, or if there is a demonstrated lack of fulfillment of the obligations contemplated in the PIFZ Law, the Regulation, the respective concession contract or other applicable norms. (The procedure for the revocation of the concession shall be that defined in Article X of this regulation.)

(l) In extraordinary or special cases, the Board may vote to select a developer/operator and award a concession without carrying out a public tender. The Board will only grant concessions in this fashion when it is in the public interest to do so, and when carrying out a tender process is judged to be inappropriate and incompatible with strategic interests of the government.

Article 14. The Concession Contract

(a) The Concession Contract shall be the official document which grants a developer the right to develop and operate an IFZ on land designated as such. It shall refer to the specific decision of the Council of Ministers' provided such decision has been made in favor of granting IFZ status to the respective geographic territory. It shall also specify any necessary terms and conditions pursuant to the agreement to develop and/or operate the designated zone, the fulfillment of which shall be considered essential for the concession contract to be valid.

(b) After a developer/operator has been approved and the respective land designated as an IFZ, PIFZA will draft the Concession Contract within one (1) calendar month. The concession contract must be signed by the PIFZA Board Chairman, the PIFZA Director General, and the duly authorized representative of the developer/operator within three months of the developer/operator's approval of the latter. If it is not signed within this time due to the fault of the developer/operator, the concession will be cancelled and the status of the developer/operator's application will be changed to "disapproved".

Article 15. Start-Up Deadlines for Developers/Operators

(a) An IFZ Developer/Operator is required to make its zone operational within three (3) years from the date of signing the Concession Contract. An IFZ is determined to be operational if the initial phase of site development has proceeded to the point where it can host authorized enterprises. It is not necessary that the zone have any tenants in order to be classified operational.

(b) Extension of the Deadline to Commence Operation. In certain cases, developers who have failed to make their zone operational at the end of the three year period may be granted an extension. Only a single one (1) year extension may be granted for the following reasons:

(1) failure to develop owing to conditions equivalent to *force majeure*, including war, natural disasters, or civil unrest which make it impossible for work to proceed;

(2) failure to develop owing to the failure of a public utility to meet its obligations to in providing an agreed-upon level of infrastructure or service; or,

(3) failure to develop owing to normal business delays such as loss of markets, difficulty in obtaining financing, etc.

(c) An exception will be made, however, for developers using publicly owned land. In this case, the developer may be held to the development deadline stated in the land lease or concession contract, which may be shorter than three (3) years, and no extension will be granted, or will be granted only in accordance with the terms contained in the land lease or concession contract.

(d) Procedures to Request Extension of a Deadline. If a developer wishes to request an extension of a deadline to make a zone operational, the developer must submit a written request to PIFZA. This request must state the reason(s) why the zone is not yet operational and specify when it will be operational. PIFZA will review the agreed deadlines and request for extension within thirty (30) calendar days of its receipt. If no decision is made within the thirty days following the date of submission, the request for extension is automatically granted.

(e) Notification of Deadline Extension. If the request is granted, PIFZA will draw up an amendment to the Concession Contract for the FZ and/or IZ developer/operator. PIFZA will then amend the Concession Contract accordingly.

(e) Failure to Meet Deadline. If no site development has been initiated at the end of the three (3) year period from the date of the Concession Contract, or if the request for extension of a deadline is refused, PIFZA shall declare the Concession Contract null and void. At this time, the developer will be liable for payment of all duties and taxes exempted under the assumption of developer/operator status. A letter shall be sent to the developer informing him that the Concession Contract has been canceled and the developer no longer qualifies to receive the benefits of the PIFZ program. PIFZA shall notify all other relevant authorities, including customs officials in charge of FZ operations and the Ministry of Finance's Tax Department.

(f) Appeals and New Applications. Any developer who has failed to become operational at the end of the four (4) year period (three years plus a one year extension) may not appeal the revocation of the developer's Concession Contract. A developer may, however, submit a new application seeking FZ and/or IZ designation.

Article 16. Transferring Concession Contract

(a) For IFZs developed only on privately held land, a Developer may sell his interests and rights in the IFZ to another private entity. The proposed purchaser of the IFZ shall complete a Developer/Operator Application form demonstrating that he satisfies the requisite criteria needed to qualify as a IFZ Developer/Operator. The required information to be submitted in this form by the purchaser shall be identical to the required information submitted by the original Developer of the zone, as specified in Article 9(c) above.

(b) This application shall be submitted to the PIFZA, accompanied by the appropriate application fee.

(c) If the proposed purchaser intends to develop and operate the zone in accordance with the feasibility study and other information originally submitted by the Developer in his application for IFZ Developer designation, the proposed purchaser must simply submit a copy of this original application and a notarized statement indicating this intent. If the new Developer intends to alter the development plans for the IFZ in any fashion, these changes must be specified on the applicable portions of the Developer application.

(d) Approval of the application by the PIFZA shall be automatic if:

(1) the proposed purchaser satisfies the evaluation criteria referred to in Article 9(c) above, with the exception that the new Developer must have access to financing needed only to complete any remaining development of the zone, rather than the total project's cost, if investment and development has already been initiated;

(2) a criminal check does not reveal that the new Developer/Operator has been convicted of a serious offence under the laws of the Palestinian Authority.

(e) The application review and rehearing procedures to be followed by the PIFZA for the resale of an IFZ to another Developer shall be the same as those used for the review of Developer applications as outlined in Article 9 (a)-(g) above, with the exception of the procedures related to formal designation of the land area as an IFZ, since this will have already been accomplished as part of the previous developer's approval process, and will still be considered valid for the period stipulated in the original Concession Contract, unless otherwise modified.

(f) If the application of the new Developer/Operator is granted, PIFZA will draw up an amendment to the Concession Contract specifying the transfer of interests, rights, and responsibilities to the respective party. The amendment must be signed by the original signers of the Concession Contract and by the new Developer/Operator. The originally specified development deadlines will still apply, however, and the new developer will only be able to request an extension if no other developer for the same IFZ has requested one before. Other than this, the rules and procedures governing extension requests shall be the same as specified in the previous Article of this Regulation.

(g) Amendments and Transfers, of Concession Contracts for IFZs on Public Land. As indicated in Article 25 of the PIFZ Law, for IFZs developed on public land, it shall be prohibited to amend the Concession Contract or assign it to a third party without the approval of the Board of Directors. If the Concession Contract contains prohibitions on assignation to third parties, requests for transfer to third parties will automatically be rejected.

Article 17. Operator's Permit.

(a) Each zone is required to have an operator's permit prior to initiation of operation as an IFZ.

(b) Operator's Permit for Developers/Operators. If the developer is to be the operator of the zone, he must request the permit from PIFZA, who will inspect the facility to ensure compliance with the Law, the Regulation, the terms and conditions of the Concession Contract, and any other relevant standards or norms.

(1) If this inspection proves satisfactory, PIFZA shall issue an Operator's Permit within one (1) calendar week.
(2) If this inspection reveals non compliance or other problems, PIFZA shall in writing notify the Developer/Operator to this effect, specifying the problems and

required remedial measure to achieve compliance. The Developer/Operator may then appeal, and PIFZA and the applicant will consult a mutually agreed upon third party. The third party opinion will be forwarded to the PIFZA Board of Directors, who will make a final vote within thirty (30) days of receiving the third party's decision.

(c) For Operators Who Are Not Developers. If the management of the zone is to be contracted out by the developer to another party, a separate application must be completed by the proposed operator, in agreement with a format specified by PIFZA[9]. To be complete, the application must be accompanied by a certified copy of the sub-contract signed with the developer of the IFZ concerned. PIFZA shall issue a receipt within 24 hours upon receiving a complete application. PIFZA shall evaluate the application within one (1) calendar month, using transparent and objective criteria and procedures similar to those used for developer/operator applications, but without necessarily requiring capacity to develop the IFZ. If the application is deemed by PIFZA to be acceptable and if all terms and conditions specified in the Concession Contract are being honored, the proposed operator is to be issued an operator's permit by the end of this one (1) calendar month time period. If there is a problem with the application, PIFZA shall send a written notice citing the deficiencies to the applicant within ten (10) days of the application's receipt. After receiving the revised application, PIFZA has twenty (20) days to reject the application. If a decision is not made within 20 days, the application is automatically approved.

If the revised application remains unacceptable, a rejection letter shall be sent from PIFZA to the applicant. The applicant may then appeal, and PIFZA and the applicant will consult a mutually agreed upon third party. The third party opinion will be forwarded to the PIFZA Board of Directors, who will make a final vote within thirty (30) days of receiving the third party's decision.

Article 17. Adoption of Internal Rules and Procedure.

(a) Each IFZ Developer or Operator shall adopt internal rules and procedures to govern activities within the IFZ. These rules shall ensure compliance by IFZ Enterprises with the customs, security, environmental, and any other requirements stated in these Regulations or in the PIFZ Law.

(b) It shall be the Developer's or Operator's responsibility to ensure compliance with these internal rules and procedures. Verification of their existence and adequacy will be part of the inspection process referred to in Article 17.

Article 18. Entry/Exit Procedures.

(a) Access to an IFZ by any party shall be subject to presentation of a pass or identity badge.

(b) All persons entering a IFZ shall wear a visible piece of identification at all times. The color, content, and shape of this identification will vary among three types of users in order to allow easy differentiation by security forces. These three types of users are: permanent users, defined as personnel, working regularly within the zone; temporary users, such as repairmen or short-term employees; and visitors.

(c) Permanent users will retain a badge for use at all times when entering or working in a zone. This badge will be surrendered to IFZ security personnel upon a permanent worker's termination of employment.

[9] This application form should be developed based on the developer/operator application, extracting those elements related exclusively to development and not operation.

(d) Temporary users and visitors shall wear a numbered badge provided by IFZ security personnel at the entrance to the zone. Such badges must be returned to the security services when exiting the zone.

Article 17. External Maintenance Requirements.

(a) All IFZ Developers and Operators are expected to maintain the appearance of buildings, to see that all trash and refuse is regularly collected and disposed of, and to conduct and maintain routine landscaping.

(b) Each IFZ Developer or Operator must demonstrate, either in the internal rules and regulations, or in covenants contained in the leases to be signed by each tenant, that regulations and responsibilities have been established regarding external maintenance requirements. These requirements shall state zone rules regarding, *inter alia*, the types of permissible signs, maintenance requirements and responsibilities, building requirements; permissible architectural features and construction materials, policies regarding painting and other upkeep, and trash collection and disposal.

Article 19. Physical Security and Construction Requirements.

(a) In order to guarantee the safety of persons and goods, each IFZ must be constructed to satisfy the following requirements:

> (1) A barrier at least three (3) meters high shall be built around the entire perimeter of the Free Zone portion of the IFZ, or around the entire IFZ if there is no physical segregation of free zone and industrial zone enterprises, as classified in Article 20 of the present Regulation. This barrier may be composed of either metal fencing or masonry construction.[10]
>
> (2) Clear distinctions between entrances and exits for persons and goods shall be reflected in the design of the IFZ, which shall ensure adequate control and ability to guard against unauthorized entry/exit and the smuggling of goods[11].
>
> (3) The offices provided for customs and security shall be located within, and at the entrance of, the zone in order to facilitate the inspection of in-coming and out-going persons and goods.
>
> (4) All industrial and office buildings shall be constructed at least five (5) meters from the barrier.

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[10] Requirements worldwide vary: typically, such fences or walls are masonry or chain link, or some combination of the two, and regulations often specify a certain type of barrier; in a few cases, two barriers are required. Masonry is often more attractive (important for higher scale zones), and is preferred in some countries because it is less penetrable; it is also more expensive. This can be left to the developer's discretion, unless current practice in Palestine (for security or other reasons) dictates that the barrier be a specific type of material.

[11] In the regulations of many countries' EPZs, requiring the entry and exit for goods and people to be on the same segment of the wall or fence is common (the draft SOP Manual for PIFZA included this specification). However, upon subsequent review of the particular configuration of the GIE, a more flexible requirement was deemed necessary and included in this text. Modification to the draft SOP Manual should be made accordingly.

(5) Entrances and roads within the zone shall be built in such a way as to facilitate the movement of vehicles, machines, persons, and customs and security forces.

(6) Adequate lighting, which must be operational at all times, shall be installed on a permanent basis throughout the zone and must illuminate the barrier surrounding the perimeter of the zone.

(b)Access into a IFZ shall be controlled by the IFZ security forces, as arranged by the IFZ Developer or Operator, in coordination with PIFZA and relevant security and Customs agents assigned to that zone.

(note: possible article here to deal with reporting requirements of operators.)

CHAPTER SEVEN: OPERATIONS WITHIN INDUSTRIAL FREE ZONES

Article 20. Classification of Enterprises[12]

The companies that locate and operate in IFZs shall be classified in the following manner:

(a) Free Zone Manufacturing Enterprises, which produce, process or assemble goods for export or re-export. Free Zone Manufacturing Enterprises export or re-export at least eighty percent (80%) of their total production, as calculated on a value basis.

(b) Free Zone Commercial Enterprises, which do not produce, but simply receive, store, manipulate, re-pack or re-distribute goods for export or re-export. Free Zone Commercial Enterprises export or re-export at least eighty percent (80%) of their total commercial sales, as measured on a value basis.

(c) Free Zone Service Enterprises, which provide services to other Free Zone Enterprises or to individuals or firms located outside the local market. Free Zone Service Enterprises must receive at least eighty percent (80%) of their income from services sold to Free Zone Enterprises or firms outside the local market.

(d) Industrial and Free Zone Developers and Operators, which shall develop and/or operate IFZs. Industrial and Free Zone Developers must have had their submitted applications approved by PIFZA and possess a valid concession contract in order to qualify for any benefits or incentives afforded by the PIFZ Law and Regulation. Once an IFZ is operational, the Industrial and Free Zone Developer and/or Operator must possess a valid Operator's Permit in order to qualify for any benefits or incentives.

(e) Industrial Zone Enterprises, which shall be all enterprises located and operating within IFZs other than those indicated in paragraphs (a), (b), (c), and (d) above.

The companies classified according to the descriptions under paragraphs (a), (b), (c), and (e) above shall be referred to generally as IFZ Enterprises.

[12] The consultant has suggested that this Article be incorporated into the revised final version of the law currently being considered by the Legislative Council. If this is done, then it may not be necessary to repeat it here—all associated references to this Article in the remainder of the Regulation would then be changed so as to refer to the Article in the revised Law, instead of the "present Regulation".

Article 21. Industrial Free Zone Certificates.

(a) All IFZ Enterprises must possess a valid Industrial Free Zone Certificate in order to operate within an IFZ and to qualify for any applicable benefits or incentives afforded by the PIFZ Law and Regulation.

(b) Industrial Free Zone Certificates shall be issued to IFZ Enterprises only after PIFZA receives and approves a completed application. The Industrial Free Zone Certificate shall clearly specify the classification of the Enterprise as approved by PIFZA per Article 20 of the present Regulation. It will also specify the type of activity that the IFZ Enterprise will be permitted to undertake.

(c) Validity of the IFZ Certificate. The validity of the Industrial Free Zone Certificate will be contingent on the IFZ Enterprise's upholding of all relevant provisions of the PIFZ Law and Regulation, and other applicable norms.

Article 22. Procedure for Authorizing IFZ Enterprises and Issuing Industrial Free Zone Certificates.

(a) Applications. Any company seeking authorization to operate as an IFZ Enterprise must complete an application whose format and content will be provided by PIFZA. A complete application must contain the following:

(1) The appropriate fee, as specified in Article 7 paragraph (b) (2) of the present Regulation.
(2) Adequate identification, including all shareholders with more than ten percent (10%) of the share capital.
(3) Notarized duplicate of the articles of association (for corporations only)
(4) One or more bank references
(5) List of relevant business activities
(6) Project description, including proposed economic activities, geographic location, and schedule for construction and operationalization of the IFZ Enterprise
(7) Description of estimated volume and types of materials that will be imported and exported by the IFZ Enterprise and principle modes of transport & associated containers or enclosures[13]
(8) Environmental impact statement
(9) Projected level of investment and sources of funds.
(10) Estimate of proposed number of workers, both Palestinian and foreign, according to unskilled, skilled, and professional categories.
(11) Notarized signature(s) of the applicant(s), certifying the correctness of the figures/data/information and documents furnished and agreed to be furnished as may be required by PIFZA, as well as having read, understood, and agreeing to abide by the PIFZ Law and Regulations.

(b) Submission and Receipt of Applications. After the prospective IFZ Enterprise submits an application, PIFZA shall notify the applicant within twenty four hours as to whether or not the application is considered to be complete.

(1) If PIFZA decides the application is complete, it shall issue a receipt to the applicant within the same twenty four (24) hour period.

[13] This specification was not included in the Draft SOP Manual. However, due to the need to prepare inspection systems and equipment for goods handling, security and customs control, it may be advisable to include this information in the application. The SOP manual and application forms should be adjusted accordingly.

(2) If the application is not complete, PIFZA shall return it to the applicant within the same twenty four (24) hour period, specifing in writing any needed additions. The applicant may then re-submit the application with the needed additions. If PIFZA still deems it to be incomplete, the application will be rejected.

(c) Evaluation of the Application. In agreement with Article 6 paragraph (d) of the present Regulations, PIFZA's Director General will be authorized to receive and evaluate applications for IFZ Enterprises on behalf of the Board. The evaluation must be completed and its results communicated to the applicant within two (2) weeks of the date marked on the receipt for the completed application. The evaluation shall be structured such that completed applications are automatically approved <u>unless</u> one of the following negative criteria apply:

(1) The enterprise would have a seriously deleterious effect on the environment. This will be determined through an environmental classification and application assessment procedure, which shall be developed and implemented by PIFZA in coordination with the Palestinian Environmental Authority.
(2) For firms seeking certification according to the classifications indicated in Article 20 paragraphs (a), (b), and (c), evidence that the enterprise will not meet the criteria associated with the respective classifications.
(3) The enterprise would have a deleterious impact on the security of the country. The following types of enterprises are not to be granted IFZ Certificates: firms dealing with firearms, ammunition and other forms of warfare; firms producing or handling drugs, toxic or hazardous material prohibited by the laws in force in Palestine; radioactive materials unless permitted for industrial, pharmaceutical or research purposes by special permission from the competent Palestinian authorities; or firms producing or harboring any other substances illegal under the laws and regulations of the PA and relevant international conventions.
(4) The applicant(s) has a known record of criminal activity. PIFZA will resort to checks of bank references and coordination with relevant security agencies.
(5) The enterprise would greatly overburden existing infrastructure or would require an unacceptable amount of government investment to build necessary infrastructure. Special analysis will be required by PIFZA for any applicant whose needs exceed standard limits defined for a given IFZ, if these have been established, before approving any application.

(d) Procedures for Approved Applications. If the results of the evaluation referred to in the previous Article are positive, PIFZA will issue an Industrial Free Zone Certificate within two (2) calendar weeks of the date of receipt of the application. The validity of the Certificate will be contingent on the registration of the persons or legal entities in Palestine, the accomplishment of which shall be facilitated by PIFZA in coordination with the competent authorities as needed.

(e) Procedures for Disapproved Applications. If the results of the evaluatino referred to in the previous Article are not positive, PIFZA shall return the application to the applicant within two (2) calendar weeks of the date of receipt of the application, clearly stating the information required or modifications needed, if possible, to receive authorization. In agreement with Article 30 of the PIFZ law, the applicant may then re-submit the application provided this is done within six (6) calendar months of the date of the rejection. The procedures specified in paragraphs (a) through (c) will then be followed again.

(f) Appeals. If the application is rejected by PIFZA a second time, the decision may be appealed. In such cases, an evaluation shall be conducted at the applicant's expense, by a mutually agreed upon third party, who shall employ the same procedure indicated in paragraph (c) above. The results of the third party's evaluation shall be submitted to PIFZA's Board, who shall then vote on whether to uphold the third party's decision at its next regularly scheduled meeting. The vote of the Board in such cases shall be considered definitive, and may not be appealed.

Article 23. Duration and Extent of Authorization

(a) A valid Industrial Free Zone Certificate is the only authorization needed by an IFZ Enterprise to commence general business operations. For firms that wish to import or export directly, it may be necessary to register as a commercial company and obtain the respective license. PIFZA shall have the authority and responsibility to facilitate these and any other necessary registrations, licenses or permits for specialized activities, in coordination with other competent authorities, until such time that they may no longer be required.

(b) The Industrial Free Zone Certificate is issued indefinitely, provided the IFZ Enterprise complies with all obligations of the PIFZ Law, its Regulations, and other applicable norms. The eligibility for individual incentives may be limited as defined in Article X of the present Regulations, or in the respective incentive regime, in the case that the IFZ Enterprises elects to avail themselves of these. If the IFZ Enterprise is sold, or if ownership is transferred to a new person or entity, the Industrial Free Zone Certificate remains valid as long as the operations of the IFZ Enterprise do not change.

(c) In the case of violations of the PIFZ Law or Regulations, the Industrial Free Zone Certificate may be suspended either temporarily or permanently, as specified in Article X of the present Regulation. When suspended, the Enterprise will not be authorized to operate within the IFZ nor avail itself of any applicable benefits or incentives afforded by the PIFZ Law and Regulations.

Article 24. Deadline for IFZ Enterprises to become Operational.

(a) All IFZ Enterprises must commence operations within six (6) months of the issuance of the Industrial Free Zone Certificate, in agreement with Article 31 of the PIFZ Law. An enterprise is classified as operational if it has begun to undertake the activity according to its classification and as specified in the Industrial Free Zone Certificate.

(b) Extension of the Deadline to Commence Operation. Any IFZ Enterprise that is not operational within the requisite six (6) month period may request in writing an extension of the deadline to become operational. An extension may be granted for the following reasons:

(1) failure to develop owing to conditions equivalent to *force majeure*, including war, natural disasters, or civil unrest which make it impossible for work to proceed;

(2) failure to develop owing to the failure of a public utility to meet its obligations to in providing an agreed-upon level of infrastructure or service; or,

(3)failure to develop owing to normal business delays such as loss of markets, difficulty in obtaining financing, etc.

If an IFZ Enterprise can demonstrate that it is actively continuing work to make the project operational, an extension will be granted. An extension will granted for up to twelve (12) months only. No further extensions may be granted.

(c) Procedure to grant extensions of deadline. Upon receipt of a written request for extension, PIFZA personnel will stamp the letter with the time and date of receipt. PIFZA will then decide whether or not to approve the extension and inform the IFZ Enterprise accordingly within thirty (30) calendar days. The extension is automatically approved for six (6) months should PIFZA fail to make a decision and/or notify the IFZ Enterprise accordingly within the thirty-day time period.

(d) Revocation of the Industrial Free Zone Certificate. If an IFZ Enterprise has failed to become operational after the expiration of an approved extension, or if the request for extension of a deadline is refused, the Industrial Free Zone Certificate will be declared null and void. A letter shall be sent to the Enterprise informing him that the authorization has been canceled and the certificate withdrawn. At this time, the Enterprise will be liable for payment of all duties and taxes for which the firm received exemption while it held the Industrial Free Zone Certificate. PIFZA shall notify all other relevant authorities of the revocation, including customs officials in charge of FZ operations and the Ministry of Finance's Tax Department.

(e) Appeals. IZ and FZ enterprises that have failed to become operational by the end of eighteen (18) months (six months plus a twelve month extension) may not appeal the revocation of their Industrial Free Zone Certificate. Such firms may, however, submit a new application to be authorized as an IFZ enterprise.

CHAPTER EIGHT: PRINCIPLES OF IMPORTING AND EXPORTING GOODS TO AND FROM INDUSTRIAL FREE ZONES

Article 25. Range of Permissible Activities.

Authorized Industrial and Free Zone Enterprises, in agreement with the permissible activities specified in their respective IFZ Certificate, may engage in the following activities within IFZs:

(a) Introduce, store, exhibit, pack, unpack, manufacture, process, produce, mount, assemble, refine, distill, purify, mix, transform and manipulate all classes of merchandise, products, raw materials, components, packing material, containers and other commercial articles destined for export or re-export, with the exception of those whose importation, commercialization or manufacture are prohibited by the laws of the Palestinian Authority, notwithstanding the allowances of local sales as specified in Article 33 of the present Regulation.

(b) Provide and contract services to other IFZ companies and to those located outside the local market, such as: financing, insurance, loading, expediting, documentation, storage, building rental, maintenance and any other that might be convenient for the development of the IFZ or the regime in general. Companies that dedicate themselves to the provision of banking or financial services will be controlled by the corresponding Palestinian laws, regulations, and norms.

(c) In general, execute all classes of activities necessary for the establishment and operation of the IFZ, provided that these do not contravene Palestinian laws.

Article 26. Status of Customs Extra-Territoriality

Either the entire IFZ, or certain areas therein, shall be considered to lie outside Palestinian territory from a Customs perspective according to the following:

(a) IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 20 and physically segregated according to Article 19 paragraph (a) of the present regulation shall be considered from a customs standpoint to lie outside of Palestinian territory.
(b) If IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 20 are not physically segregated from other IFZ Enterprises, but if adequate barriers are in place according to Article 19 paragraph (a) sub-paragraph (1), and if proper customs control is ensured throughout the entire area of the IFZ by means of limited and supervised entry and exit, adequate inventory control and authorized documentation systems, and other means, then the entire IFZ shall be considered from a customs standpoint to lie outside of Palestinian territory.

The areas as specified in paragraphs (a) and (b) above shall also be referred to as Customs Secured Areas of IFZs. Special customs measures and procedures shall apply to such areas, with the goal of ensuring efficiency and ease of handling while ensuring adequate control.

If IFZ Enterprises or the areas in which they are located are considered to lie in such Customs Secured Areas, they shall be able to import raw material and merchandise free of duty until such time that these goods, either in original or reconfigured form, leave the confines of the IFZ to be sold on the local market. However, IFZ Enterprises classified according to paragraph (e) of Article 20 above shall pay all applicable taxes and duties on capital goods, machinery, instruments, and equipment used by them for their operations, while those IFZ Enterprises classified according to paragraphs (a) , (b) and (c) of Article 20 will be considered exempt from such taxes and duties.

Any area not specified in paragraphs (a) and (b) of the present Article will be considered a Non-Customs Secured Area, to be treated similarly to any other area within the Palestinian customs territory.

Article 27. Segregation of Free Zone Enterprises from non-Free Zone Enterprises

Within all IFZs, there shall be measures in place to ensure segregation of IFZ Enterprises specified in Article 20 paragraphs (a), (b), and (c) from all other IFZ Enterprises, preventing unauthorized transfer of goods or nonpayment of required duties or taxes as specified in Article 33 of the present Regulation.

(a) IFZ Developers and/or Operators may elect to achieve segregation and control by means of physical barriers separating IFZ Enterprises specified in Article 20 paragraph (a), (b), and (c) from all other IFZ Enterprises. In such cases, physical barriers will only be required to surround the IFZ Enterprises specified in Article 20 paragraphs (a), (b), and (c).

(b) IFZ Developers and/or Operators may elect to achieve segregation and control without physical barriers separating the aforementioned IFZ Enterprises. In such cases, a physical barrier will be required to enclose all IFZ Enterprises located within the IFZ, in accordance with Article 19 paragraph (a), and there shall be special systems of inventory control and documentation to track and control the movement of goods and the payment of appropriate duties and/or taxes by all IFZ Enterprises, as specified in Article 33 of the present Regulation.

Article 28. Establishment of Customs Zone Offices within IFZs.

(a) A Customs Zone Office shall be established within each IFZ containing or planned to contain one or more IFZ Enterprise classified according to Article 20 paragraphs (a), (b),and (c). This Office shall have the following responsibilities:

(1) enforcing physical security measures;

(2) inspecting in-coming merchandise when it is unloaded at each IFZ Enterprise considered to lie outside Palestinian customs territory according to Article 26;

(3) inspecting out-going merchandise when it is loaded at each IFZ Enterprise considered to lie outside Palestinian customs territory according to Article 26;

(4) inspecting zone merchandise in the inventories of IFZ Enterprises considered to lie outside Palestinian customs territory according to Article 26;

(5) maintaining records of merchandise entering and leaving the areas of the IFZ considered to lie outside Palestinian customs territory according to Article 26;

(6) preparing and submitting reports as required by these Regulations.

(b) The operational and equipment costs of the Customs Office in each IFZ shall be covered by the Developer or Operator of the IFZ hosting such office. Each Developer or Operator will provide Customs agents with appropriate office facilities located within, and at the appropriate entrance of, the IFZ. In order to expedite customs formalities, these office facilities shall be equipped with the equipment required for their operation, including computer terminals and printers appropriate for customs recordkeeping requirements, as well as telephone, telex, and facsimile machines.

(c) The salaries of Customs agents shall be paid by PIFZA during normal working hours.[14] All work conducted by Customs agents outside of normal working hours shall be paid for directly by the IFZ Developer or Operator.[15]

(d) IFZ Developers, Operators, and Enterprises must permit Customs agents access to IFZ facilities and accounting records to conduct merchandise examinations and inventory checks, to review records, and to carry out other lawful tasks. IFZ personnel will provide Customs agents with explanations of all records and operating procedures as needed; furnish special equipment necessary for conducting such inspections such as weighing equipment or protective clothing; and will cooperate with Customs agents to ensure the prompt completion of customs duties.

(e) Only the Customs agents assigned to the Customs Zone Office for each zone will have authority to access the facilities and records of IFZ Enterprises considered to be inside Customs Secured Areas as defined in Article 26.

Article 29. Customs Procedures to Facilitate IFZ Operations.

[14] This follows the practice in many EPZ countries, including the Dominican Republic, Costa Rica, and Cameroon, where the government continues to pay Customs agents' salaries during normal working hours. In Togo, the developer is responsible for paying the entire salary of customs agents assigned to a zone; annual salaries in Togo are so low that this does not represent an excessive burden on the developer.

[15] In most EPZs, Customs agents are permanently available on a 24-hour basis.

(a) Except for exceptional circumstances, customs approvals, inspections, and controls shall be carried out within twenty-four (24) hours from the time that the documents are received for processing by the competent Customs Office.

(b) Official documents forwarded to a Customs Office by facsimile, as well as photocopied documents, shall be valid for administrative purposes and must be processed in order to provide the requested service in time. However, the originals of such documents must be retained by the IFZ Enterprise and made available to Customs agents upon request.

Article 30. Zone Physical Controls.

(a) Customs agents assigned to each Customs Zone Office shall be responsible for ensuring that the physical and security requirements listed in Article 20 above shall be maintained at all times.

(b) Customs agents shall be responsible for assuring that fenced IFZ areas are protected against improper intrusion and unauthorized transfer of zone merchandise through:

(1) the posting of security guards and/or Customs agents at strategic locations throughout the zone;

(2) limited personnel access to zone facilities through controlled entrances and only with proper authority and reason; and,

(3) the use of properly prepared and authorized documentation to enter or remove merchandise into or from each IFZ facility.

Article 31. Procedures Regarding Imports to Customs Secured Areas of IFZs.

(a) The Customs Office of the port or airport where in-coming goods are unloaded shall grant authorization to transfer the goods from the point of entry to any IFZ Enterprise considered to be within a Customs Secured Area of an IFZ as defined in Article 26, upon receipt of a properly prepared entry declaration from the IFZ Enterprise or its agent.

(b) The IFZ entry declaration for such transfer shall include detailed documentation stating clearly the origin, destination, identity, quantity and value of the goods concerned. This documentation shall consist of all normal international shipping documents and will include the following:

(1) commercial invoice;

(2) bill of lading (either an airbill or waybill);

(3) packing list;

(4) certificate of origin;[16] and,

(5) any other commercial documentation which establishes the merchandise identity, quantity, owner, value, source, destination, and other associated information.

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16 If required by Palestinian law or regulation.

Pro-forma invoices or other documents will be accepted only in unusual situations and only for provisional use until the final, official documents are made available.

(c) The entry declaration and accompanying documentation may be submitted to the Customs Office at the point of entry either at the time of the goods arrival, or when the supporting documentation becomes available, even if it is available in advance of the goods arrival. The Customs office at the point of entry will accept and process the entry declaration and supporting documentation as soon as it is received, even if submitted before the goods arrival, and customs policies and personnel shall encourage and support pre-arrival processing whenever possible[17].

(d) The Customs Office shall review the entry declaration to ascertain compliance with the nomenclature of the Customs Code and, in case of conformity, issue an attestation to the applicant for the immediate release of the goods. Such attestation shall amount to authorization for such goods to leave the port of entry and to be transferred to the zone. No other authorization shall be necessary. The Customs Office shall immediately place a customs seal on the merchandise container or package and release the goods without any inspection or verification for immediate transport, under customs escort and/or monitoring and supervision, to the zone of destination under the authority of the consignee, owner, or designated agent.

(e) The deferral of merchandise inspection and examination at the port of arrival is a privilege provided by the government to all IFZ Enterprises within Customs Secured Areas as defined ino Article 26 who have not violated pertinent laws and regulations and who have not otherwise demonstrated a lack of competency and trustworthiness. This privilege may be temporarily suspended for IFZ Enterprises within Customs Secured Areas who have been found to violate such laws and regulations in accordance with Article 45 below.

(f) Until the merchandise arrives at the destination of the Customs Secured Area of the IFZ where the IFZ Enterprise is located, the consignee or owner assumes all responsibilities for assuring the safety of the merchandise and will be required to pay all duty, import taxes, and any assessed fines and penalties on merchandise which does not arrive at the secured area. The owner or consignee, however, shall not be required to post a bond or guarantee for the goods during transit[18].

(g) A copy of the entry declaration will be presented to the Customs agent at the Customs Secured Area of the IFZ to document the arrival of the merchandise at the area and to enable the entry of the goods into the same. The zone entry declaration shall be supported by detailed documentation establishing the identity, quantity, and origin of such goods.

(h) Upon the arrival of the goods at the designated IFZ Enterprise within the Customs Secured Area of the zone, the merchandise will be held until an agent from the Customs Zone Office authorizes the breaking of the customs seal and the opening of the container or package. The Customs agent shall examine and verify the goods as they are unloaded onto the premises of the IFZ entity concerned. This inspection shall verify that no prohibited articles or materials, as defined in Article 25, are included in the shipment, and that the accompanying documentation is in accordance with the actual goods being unloaded.

(i) Upon the entry of the goods into the Customs Secured Area of the zone of destination and following inspection and verification by the zone's customs services, the Customs Zone Office shall prepare a report on the results of its verification to be forwarded to the Customs Authority

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[17] This approach should be verified with Israeli customs. However, it should be noted that this approach is based on a draft regulation for EPZs in Israel drafted in March, 1995, so there is a higher likelihood that this approach will be deemed acceptable.

[18] This should be verified with Israeli customs, and if possible, it is recommended that this be incorporated into the protocol agreement on the movement of goods.

at the point of entry[19] clearly showing the quantities received, surpluses, possible deficits, and consistency with the related commercial documents.

(j) Should any discrepancies be detected by Customs inspectors between the shipping documents and the content of the goods, the PIFZA must be notified of such discrepancies at this time.

Article 32. Procedures Regarding Exports from Customs Secured Areas of IFZs.

(a) Prior to the loading and shipment of goods for export, the representative of the IFZ Enterprise shall submit to the Customs Zone Office an application for the transfer of goods from the Customs Secured Area of the zone for export. All transfers from the zone shall be reported and authorized on a copy of the applicable IFZ declaration upon which the merchandise was originally entered into the Customs Secured Area of the zone.

(b) The Customs Zone Office shall immediately take the necessary steps to examine the goods to be transferred to ensure that no prohibited articles as defined in Article 43 are included, and to ensure that the merchandise corresponds to the accompanying documentation. This examination and loading shall take place at the premises of the IFZ Enterprise exporting the goods from a Customs Secured Area. Upon approval of the supervising Customs agent, the IFZ Enterprise may package or containerize the material in preparation for shipment.

(c) Following the packaging or containerizing of the material, the Customs agent shall affix seals on the packages or containers and allow the shipment to be transferred to the port or airport of shipping. The approved zone transfer declaration, bearing the stamp of Customs approval, shall be the only authority needed for the IFZ Enterprise to remove the merchandise from the Customs Secured Area of the zone and transfer it, under customs escort, to the point of international transportation.

(d) Until the merchandise arrives at the point of embarkation, the consignee or owner assumes all responsibilities for assuring the safety of the merchandise and will be required to pay all applicable duties, import taxes, and any assessed fines or penalties on merchandise which does not arrive at the point of embarkation. The owner or consignee, however, shall not be required to post a bond or guarantee for the goods during transit.

(e) Once the goods have exited the Customs Secured Area of the zone, the Customs Zone Office shall forward a detailed report to the Customs Authority at the point of exit on each such transfer, indicating the description, quantities, and destination of the goods in question, along with required identification information concerning any applied customs seals.

(f) IFZ merchandise arriving at the point of embarkation from Customs Secured Areas of IFZs shall be placed under constructive Customs custody pending loading on the exporting vessel. The Customs Office at that location shall ensure that the custom seals are unbroken. If the seals are unbroken, the Customs Office shall immediately authorize, under its supervision, the loading of the goods for export.

(g) The Customs Office at the point of embarkation shall not normally open the container or package or inspect IFZ merchandise destined for export from a Customs Secured Area of an IFZ unless the customs seals are broken or otherwise show evidence of tampering.

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[19] This should also be verified with Israeli customs, and may be subject to change depending on the final draft protocol on the movement of goods..

(h) The deferral of merchandise inspection and examination at the point of embarkation is a privilege provided to all IFZ entities within Customs Secured Areas who have not violated pertinent laws and regulations, and who have not otherwise demonstrated a lack of competency and trustworthiness. This privilege may be temporarily suspended for IFZ entities who have been found to violate such laws and regulations in accordance with Article 45 below.

(i) Upon the departure of such goods, the Customs Office which processed the shipment shall forward a copy of the declaration of export to the Palestinian Department of Customs[20].

<u>Article 33. Procedures Governing the Export of Goods from Customs Secured Areas of IFZs to the National Customs Territory.</u>

(a) Goods and services sold from IFZ Enterprises within Customs Secured Areas as defined in Article 26, to the national customs territory, shall be considered as imports and assessed for all applicable custom duties and taxes as provided for in Article 34 of the PIFZ Law.

(b)Limits on Sales to Local Market. The limits on sales to the local market of a maximum of twenty percent (20%) of the value of the annual production shall be interpreted as applying only to Authorized IFZ Enterprises classified under Article 20 paragraphs (a), (b), or (c). Other IFZ Enterprises may sell larger portions to the local market, but they must pay one hundred percent (100%) of the fees and customs duties imposed on these products.

(c) Tax and Tariff Treatment for Local Sales made by IFZ Enterprises specified in Article 20 paragraph (a), (b), and (c). Tax and Tariff Treatment for such enterprises will depend on whether the products they are selling are produced in the local market:

(1) Products Produced in Local Market For products and their associated raw materials, packaging, and other inputs that <u>are</u> produced in the local market, or for enterprises that do not have a valid certificate proving that local production does not exist (see b. below), full tariffs and taxes will be assessed on all imported materials incorporated into the locally sold product. However, tariffs will <u>not</u> be assessed on any incorporated raw materials, packaging or other inputs that are procured from the local market. An import declaration should be submitted to the Customs Authority assigned to the IFZ for each local sale before goods shall be released from zone. Said declaration will clearly specify which inputs were procured locally, and which were imported, using forms and formats specified by the Customs Authority. Relevant taxes and tariffs must be paid in full on the imported components in agreement with standard customs procedures.

(2) <u>Products not Produced in Local Market</u>. For products and their associated raw materials, packaging, and other inputs that are <u>not</u> produced in the local market, Enterprises may qualify for a discount of 20 percent on applicable tariffs and taxes. Said discounts will apply to the normal taxes and tariffs associated with the imported components of the finish product. No tariffs or taxes will be charged on incorporated components that are purchased from the local market. Enterprises who wish to qualify for this discount must apply for and obtain a Certificate of No Local Production from PIFZA, in agreement with paragraph (d) below. An import declaration should be submitted to the Customs Authority assigned to the IFZ for each local sale before goods shall be released from the zone. Said declaration will clearly

[20] This needs to be verified with Israeli customs officials, preferrably to be incorporated as part of the protocol on the movement of goods.

specify which inputs were procured locally, and which were imported, using forms and formats specified by the Customs Authority. Eighty percent of relevant taxes and tariffs must be paid on the imported components included in the product for which the Certificate of No Local Production is valid.

(d) Certificate of No Local Production.

(1) Issuing Authority. The Ministry of Industry will be the sole authority authorized to issue a Certificate of No Local Production. PIFZA will facilitate requests for such Certificates

(2) Form and Validity of Certificate. The Certificate of No Local Production will clearly state the product for which no local production exists, and will specify the date of issuance. It will be valid for a period of one year from the date of issuance. When the Certificate expires, the enterprise must re-apply in order to receive a new Certificate.

(3) Application to Obtain a Certificate. Qualified Enterprises wishing to obtain a Certificate of No Local Production must request said certificate in writing from PIFZA. The written request must specify each product for which coverage by the certificate is desired, including the standard tariff category.

(e) Procedure to Evaluate Requests for Certificates. The Ministry of Industry will undertake an evaluation procedure to determine if local production exists for the products specified in the written request. This procedure shall include recourse to information and data bases maintained by the Ministry of Industry. The evaluation shall take a maximum of twenty (20) days.

(1) Steps to take for products not produced locally. For products found <u>not</u> to be produced in the local market, the Ministry will issue a Certificate of No Local Production. Three copies of this certificate shall be made. One copy shall be sent to PIFZA, another sent to the Customs Authority, and the third shall be delivered to the enterprise, within five (5) days of its issuance.

(2) Steps to take for products produced locally. For products found that <u>are</u> found to be produced in the local market, the Ministry of Industry will not include these on the list of covered products specified in the certificate (in the case that some other products are not produced locally), or it will not issue any certificate (in the case that all requested products are found to be produced locally). The Ministry of Industry shall notify the enterprise in writing of the reasons for denying certificate coverage.

(f) Prior to the loading and shipment of goods for consumption in the national customs territory, the representative of the IFZ Enterprise within a Customs Secured Area shall submit to the Customs Zone Office an application for the transfer of goods from the zone for export to the national customs territory.

(g) The Customs Zone Office shall immediately take the necessary steps to examine the goods to be transferred and supervise the loading of such goods. This examination and loading shall take place at the premises of the IFZ entity exporting the goods. Upon approval of the supervising Customs agent, the IFZ Enterprise may package or containerize the material in preparation for shipment. Goods destined for the national customs territory will not be sealed by Customs agents.

(g) Goods entering the national customs territory will be accompanied by the approved zone transfer declaration, bearing the stamp of Customs approval, and an entry declaration for consumption prepared in accordance with the applicable regulations. At the time of entry of such goods into the national customs territory, Customs agents shall assess such taxes and duties as may be due.

(i) IFZ Enterprises within Customs Secured Areas shall be able to sell damaged, sub-standard, or sample goods without restriction to the national customs territory, subject to the payment of all applicable taxes and duties and the provisions of paragraph (k) below, should a buyer be available for the purchase of such goods.

(j) In order to promote administrative simplicity, the amount of local sales allowed by each IFZ Enterprise classified according to paragraphs (a), (b), and (c) of Article 20 of the present Regulation each month shall be defined as twenty percent (20%) of the total value of the preceding month's production.[21] In order to calculate the total value of the previous month's production, the dollar-denominated f.o.b. ex-factory price will be utilized. The total value of production shall include the costs of all manufacturing inputs including foreign and domestic material and components, associated shipping costs, labor, general and administrative expenses, and profits.

(k) Any local sales of scrap, wastage, or rejects shall be counted towards the local sales percent quotas specified in Article 20 paragraphs (a), (b), and (c) and the total value referred to in the previous paragraph.

Article 34. Procedures Governing the Temporary Entry of Goods Manufactured in Customs Secured Areas of IFZs into the National Customs Territory

(a) IFZ Enterprises in Customs Secured Areas of IFZs shall be permitted to temporarily import duty-free their goods into the national customs territory for publicity events or other promotional purposes. Such imports may be made in small quantities only, may not include samples of goods which are intended to be distributed as promotional items, and may not be imported for a period of longer than two (2) weeks.

(b) IFZ Enterprises wishing to import temporarily such goods must provide the Customs Zones Office with a detailed list of such goods, including complete descriptions, sizes, and quantities to be imported. Customs shall inspect such temporary imports upon entry into Palestinian customs territory from the Customs Secured Area of an IFZ.

(c) Customs shall inspect such temporary imports upon their return to the Customs Secured Area of the IFZ. Any discrepancy between these items and the list of goods originally submitted to Customs will be the responsibility of the IFZ Enterprise, and full duties and any other taxes shall be assessed on these missing items.

Article 35. Procedures Governing the Import of Goods from the National Customs Territory to the Customs Secured Area of an IFZ.

IFZ Enterprises in Customs Secured Areas shall keep separate accounting books for goods purchased from Domestic Palestinian Businesses located within the national customs territory,

[21] It is simplest to calculate local sales on a monthly basis, rather than to base it on annual sales which may require some adjustment at the end of the year. This method is also more liberal for newer firms, because it allows them to increase their local sales in accordance with the growth in their overall output as their production processes become established. It is also simpler to calculate local sales based on value, rather than volume or units, since a firm may manufacture 100 shirts one month, and 100 pairs of shorts the next. In addition, a value-based system is simplest to use for service exports.

and shall be able, at any time, to identify such goods held within and those transferred from the Customs Secured Area of the zone.

Article 36. Procedures Governing the Transfer of Goods Between Customs Secured Areas of IFZs.

(a) Zone merchandise may be transferred from one IFZ's Customs Secured Area to that of another IFZ on a permanent basis if documented with the proper transfer declaration and carried out in accordance with customs review and approval procedures governing imports into the Customs Secured area of an IFZ as outlined in Article 31 above.

(b) Zone merchandise may be transferred from one IFZ's Customs Secured Area to that of another IFZ for temporary purposes such as, but not limited to, repair, equipment loans, or cleaning services. Temporary transfers must be supported by the appropriate declaration and will be subject to Customs review and approval procedures governing imports into the Customs Secured Area of an IFZ as outlined in Article 31 above.

Article 37. Record Keeping Requirements.

(a) All IFZ Developers, Operators, and Enterprises within IFZs shall keep complete accounting and inventory records relating to transfer of merchandise, equipment, and materials to and from these areas.[22]

(b) The documents shall clearly show the identity of all goods exempt from custom duties and taxes, be they of local or foreign origin. The documents shall specify, in particular, if such goods have been received, shipped or stored; if they are manufactured within the zone concerned; if they have been damaged within the said zone, or if they have been lost or used within the zone. All records shall be kept on a current basis and will be made available to Customs agents for review and verification of actual inventory on-hand.

(c) The IFZ Developers, Operators, and Enterprises within Customs Secured Areas of IFZs shall submit to the Customs Zone Office, on a monthly basis, a complete report on the flow of goods, specifying:

(1) the quantity and description of local or foreign goods that are available at the beginning of the month in question;

(2) the quantity and description of local or foreign goods that are used within that period;

(3) the quantity and value of goods imported;

(4) the quantity and description of material consumed or wasted in the production process with appropriate segregation of waste into valuable and non-valuable waste;

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22 Despite the liberalized nature of customs operations in Free Zones, it is still necessary to ensure that merchandise is truly entered into the zone and not improperly diverted into domestic commerce. Documentation on imports and exports to and from Customs Secured Areas of IFZs is necessary to develop statistical information by which to measure the economic impact of zone operations, and to assess duties, taxes, and penalties when merchandise is missing or is transferred to the national customs territory. Since these records are usually computerized, it does not represent a burdensome requirement on IFZ enterprises.

(5) the quantity and value of exports and the country of export; and,

(6) the stock of goods remaining at the end of the period.

All this information shall be filed on standard forms made available by Customs agents.

(d) Each Customs Zone Office shall submit to the Palestinian Customs Department on a monthly basis, a complete report on the movement of in-coming and out-going goods within their respective zones, and consistent with their customs registers, inspection reports as well as authorization forms processed during that period. The report shall be submitted no later than fifteen (15) days after the end of the month in question.

(e) The Director of the Customs Zone Officials shall direct on a quarterly basis the preparation of a consolidated report, comparing the monthly reports of IFZ Developers, Operators, and Enterprises with those submitted by the Customs Zone Offices, and prepare a summary report on IFZ customs activities. This report shall be made available to the Ministries of Finance and Economy and Trade, and to any other agency as deemed necessary. The summary report should be available no later than thirty (30) days after the end of the quarter in question.

Article 38. Fines and Penalties for Violations of Customs Procedures.

(a) Irregularities recorded by Customs agents or reported by IFZ Enterprises may give rise to fines or penalties where they result from acts aimed at:

(1) prejudicing the amount of duties and taxes owed to the Palestinian Authority

(2) introducing unauthorized goods and items into the IFZ or into the national customs territory; or

(3) evading the provisions of the PIFZ Law or these Regulations.

(b) IFZ enterprises within Customs Secured Areas shall report to the Customs Zone Office all shortages, overages, damaged merchandise, or other discrepancies noticed during or after the unloading of goods. The presence of a Customs agent during the unloading process will not relieve the IFZ Enterprise of this responsibility.

(c) The IFZ Enterprise will be responsible for all merchandise entered into its facilities, and will be liable for duty, import taxes, and any fines and penalties for any merchandise determined to be missing or discovered to have exited said facilities without proper documentation and approvals.

(d) IFZ Enterprises within Customs Secured Areas of IFZs shall not be penalized for discrepancies between actual available quantities and the quantities shown on the official documents if it can be shown that a shortage resulted from reasonable causes. If, however, Customs officials are not satisfied that relief from liability is warranted, the IFZ Enterprise will be responsible for payment of all appropriate import duties and taxes as if the merchandise had been imported into the national customs territory for consumption, plus any applicable fines and penalties.

(e) In any case, adequate adjustments shall be made to the books regarding discrepancies in the quantities of goods for which enterprises are to be subsequently accountable.

(f) IFZ Customs officials shall have the authority to apply a system of fines and penalties against violators for merchandise shortages. In the case of firms found guilty of multiple offense, Customs may suspend for a period of up to one (1) year the privilege whereby merchandise inspection and examination is deferred at the port of arrival and port of departure as discussed in Articles 31(e) and 31(h) above. In the case of severe and repeated violations, Customs may request that the IFZ Certificate of an IFZ Enterprise be canceled. Such request shall be forwarded to the PIFZA which shall decide on such cancellation in accordance to the violation procedures outlined in Article 45 below.

CHAPTER NINE: RIGHTS AND OBLIGATIONS OF AUTHORIZED INDUSTRIAL FREE ZONE ENTERPRISES

Article 39. Limitations on Activities of Authorized IFZ Enterprises.

(a) As stated in Article 41 of the PIFZ Law, owners of Authorized IFZ Enterprises shall limit their activities to those specified in the IFZ Certificate and to any auxiliary activities in accordance with Article 28 of the law[23]. IFZ Enterprises may request amendments to the activities specified in their IFZ Certificate.

(b) Procedures for amending specified activities. Prior to undertaking any activities not authorized as per paragraph (a) above, IFZ Enterprises must notify PIFZA in writing that they intend to undertake new activities. Firms shall clearly specify the nature of all changes, providing the following information at a minimum:

(1) description of new production processes, including schedule for construction and operationalization;
(2) environmental impact statement for any new processes, products, and raw materials;
(3) estimates of new investment amounts and sources;
(4) estimates of proposed additional numbers of workers required
(5) description of estimated volume and types of new materials that will be imported and exported by the IFZ Enterprise and principle modes of transport & associated containers or enclosures[24]

(c) Evaluation of Requested Amendments. PIFZA shall undertake a transparent and objective evaluation process of any requested amendments, similar to that specified in Article 22 paragraph (c) of the present Regulations. All proposed modifications or changes for which a complete notification is provided should automatically receive approval unless one of the negative criteria listed in Article 22 paragraph (c) apply.

(d) Approvals of Amendments. If the results of the evaluation are positive, PIFZA shall issue a letter approving the amendment. This letter, will be considered as having modified the original IFZ Certificate or the SIFZ Concession Contract, each of which shall remain valid.

(e) Disapprovals of Amendments. If the results of the evaluation are negative, or if insufficient information is provided to undertake an evaluation, PIFZA must return the written

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[23] Note: this was originally Article 33, but this article was modified, and the associated relevant text shifted to Article 28, which is why here the reference is made to Article 28. If the suggested changes to Article 28 provided in the Memorandum to MOI dated 4/22/98 are not made, this reference would probably have to be reverted back to Article 33.

[24] This specification was not included in the Draft SOP Manual. However, due to the need to prepare inspection systems and equipment for goods handling, security and customs control, it may be advisable to include this information in the application. The SOP manual and application forms should be adjusted accordingly.

notification within ten (10) days of receipt, clearly stating the information required or modifications needed to receive approval.

(f) Automatic Approval. If PIFZA fails to issue an approval or letter of rejection within ten (10) days, the modification should be considered to be automatically approved. The origianl IFZ Certificate, or in the case of the SIFZ the Concession Contract, along with the written notification sent by the enterprise to PIFZA, shall in such cases entitle the enterprise to begin undertaking the new operations.

Article 40. Reporting Requirements

All IFZ developers, operators, and enterprises shall provide required data and statistics to PIFZA on a periodic basis. Failure to do so may result in PIFZA undertaking detailed inspections and verifying that the entity possesses and is using adequate record keeping systems. At a minimum, required data and statistics to be provided to PIFZA shall be as follows:

(a) From IFZ Enterprises, including SIFZs:

(1) inputs by value and source
(2) exports by value, quantity, type and destination
(3) local sales by value, quantity, and type of product or service
(4) numbers of employees
(5) nationality of equity
(6) space occupied, both under roof and open space
(7) incremental and cumulative investment, source countries of capital

(b) From Developer/Operators:

(1) number of employees per zone
(2) number of firms per zone
(3) incremental and cumulative investment, source countries of capital
(4) space occupied, both under roof and open space.

Any Developer/Operator or IFZ Enterprise that does not provide requested data within thirty (30) days of its request by PIFZA will be subject to the inspections and verifications mentioned above. In cases of continued non-satisfaction of this requirement, PIFZA will have the right to levy fines, or suspend temporarily or permanently its IFZ Certificate, in agreement with Articles 44 and 45 of the present Regulation.

Any decision to dissolve or terminate operations shall be communicated by the Authorized IFZ Enterprise to PIFZA in writing at least three (3) months in advance, as specified in paragraph 4 of Article 41 of the PIFZ Law.

CHAPTER TEN: BENEFITS AND INCENTIVES[25]

Article 41. Foreign Exchange and Currency.

[25] The draft PIFZ law passed by Executive decree in November 1997 used the title "Dealing with Foreign Currency". The consultant believes the title "Benefits and Incentives" is more appropriate, and suggests that the final draft law approved by the Legislative Council make this change. Also: it may be preferable to list these benefits in the actual PIFZ Law, instead of leaving them to be defined in the Regulations, if this is possible.

The benefits referred to under Articles 43 and 44 of the PIFZ Law shall be understood to apply only to those IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 20 of the present Regulations.

Article 42. Income Tax Incentives

The following income tax incentives will apply to IFZ Enterprises with valid IFZ Certificates, according to their classification in Article 20 of the present Regulations:

(a) Those classified under paragraph (a) of Article 20 will be exempt from income tax for a period of seven (7) years from the start of operations.
(b) Those classified under paragraph (b) of Article 20 will be exempt from income tax for a period of five (5) years from the start of operations.
(c) Those classified under paragraph (c) of Article 20 will be exempt from income tax for a period of six (6) years from the start of operations.
(d) Those classified under paragraph (d) of Article 20 will be exempt from income tax for a period of five (5) years from the start of operations.
(e) Those classified under paragraph (e) of Article 20 will receive no income tax exemptions under the present Regulation. However, as indicated in Article 45 of the PIFZ Law, such firms may take advantage of incentives provided by any other law. IFZ Enterprises classified under paragraphs (a), (b), and (c) of Article 20 may also take advantage of incentives provided by any other law.
(f) Those classified under paragraphs (a), (b), or (c) of Article 20 shall qualify to receive a single three (3) year extension of their respective exemptions provided a minimum of sixty percent (60%) of their raw materials and inputs are acquired locally upon expiration of the initial exemption.

The exemptions contemplated in this Article shall not be applied if the beneficiaries are able to deduct the exempted taxes in Palestinian territory in their country of origin.

Article 43. Other Tax Incentives and Benefits

(a) All IFZ Developers/Operators and IFZ Enterprises shall be exempt from all municipal taxes while their location remains designated as an IFZ and they possess a valid IFZ Certificate.

(b) All IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 20 shall be exempted from:

 (1) sales and consumption taxes corresponding to purchases of goods and services.
 (2) all taxes corresponding to capital and profit remittances to foreign countries.
 (3) taxes and tariffs corresponding to lubricants and fuels imported or purchased locally.
 (4) All taxes associated with the export or re-export of products and services
 (5) All taxes applied to capital, net assets, property and real estate sales or leases.

CHAPTER ELEVEN: SANCTIONS AND FINES[26]

Article 44. Fines for Violations of PIFZ Law and/or the Regulations

[26] The title of Chapter 11 is indicated as "Concluding Provisions" in the draft version of the PIFZ Law passed by decree in November 1997. However, this same title is used for the subsequent Chapter 12. The consultant recommends that the PIFZ Law change the title of Chapter 11 to "Sanctions and Fines", as used here.

The fines indicated in Article 46 of the PIFZ Law shall be applied to IFZ Developers, Operators, and IFZ Enterprises, including SIFZs, in cases of violations of the provisions of the Law and the present Regulations. Upon receiving written notice of a fine, the respective entity must pay the indicated amount to PIFZA within a maximum period of thirty (30) days.

Article 45. Suspensions of IFZ Privileges

Regardless of whether or not fines have been paid by an infractor, PIFZA shall reserve the right to suspend privileges afforded under the PIFZ Law and its Regulations. PIFZA may apply suspensions temporarily or permanently, depending on the severity of the infraction, and on the repetition of the same. In such cases, an official letter signed by the Chairman of the Board shall serve notice to the effect of the suspension, suspending the validity of the respective Operator's Permit or IFZ Certificate for the time indicated.

CHAPTER TWELVE: CONCLUDING PROVISIONS

Article 46. Necessary Forms and Manuals of Standard Operating Procedures

PIFZAs Board may upon recommendation of the Director General of PIFZA approve necessary application forms and Standard Operating Procedures Manuals necessary for the implementation and administration of the PIFZ Law and the present Regulations.

Article 47. Date of Effectiveness

This Regulation shall be in force from the date it is issued and shall be published in the Official Gazette. All competent authorities must implement these Regulations within the scope of their competence.

Annex C: Proposed Changes to PIFZ Draft Law

C.1. Memorandum 4/22/98 (recommended changes)
C.2. Memorandum 4/25/98 (additional changes)
C.3. Copy of Draft Law (passed by decree November 1997, English Version)

MEMORANDUM

TSG

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To: Naser Jaber, Director General, MOI
From: Vincent Ruddy, The Services Group, Inc. (TSG)
Date: 04/22/98
Project Code: 388
Total Pages: 7
C.C.: Brad Wallach, Amin Haddod

Re: Recommended Final Modifications to PIFZ Law

As requested, I have conducted an assessment of required final changes to the PIFZ Law, taking into consideration international best practice and TSG's experience with free zone laws in over 30 countries. The following presents a list of all suggested modifications, article by article according to the final draft version approved by executive decree in November. None of these proposed changes alters the spirit or intention of the draft law that was passed by decree, so one would hope that the Economic Committee of the Legislative Council might concur with these and adopt them in the final version to be passed.

It may be advisable to procure the English copy of the draft law approved by decree on disk, make all the changes suggested below (to ensure accurate and faithful representation of the suggested changes), and then translate this revised version back to Arabic, so that a concrete draft can be proposed and used in the context of meetings and negotiations with the Committee.

<u>Definitions:</u>

The following changes in the initial definitions section of the law are necessary in order to clarify the differences between free zones and industrial zones, and to ensure compatibility with efficient regulation of IFZs in the future.

Replace the fourth and fifth definitions with the following:

"Industrial Zone"An industrial zone (IZ) is a demarcated area or estate in which a wide variety of manufacturing, commercial, and related service activities are carried out. Industrial zones allow for concentrated development of buildings, access roads, and associated infrastructure, in configurations ideal for efficient business set-up and operation.

"Free Zone"_A free zone (FZ) is a demarcated and fenced geographic area considered for customs purposes to be outside the national territory. Free zones may occupy space within or adjacent to industrial zones, and free zones may even extend over the entire area of the industrial zone, should developers so desire. Within free zones, special customs and tax regimes

will apply to firms carrying out export oriented activities as specified in Chapter 5 of this law, in order to facilitate more efficient and competitive foreign trade-oriented operations.

"Industrial Free Zone (IFZ)" An Industrial Free Zone is any combination of an Industrial Zone and Free Zone.

Add the following words after Industrial Free Zone in the definition corresponding to "Authorized Enterprise:

"..., as demonstrated by the possession of a valid Industrial Free Zone Certificate.," or in the case of SIFZ, valid operators permit.

Change definition for "Enterprise" to read as follows:

"Enterprise" means industrial, commercial, or service-oriented company or juridical person.

After definition of "Developer", add new definitions as follows:

"Operator" means a party which manages and runs an Industrial Free Zone, being either the same entity as the developer, or a separate entity which has acquired ownership rights of a pre-developed Industrial Free Zone, or a management sub-contract under the developer.

"Developer/Operator" means either a developer, an operator, or both if they are one and the same.

"Operator Permit" means a permit granted by the Authority to a Developer/Operator to operate an Industrial Free Zone.

<u>Article 10.</u>

The draft law calls for the Board to carry out functions that are inappropriate for such a high directive level of the organization. A number of small but important changes are therefore required in Article 10, as follows:

Change paragraph 1 so that it reads as follows:

Guide and Direct the activities of the Authority within the general policy designated for it.

Change paragraph 4 so that it reads as follows:

Allow for the advertisement and promotion of Industrial Free Zones directly or through local or international developers for the purpose of increasing the investments in them and their cooperation with the competent authorities.

Change paragraph 5 so that it reads as follows:

Approve Standard Operating Procedures and Manuals for operations within Industrial Estates and Industrial Free Zones regarding financial, administrative, and technical matters.

In paragraph 6, after the word "Authority," add the following words:

"who shall"

Change paragraph 7 so that it reads as follows:

Review decisions made on the use of experts and consultants

Article 11.

In paragraph 2, add the words *"and work plans"* after the word "budget".

Change paragraph 6 so that it reads as follows:

Receive and oversee evaluation and approval of special applications for obtaining Industrial Free Zone Certificates and submit same to Board.

Article 17.

To ensure proper technical evaluation of proposals for the designation of new IFZs, it is necessary to modify this article so that it reads as follows:

Applications by Qualified Applicants for the designation of an Industrial Estate and/or Industrial Free Zone shall be submitted to the Authority which shall in turn evaluate and have its Board consider them . The Board shall make the necessary recommendation on it within a period not exceeding one month after it is submitted to the Authority.

Article 23.

Zone master plans are not necessarily specified by the Authority, but may be prepared by the developer. As such, in this article, the words "the master plan, the general" should be replaced by *"any necessary"*.

Article 25.

The draft law version of this article is not appropriate for cases of zones built on privately held land. The consultant suggests changing it so that it reads as follows:

"The Concession contract shall terminate upon the elapse of the period for which it was granted. In the case of IFZs constructed on public land, after the termination of the Concession Contract the Zone and all the facilities constructed on it shall be turned over to the competent authority. It shall be prohibited to amend the Concession Contract or assign it to a third party without the approval of the Board of Directors.

Article 26.

Replace "Developer" with *"Developer Operator"*, so it will apply to both.

Article 27.

It is not necessary to require developers/operators to collect fees for the services they provide—they have the freedom to do this as they desire, and will propose such arrangements in sale or leasing contracts with IFZ Enterprises. However, it may be necessary to have the Developer/Operator collect fees on behalf of PIFZA. As such, this Article should be modified by replacing the second sentence with the following:

"The Developer/Operator shall also collect on behalf of PIFZA any fees specified by this Law or its regulation."

Change "Developer" to *"Developer/Operator"*, for the same reason in Article 26 above.

Add the word *"internal"* after the word necessary in the last sentence, so as not to confuse with regulations issued by PIFZA/MOI for the Law.

Article 28.

There is a need to distinguish between Enterprises which are capable of meeting the minimum export requirement (80% of production), and those that are not. In addition, it is necessary to recognize that different kinds of activities, as called for in Article 33 of the draft law, imply different kinds of companies, for which different treatment and incentives schemes might apply. It is therefore recommended that the Article be modified so that it reads as follows:

"The companies that locate and operate in IFZs shall be classified in the following manner:

(a) Free Zone Manufacturing Enterprises, which produce, process or assemble goods for export or re-export. Free Zone Manufacturing Enterprises export or re-export at least eighty percent (80%) of their total production, as calculated on a value basis.

(b) Free Zone Commercial Enterprises, which do not produce, but simply receive, store, manipulate, re-pack or re-distribute goods for export or re-export. Free Zone Commercial Enterprises export or re-export at least eighty percent (80%) of their total commercial sales, as measured on a value basis.

(c) Free Zone Service Enterprises, which provide services to other Free Zone Enterprises or to individuals or firms located outside the local market. Free Zone Service Enterprises must receive at least eighty percent (80%) of their income from services sold to Free Zone Enterprises or firms outside the local market.

(d) Industrial and Free Zone Developers and Operators, which shall develop and/or operate IFZs. Industrial and Free Zone Developers must have had their submitted applications approved by PIFZA and possess a valid concession contract in order to qualify for any

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benefits or incentives afforded by the PIFZ Law and Regulation. Once an IFZ is operational, the Industrial and Free Zone Developer and/or Operator must possess a valid Operator's Permit in order to qualify for any benefits or incentives.

(e) Industrial Zone Enterprises, which shall be all enterprises located and operating within IFZs other than those indicated in paragraphs (a), (b), (c), and (d) above.

The companies classified according to the descriptions under paragraphs (a), (b), (c), and (e) above shall be referred to generally as IFZ Enterprises.

All IFZ Enterprises must possess a valid Industrial Free Zone Certificate in order to operate within an IFZ and to qualify for any applicable benefits or incentives afforded by the PIFZ Law and Regulation. The Owners of Authorized IFZ Enterprises in Industrial Free Zones may carry out any Industrial or Export activity or any other activity including services, provided it does not violate Palestinian laws"

Article 29.

It is inappropriate for the Board to evaluate applications by Enterprises for IFZ Certificates. It meets once a month, but the required turn-around time must not exceed two weeks for applications. This responsibility must be delegated to the Director General, but the law may refer generally to the "Authority", and allow the details of the application process to be defined in the regulation, as is the case in most free zone laws. The consultant suggests that this article therefore be changed so that it reads as follows:

"Applications for obtaining Industrial Free Zone Certificates shall be submitted by Enterprises to the Authority. The Authority shall decide upon the applications submitted to it within two weeks of the date of their submission. In the case of their rejection, reasons must be given by the Authority. Any completed application for which an approval decision is not reached after 2 weeks shall automatically be considered approved, and PIFZA shall issue a corresponding Industrial Zone Certificate".

Article 30.

For the same reason as indicated above in regard to Article 29, the word "Board" should be replaced with *"Authority"*.

Article 33.

The proposed changes to Article 28 presented above include the same language as that used in Article 33 of the draft Law. For this reason, and for the need to clearly establish the concept of extraterritoriality in terms of customs, it is suggested that Article 33 be modified so that it reads as follows:

"Either the entire IFZ, or certain areas therein, shall be considered to lie outside Palestinian territory from a Customs perspective according to the following:

(a) The area containing IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 19 and physically segregated from other IFZ Enterprises via physical barriers and special customs control shall be considered from a customs standpoint to lie outside of Palestinian territory.

(b) If IFZ Enterprises classified according to paragraphs (a), (b), and (c) of Article 19 are not physically segregated from other IFZ Enterprises, but instead adequate barriers, and proper customs control is ensured throughout the entire area of the IFZ by means of limited and supervised entry and exit, adequate inventory control and authorized documentation systems, and other means, then the entire IFZ shall be considered from a customs standpoint to lie outside of Palestinian territory.

The areas as specified in paragraphs (a) and (b) above shall also be referred to as customs secured areas of IFZs. Any area not specified in paragraphs (a) and (b) above will be considered a non-customs secured area, to be treated similarly to any other area within the Palestinian customs territory.

IFZ Enterprises located within customs secured areas of IFZs, shall be able to import goods free of duty until such time that these goods, either in original or reconfigured form, leave the confines of the IFZ to be sold on the local market. Special customs measures and procedures shall apply to customs secured areas, with the goal of ensuring efficiency and ease of handling while guaranteeing adequate control."

Note: it is important to ensure that the modifications proposed for Article 28 are implemented in order for this language to apply (see above).

Article 34.

For the same reason given in regard to proposed modifications to Article 28 (see above), it is necessary to modify this Article so that it reads as follows:

The Owner of an Authrized IFZ Enterprise classified according to paragraphs a, b, or c of Article 28 of the present Law, may sell a maximum of 20% of the annual quantity of the produce or service of his Enterprise to the local market provided that all raw materials used in the production of the product or service sold to the local market shall be subject to fees and customs duties imposed on such materials in the local market. If such materials are not available on the local market, 80% of the normal fees and customs duties imposed on these materials shall be paid.

Again, it is necessary to implement the changes to Article 28 suggested above for this language to make sense.

Article 35.

To ensure compatibility with the proper distinctions between free zone and non-free zone areas (see proposed modifications to Article 33 above), it is necessary to modify Article 35 so that it reads as follows:

"All products and goods necessary for the use of the Authorized Industrial Free Zone Enterprise in the customs secured areas of Industrial Free Zone which shall be stored in the warehouses of the Customs Authority shall be considered as imported into the customs secured area of the Industrial Free Zone."

Articles 36, 37, and 38.

To ensure compatibility with the proper distinctions between free zone and non-free zone areas (see proposed modifications to Article 33 above), it is necessary to modify Articles 36 and 37 adding before each occurrence of the words "Industrial Free Zone" the following words: *"customs secured area of the"*.

Article 39.

To ensure compatibility with the proper distinctions between free zone and non-free zone areas (see proposed modifications to Article 33 above), it is necessary to modify Article 39, eliminating the words "Industrial Estates" and adding before each occurrence of the words "Industrial Free Zone(s)" the following words: *"customs secured area of the"*.

It may also be advisable to add a new Article just after Article 39, to refer to the treatment of goods brought into or leaving the non-free zone portion of an IFZ. The following language is recommended:

(New Article #) "For purposes of customs control, non-customs secured areas of Industrial Free Zones shall be considered equal to any other area within Palestinian territory. Merchandise entering, leaving, or stored within such non-customs secured areas are treated just as they are in other locations within the customs territory of Palestine. If goods are imported from abroad, relevant customs duties and taxes must be paid. Protective fences or walls are not required to surround non-customs secured areas of Industrial Free Zones, although developers may elect to build such fences for security purposes if they so desire or if other laws, regulations, or standards require it. It is not necessary for customs officials to have a permanent presence at a non-customs secured area of an Industrial Free Zone, although periodic inspections may be carried out, just as in any other area of Palestine.

FAX MEMORANDUM

TSG

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Date:	04/25/98
Project Code:	388
Total Pages:	2
C.C.:	Brad Wallach, Amin Haddod

Re: Additional Recommended Modification to PIFZ Law

My last memo on recommended modifications to the PIFZ Law overlooked an important issue-- Special Industrial Free Zones, or single factories that are granted IFZ status. There were also a few other minor issues that might be addressed.

Definitions:

Add the following definition:

" "Special Industrial Free Zones (SIFZs)" are certain individual factories or company complexes granted IFZ status. Only Enterprises that cannot locate within established Industrial Free Zones for specific reasons can become SIFZs. SIFZ enterprises carry out the same operations and activities as FZ enterprises. In addition to the requirement that they export a minimum of 80 percent of their annual production, SIFZ enterprises must ensure adequate security and customs control measures similar to FZ developers/operators."

The definition for IFZs should also be slightly modified so that it reads as follows:

" "Industrial Free Zone (IFZ)" means any combination of an Industrial Zone and Free Zone, or it may also mean a Special Industrial Free Zone"

New Article: (probably best just after Article 19 latest draft version passed by decree in November)

"For the designation of Special Industrial Free Zones (SIFZs), application submittal and evaluation procedures will be similar to those applying to IFZ developers. However, applications corresponding to sites already approved by competent authorities to be used for the proposed purpose will require approval only by PIFZA's Board, without a decision by the Council of Ministers. Only SIFZs proposed for new sites and/or those which will include activities not already approved by the competent authorities for an existing site will require a decision by the Council of Ministers."

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Chapter Title Changes:

For reasons of clarity and to avoid repitition (Chapters 11 and 12 of the Law have the same titles in the current version), the consultant suggests the following title changes:

Chapter Ten: Benefits and Incentives

Chapter Eleven: Fines and Sanctions

Other Possible Changes:

- Article 13 may need to be reviewed to ensure that cases of Board Members reclusing themselves from voting due to conflicts of interests (e.g., developer representatives being prohibited from voting on new developer applications) do not result in the loss of the required quorum.

- Also in Article 13 of the Law, it may be wiser to make the minimum Board meeting frequency larger—say, for example, once every quarter or even twice per year. This would make it more practical and similar to the situations of the boards of private corporations. By leaving the current language concerning meetings "at least once per....", this would allow the Board to schedule more frequent meetings if necessary, particularly at the beginning.

- It may be preferrable to include the tax incentives (see Articles 42 and 43 of the draft regulations, version 4/24/98 from TSG) within the law itself. Most free zone laws are structured in this way, so as to prevent questions of the legitimacy and to make it more difficult to reduce or reduce incentives in the future.

LAW NO. ( ) OF 1997

Regarding Industrial Estates & Industrial Free Zones

The Chairman of the Executive Committee of The Palestine Liberation Organization,
The President of the Palestinian National Authority
Pursuant to : The exigencies of the Public Interest;
The submission by the Minister of Industry; and
Having regard to : The draft law submitted by the Council of Ministers and
The approval of the Legislative Council in the session held on / /1997
Hereby issue the following law :

CHAPTER ONE

DEFINITIONS & GENERAL PROVISIONS

Article (1)

Unless otherwise implied by the context, the following words and phrases appearing in this law shall have the following meaning :

"Minister" means The Minister of Industry.

"Authority" means the Industrial Estate and Industrial Free Zone Authority established under this law;

"Qualified Applicant" means any person or legal entity capable of applying under the law for the designation of an area in Palestine as an Industrial Estate or Industrial Free Zone;

Replace w/ 1,2,3 from memo

"Industrial Estate or Industrial Free Zone" means a geographically defined area established under this law designated for the benefit of one or more beneficiaries for the implementation of export activities and which shall enjoy special provisions regarding custom duties and taxes.

"Industrial Estate" means a geographically defined area established by virtue of this law designated for the benefit of a number of beneficiaries for the implementation of industrial activities and services and which shall enjoy special privileges secured by this law.

"Authorized Enterprise" means any Industrial institution, corporation or company registered in Palestine and approved to operate in an Industrial Free Zone in accordance with the provisions of this law;

, as demonstrated by the possession of a Valid IFZ Certificate.

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"Manufacturing Enterprise" means an Enterprise which produces new goods through the conversion by manual or mechanical means of organic or inorganic materials into a new product by changing the size, shape, composition, nature or quality of such materials and includes the assembly of parts into a finished product, and packaging of products;

"Industrial Free Zone Certificate" means a certificate granted by the Authority in accordance with the provisions of this law, attesting that an Authorized Enterprise is permitted to operate in an Industrial Free Zone.

"Enterprise" means Industrial ~~Enterprise.~~ , commercial, or service-oriented company.

" Developer " means a party with which a Concession Contract has been signed in accordance with this law to develop ~~and manage~~ an Industrial Estate and/or Industrial Free Zone.

"Operator" means a party which ~~has been approved by~~ manages and runs an IFZ, being either the same entity as the developer, or a separate entity under sub-contract.

"Concession Contract" means a contract signed between the Developer and the Authority for the establishment or development and management of an Industrial Estate and/or Industrial Free Zone.

"Designation Decision" means the decision made by the Council of Ministers in accordance with this law to designate any area in Palestine as an Industrial Estate or Industrial Free Zone.

Developer/Operator

* ~~developer~~ — Either a developer or an operator or both.

Operator's Permit: means a permit granted by the Authority to a Developer/Operator to operate an IFZ.

Article (2)

An Authority known as the Industrial Estate and Industrial Free Zone Authority shall hereby be established in Palestine. It shall enjoy an independent legal personality. In this capacity, the Authority shall carry out all actions and legal proceedings in its name or delegate same to whoever it deems appropriate of Advocates or others. It shall also have its own budget and shall be managed by a Board of Directors constituted in accordance with this law.

Article (3)

The Headquarters of the Authority shall be in Jerusalem. The Authority shall have the right to establish branches in any other city in the Palestinian Territories.

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CHAPTER TWO : FUNCTIONS OF THE AUTHORITY

Article (4)

The Authority shall be responsible to carry out the following :

1. Develop a comprehensive policy for the establishment and development of Industrial Estates and Industrial Free Zones in Palestine.

2. Submit suggestions and recommendations to the Council of Ministers regarding the establishment of any appropriate Industrial Estate or Industrial Free Zone.

3. Receive and review special applications for the establishment of Industrial Estates and Industrial Free Zones for the purpose of establishing Industrial Enterprises and submitting same to the Council of Ministers.

4. Review the applications of the various authorities regarding permits to work in Industrial Free Zones and granting Industrial Free Zone Certificates.

5. Develop Industrial Estates and Industrial Free Zones directly or through Developers and enter into contracts and agreements with them.

6. Prepare special plans and programs for the development of Industrial Estates and Industrial Free Zones and their growth.

7. Establish the public facilities required by Industrial Estates and Industrial Free Zones either by itself or through others.

8. Specify the privileges granted to every Industrial Estate or Industrial Free Zone.

9. Specify the fees for services submitted by the Authority within the Industrial Estates and Industrial Free Zones and the principles for the collection and manner of expenditure.

10. Enter into agreements, accept loans, accept grants, and gratuities submitted to it in the manner that does not violate the provisions of this law.

11. Approve the general budget of the Authority.

12. Select Developers and enter into contracts with them.

13. Supervise the performance and development of Industrial Estates and Industrial Free Zones and publish reports regarding same.

14. Ensure the execution of local and regional agreements promulgated regarding any matter appearing in this law.

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CHAPTER THREE : ADMINISTRATION

Article (5)

The Board of Directors of the Authority shall be constituted of the Minister of Industry as Chairman and the membership of the following :

1. Minister of Local Government or his representative	Member
2. Minister of Economy and Trade or his representative	Member
3. Minister of Labor or his representative	Member
4. Minister of Finance or his representative	Member
5. Minister of Planning and International Cooperation or his representative	Member
6. Head of Environmental Authority or his representative	Member
7. Two representatives of Industrial Free Zones Developers	Members
8. Two representatives from Chambers of Commerce and Industry or Unions of Industrialists	Members

9. The Director General of the Industrial Estates and Industrial Free Zones Authority who shall be a non-voting ex- officio member of the board. He shall also serve as Secretary of the Board.

Article (6)

The Board of Directors shall elect in the first meeting a Vice Chairman from amongst the members for a period of two years after which a new Vice Chairman shall be elected for the same period. The Vice Chairman whose turn has ended may be a candidate for subsequent term.

Article (7)

If the Director General or any member of the Board of Directors has either a direct or indirect interest regarding any application submitted to the Authority by a Qualified Applicant or Developer for the designation of an Industrial Estate or an Industrial Free Zone or their development or the licensing of any Enterprise in them, such interest must be declared in writing to the Board and the member shall be prohibited from participating in any decision or recommendation issued by the Authority regarding the application.

Article (8)

The period of membership of the representatives of Chambers of Commerce and Industry and Unions of Industrialists in the Board of Directors shall continue for two years after which the nomination of their substitutes shall be made, provided that it shall be possible, for those entities which these members represent, to nominate the members whose terms have ended and provided that the members whose terms have ended may continue to serve as members of the Board pending the nomination of their substitutes.

Article (9)

A member of the Board of Directors shall lose his membership if he is adjudged bankrupt or convicted of an offense involving morals or dishonesty or if he is convicted of any indictable offense in relationship to the Company Laws in force. The members of the Board of Directors and Staff of the Authority must observe confidentiality in the course of the exercise of their duties.

Article (10)

The Board of Directors in the course of its fulfillment of its functions shall be responsible to carry out the following :

Guide & Direct the activities of the
1. ~~Develop a working plan to be followed by~~ the Authority within the general policy designated for it.

2. Facilitate the establishment and administration of the authorities operating in the Industrial Estates and Industrial Free Zones through the available industrial investment opportunities and assist them in obtaining all privileges granted to them by virtue of this law and preserve same.

3. Supervise the lands designated for the Industrial Estates and Industrial Free Zones, inspect the operation of the authorities working within them, facilitate their establishment, the operation of their authorities and publish periodic reports in this regard.

Allow for the advertisement & promotion of
4. ~~Advertise and promote~~ Industrial Estates and Industrial Free Zones directly or through local or international developers for the purpose of increasing the investments in them and their co-operation with the competent authorities.

1-Stop Shop.

Approve Standard Operating Procedures and Manuals
5. ~~Make internal regulations~~ for operations within Industrial Estates and Industrial Free Zones regarding financial, administrative and technical matters.

?

which shall
6. Appoint a Director General for the Authority, specify the number of employees and main officers as necessitated by the work, determine their salaries, duties and supervise their work.

Review decisions made on the
7. ~~Approve the~~ use of experts and consultants.

8. Issue bonds within the general provisions in force.

9. Issue the necessary decisions regarding the functions of the Authority.

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Article (11)

The Director General shall carry out the following operations :

1. Organize the Authority and administer it.

2. Prepare the proposed general budget of the Authority.
and work plans

3. Implement the decisions of the Board of Directors of the Authority.

4. Co-ordinate the operations of the Authority and administer the affairs of its employees, staff and workers.

5. Keep special records of the assets, income and expenditures of the Authority and prepare statements, reports and yearly accounts and submit same to Board of Directors.
& oversee evaluation & approval of

6. Receive special applications for obtaining Industrial Free Zones Certificates and submit same to the Board.
7. Submit periodic reports of the work to the Board.

Article (12)

The Board of Directors may authorize the Director General of the Authority with some of his functions and may use other specialized committees or individuals with experience to carry out his other functions.

Article (13)

The Board of Directors shall meet at least once a month by invitation of the Director General or in his absence by his Deputy. The quorum shall be formed if the meeting is attended by an absolute majority of its members amongst whom shall be the Chairman or his Deputy. Decisions of the Board shall be taken by the majority of those present and in case of a tie the vote of the Chairman shall have a casting vote. The Board may be called for an extraordinary meeting upon the invitation of the Director General of the Authority with the approval of the Chairman of the Board.

who ~~are qual~~ have not been prohibited.

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CHAPTER FOUR : FINANCE

Article (14)

The sources of funding the Authorities shall be as follows :

1. Amounts designated as support for the Authority from the general budget.

2. Grants, assistance and unconditional endowments received by the Authority.

3. Funds arising out of the investments of the Authority and its activities.

4. Loans and the revenue of any bonds issued within the general conditions in force.

Article (15)

The Authority shall keep accounts in accordance with applicable commercial accounting principles which shall be audited by an authorized chartered accountant appointed by the Board of Directors.

CHAPTER FIVE : ESTABLISHMENT OF INDUSTRIAL ESTATES AND INDUSTRIAL FREE ZONES

Article (16)

The Authority may either directly or upon an application submitted to it recommend to the Council of Ministers to issue a decision designating any appropriate place in Palestine to be an Industrial Estate and/or ~~Industrial~~ Free Zone and if the area of the Industrial Estate or the Industrial Free Zone shall be situated on a leased property the lease may not exceed 49 years. o.K.

Article (17)

Applications by Qualified Applicants for the designation of an Industrial Estate and/or Industrial Free Zone shall be submitted to the ~~Chairman of the~~ Authority who shall in turn submit it ~~within three weeks of the date of the application~~ to the Board of Directors. The Board shall make the necessary recommendation on it within a period not exceeding one month after it is submitted to the ~~Board.~~ Authority.

evaluate and

1206

Article (18)

The Council of Ministers upon the recommendation of the Board of Directors shall issue its decision to designate an ~~Industrial Estate and/or~~ Industrial Free Zone within one month from the date of the submission of the recommendation to the Board. Reasons shall be given for a negative decision. The applicant in this case shall have no resort to appeal this decision.

Article (19)

The decision of the Council of Ministers shall specify the location of the Industrial Estate and/or Industrial Free Zone, its area and boundaries according to a plan prepared for this purpose. It shall also specify its activities and indicate the means of its supervision in an appropriate manner.

CHAPTER SIX : DEVELOPMENT OF INDUSTRIAL ESTATE AND/OR INDUSTRIAL FREE ZONES AND THEIR OPERATION

Article (20)

The Board of Directors of the Authority may grant the development of the Industrial Estate and/or Industrial Free Zone to any Developer by virtue of a Concession Contract for their development and administration. The Developer may be a company, a public, private or mixed body provided that it is registered in Palestine.

Article (21)

The Developer must have sufficient financial and technical ability. Those with previous expertees in developing and operating Industrial Estates and Industrial Free Zones shall be given priority.

Article (22)

If the appointed Developer shall fail to develop the Industrial Estate or Industrial Free Zone, he may appoint another in his stead to carry out the duties specified in the Concession Contract according to the conditions approved by the Authority.

Article (23)

The Authority shall specify the conditions of the Concession Contract, its duration, ~~the master plan, the general~~ specifications of the construction and infrastructures of the Industrial Estates or Industrial Free Zones and manner of their operations, preservations, kinds of activities and services to be provided there and their development according to the regulations and special rules in the Concession Contract.

any necessary /

Article (24)

The Industrial Estate or Industrial Free Zone shall be subject to the supervision and control of the Authority for the purpose of insuring that the conditions in the Concession Contract are implemented and that the services are provided in accordance with the conditions agreed upon between the Authority and the Developer provided that in case of any dispute the two sides shall resort to arbitration.

Article (25)

common. In the case of IFZS constructed on public land.

The Concession Contract shall terminate upon the elapse of the period for which it was granted or the completion of the construction of the Industrial Estate or Industrial Free Zone according to the conditions agreed upon in the Concession Contract. After the termination of the Concession Contract the Zone and all facilities constructed on it as well ~~as the Enterprises and the facilities owned by the Developer~~ shall be turned over to the Authority. It shall be prohibited to amend the Concession Contract or assign it to a third party without the approval of the Board of Directors.

Article (26)

The Developer with the authorization of and in co-ordination with the administration of the Authority shall promote the Industrial Estate or Industrial Free Zone for the purpose of attracting investors and businessmen. The Developer shall enter into contract with any public or private ~~authorities~~ for the purpose of carrying out advertisements in accordance with the provisions of this or any other law in force in Palestine.

parties.

Article (27)

of PIPZA as defined required by this law or Regulations

The Developer shall preserve in good condition the infrastructure and other facilities necessary for the operation of the Industrial Estate and/or Industrial Free Zone. The Developer shall also collect the specified fees ~~in return for any services.~~ He shall lease any immovable facilities in it and shall deal with all Authorized Enterprises in the Industrial Estate and/or Industrial Free Zone on equal basis without any discrimination between them for any reason whatsoever. The Developer shall also adopt the ~~necessary~~ rules and regulations regarding these matters to promote and develop these Zones in a manner consistent with the provisions of this law.

internal.

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CHAPTER SEVEN : OPERATIONS WITHIN INDUSTRIAL FREE ZONES

Article (28)

Only those parties to which Industrial Free Zone Certificates have been issued authorizing them to operate within a single Industrial Free Zone shall operate there.

No party may carry out any Industrial activity within an Industrial Free Zone unless it obtains the Industrial Free Zone Certificate qualifying it to operate there.

Article (29)

Applications for obtaining Industrial Free Zone Certificates shall be submitted by owners of Enterprises to ~~the Chairman of~~ the Authority ~~who shall present the application to the Board of Directors~~. The ~~Board~~ shall decide upon the applications submitted to it within two weeks of the date of their submission. In the case of their rejection, reasons for the rejection of the application must be given.

Authority

Article (30)

Authority.

The applicant whose application was rejected according to the above article may submit an application for a second review before the same ~~Board~~ within a period of six months from the date of the rejection. If the application is rejected for a second time, the applicant may appeal the decision for rejection before the competent authority.

Article (31)

an Approved IFZ

If after the elapse of six months of its issuance the Owner of ~~the~~ Authorized Enterprise does not commence operations, without showing convincing reasons for not commencing operation, the Authority may withdraw the Industrial Free Zone Certificate.

Article (32)

Industrial Free Zone Certificates shall not be granted except to persons or legal entities registered in Palestine whose objectives shall be to operate in an Industrial Free Zone.

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CHAPTER EIGHT : PRINCIPLES OF IMPORTING AND EXPORTING GOODS TO AND FROM INDUSTRIAL ~~FREE~~ ZONES AND FREE ZONES.

Article (33)

The Owners of Authorized Enterprise in Industrial Free Zones may carry out any Industrial or Export activity or any other additional activity including services.

add here classification of industries, according to draft reg.

Article (34)

Free Zone classified according to para a, b, or c of previous Article.

The Owner of an Authorized Enterprise may sell a maximum of 20% of the annual quantity of the produce of his Enterprise to the local market provided that all raw materials used in the production of the product sold to the local market shall be subject to fees and custom duties imposed on any similar product available in the local market. If a similar local product is not available, 80% of the fees and custom duties imposed on these products shall be paid.

or service

set out concept of customs extraterritoriality here.

Article (35)

All products and goods necessary for the use of the Authorized Enterprise in the Industrial Free Zone which shall be stored in the warehouses of the Customs Authority shall be considered as imported into the Industrial Free Zone.

customs-secured area, or customs extraterritorial area of IFZ

Article (36)

All goods, materials, ingredients, machines, and foreign vehicles imported into ~~the~~ Industrial Free Zone for use within the Industrial Free Zone or any other Industrial Enterprise in it or for the consumption and use of staff working there shall be exempt from custom duties and other related fees and import licenses. ~~[illegible]~~

Article (37)

(the customs-secured area or customs extraterritorial areas.)

Goods and local products imported into ~~an~~ Industrial Free Zone from other Palestinian Areas shall not be subject to any proceedings or taxes or fees imposed by virtue of this law.

Article (38)

Goods produced in the Industrial Free Zone sold outside Palestine shall be exempt from export taxes, export licenses, or any other taxes.

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Article (39)

Goods taken out of ~~Industrial Estates or Industrial~~ Free Zones and delivered within Palestine, shall be regarded as imported into Palestine at the time they are so taken out. Custom duties, taxes and government fees shall be paid thereto. Goods transferred from one Industrial Free Zone to another or to bonded warehouses under the control of the Customs shall not be regarded as imported goods.

insert language for non-secured areas.

CHAPTER NINE : RIGHTS AND OBLIGATIONS OF AUTHORIZED ENTERPRISE

Article (40)

In addition to any other rights granted by any other law, the owner of an Authorized Enterprise shall have the full right to determine the price of the products and services, import the necessary goods and services from outside or inside the country, and the freedom to sell their Enterprises.

Article (41)

The Owners of Authorized Enterprises shall observe the following :

1. Limit their activities to those specified in the license as indicated by the Industrial Free Zone Certificate provided to each of them or to any auxiliary activities in accordance with article 33 of this law. The activities to be carried out in the Zone may be amended upon the approval of the Authority.

2. Submit such documents, books and accounts as the Authority may require for its own statistical purposes.

3. Comply with any regulation or directive placed for the operation of the Industrial Free Zone or for the observance of order and security within the area of the Industrial Free Zone.

4. Notify the Authority three months in advance of any contemplated decision on its dissolution or termination.

Article (42)

The owner of the Enterprise must dissolve his Enterprise in the Industrial Free Zone within six months of the termination of operations without justification otherwise the

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Authority may, after the elapse of the period specified above, in co-ordination with the Customs Department sell the Enterprise by auction and deduct from the proceeds of the sale any obligations and loans due on the Enterprise if, any, and transfer the balance to the account of the Authority.

INCENTIVE

CHAPTER TEN : D~~EALING WITH~~ FOREIGN ~~CURRENCY~~

Article (43)

Authorized Enterprises are exempt from any restrictions on receipt and use of foreign exchange. It is permissible to import any foreign currency from the Industrial Free Zone to any entity in any other Palestinian Territory and visa versa.

Article (44)

Banks and their authorized branches in the Industrial Free Zones may accept payment in any foreign currency from any natural person or legal entity and open accounts in these currencies in the name of the depositors. The depositors have the right to use the balance of these accounts in foreign currency without any restriction.

Article (45)

The rate of income tax applicable to Authorized Enterprises or for productive Enterprises or the activities of Developers shall be as specified in the regulations under this law or any other law whichever is more advantageous to these Enterprises.

CHAPTER ELEVEN : CONCLUDING PROVISIONS

Article (46)

Violation of the provisions of this law or any regulation or decision issued by virtue thereof shall be punishable with a fine not less than JD 100 and not exceeding JD 1000 or their equivalent in any currency in force provided that a more severe penalty is not imposed in any other law.

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Article (47)

Public action for offenses arising from the violation of the provisions of this law shall not be commenced except upon the request of the Minister of Industry provided that at any stage of the proceedings, the Board of Directors of the Authority may settle such action by payment of the penalties mentioned in the previous article.

CHAPTER TWELVE : CONCLUDING PROVISIONS

Article (48)

The Minister of Industry may upon the recommendation of the Board of Directors issue the necessary regulations and decision for the execution of this law.

Article (49)

All competent authorities must implement this Law all within the scope of their competence. This Law shall be in force from the date it is issued and shall be published in the Official Gazette.

Issued in the City of Gaza

on 15 November, 1997 AD
being / /1418H

(Signed)
Yaser Arafat
Chairman of the Executive Committee
of the Palestine Liberation Organization,
President of the Palestine National Authority

refer to
replacement / superceding of
other general ind estate/zone related laws.

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Annex D: Draft Agenda & Preparation Plan for First PIFZA Board Meeting

PIFZA First Board Meeting Agenda (Draft)

Introductory Session (open)

10:00 – 10:05 Meeting is called to order (verify attendance of board members)

10:05 – 10:10 Introductory Remarks (Acting PIFZA Chairman Adnan Samara)

10:10 – 10:30 Overview of industrial/freezone program & objectives (Naser Jaber, Director General)

Short Break

10:45 – 11:00 Coffee, tea, refreshments

Technical Session (PIFZA board members)

11:00 – 11:10 Review and approval of voting and "housekeeping" mechanics (Adnan Samara, Acting PIFZA Chairman)

11:10 – 11:15 Appointment of PIFZA Vice Chairman (facilitated by Adnan Samara, Acting PIFZA Chairman)

11:15 – 11:45 Appointment of PIFZA Acting Executive Director (facilitated by Adnan Samara, Acting PIFZA Chairman)
Delegation of Article 10 functions: items 1 and 5
Authorize Acting E.Director to develop, with MOI assistance, proposal for 1-stop shop plan, draft workplan, PIFZA board by-laws and Internal Rules and Regulations, all to be submitted to Board in subsequent meetings)
Authorize Acting E. Director to undertake 1-stop procedural functions on an interim basis, based on existing framework & SOP manual

11:45 – 12:00 Review and approval of short-term (12-month) transitional work plan (presentation by Naser Jaber, Director General)

12:00 – 12:15 Review and approval of short-term budget & financial plan (presentation by Naser Jaber, Director General)

12:15 – 12:30 Financial management, accounts and controls (facilitated by Adnan Samara, Acting PIFZA Chairman)

12:30 – 12:45 Definition of date, place and key agenda issues of next board meeting (facilitated by Adnan Samara, Acting PIFZA Chairman)

12:45 – 1:00 Closing remarks, first board meeting is adjourned

Site Visit to Gaza Industrial Estate (Optional)

Action Plan, Preparation for First PIFZA Board Meeting

Week of Feb. 27 – March 5	Deadline
Finalize Agenda (VR, NJ, AS; draft already prepared):	Feb. 28
Requests for PIFZA board member nominations (official or acting) (MOI staff)	Feb. 28
Preparation of Draft Board Meeting Briefing Materials	
Transitional Organizational Plan (VR, MOI staff)	March 4
6-month transitional workplan (VR, MOI staff)	March 4
Short-term budget & financial plan (VR, MOI staff)	March 4
Financial management, accounts & controls (AS, NJ, VR)	March 4
Invitations prepared for president, board members, donors & local media (MOI staff)	March 4
Delivery of invitations (MOI)	March 5
Week of March 6 – March 12	
Finalization of Board Meeting Briefing Materials (VR, MOI staff)	March 6
Reproduction & Distribution of Board Meeting Briefing Materials (Arabic) (MOI)	March 7
Meeting with Minister of Finance (AS, NJ)	March 7
Presidential site visit (AS, NJ)	March 11
Arrangement of board meeting site, facilities, and coffee/tea/refreshment (MOI staff)	March 11
Preparation of Presentation Materials (overhead slides, hand-outs) (NJ, VR)	March 11

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Annex E: Revised Off-Site Infrastructure Unit Financial Model

Revised Off-Site Infrastructure Model

PALESTINIAN AUTHORITY
GAZA INDUSTRIAL ESTATE PROJECT
PIFZA
Gaza Operations

	PROJECTED								
	1998	1999	2000	2001	2002	2003	2004	2005	2006
			(US$ 000)						

PARAMETERS

Occupancy Rate	2%	10%	23%	40%	70%	80%	90%	95%	100%
Leased Space (000 m2)	4.8	30.0	68.4	121.2	210.0	240.0	270.0	285.6	300.0
Monthly Tenant Fee per 000 m2 (US$)	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Number of Tenants (revised, slow start)	4	25	57	101	175	200	225	238	250
Average Monthly Tenant Fee (US$)	156	156	156	156	156	156	156	156	156
100 % Recurrent Cost Recovery in	0	0	0	0	0	2003	2004	2005	2006
Opportunity Cost of Capital	5%								
Full Cost Recovery in	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Positive Net Income	0	0	0	0	0	0	0	0	0
Annual operating subsidy needed	278.3	581.9	871.9	784.4	447.3	127.1	0.0	0.0	0.0
Additional capitalization needed	201.2	335.3	335.3	502.9	502.9	670.6	520.9	371.8	303.8
Total Government contribution	479.5	917.2	1,207.2	1,287.4	950.2	797.7	520.9	371.8	303.8
Indicators in 2006:									
Working Ratio	79%								
Recurrent + Capital Cost Recovery	#REF!								
Net Income	(303.8)								

Brackish Water

Water Produced (000 m3)	0	4	41	181	448	640	801	890	934
Water Sold (000 m3)	0	3	33	145	359	512	640	712	748
Tariffs per m3 needed for:									
a. recurrent cost recovery	0.00	9.50	1.90	0.43	0.18	0.12	0.10	0.09	0.08
b. full cost recovery	1497.56	33.47	4.30	0.98	0.40	0.28	0.22	0.20	0.19
Cost recovery to be reached in 2006	100%								
Price per m3 (US$)	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29
Subsidy/(Cross-Subsidy) for FCR	79.1	109.6	132.7	101.2	41.1	(2.2)	(38.2)	(58.2)	(68.3)

Potable Water

Treated Water Produced (000 m3)	292	292	292	292	292	292	292	292	292
Water Sold (000 m3)	234	234	234	234	234	234	234	234	234
of which via connection (000 m3)	0	0	1	12	63	131	191	222	234
Tariffs per m3 needed for:									
a. recurrent cost recovery	0.00	43204.20	381.89	16.88	3.27	1.57	1.08	0.92	0.88
b. full cost recovery	#######	43705.80	193.16	8.54	1.65	0.79	0.54	0.47	0.44
Cost recovery to be reached in 2006	61%								
Price per m3 - connected customers (US$)	0.64	0.64	0.64	0.64	0.64	0.64	0.64	0.64	0.64
Surplus water (000 m3)	234	234	233	221	171	103	43	11	0
Price per m3 - for bottled water (US$)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Subsidy/(Cross-Subsidy) for FCR	103.3	202.4	301.1	392.6	452.7	470.7	451.4	412.4	366.4

Revised Off-Site Infrastructure Model

Waste Water Treatment & Disposal									
Volume (000 m3)	0	3	32	142	350	500	625	695	730
Tariffs per m3 needed for:									
a. recurrent cost recovery	0.00	17.82	4.28	0.98	0.39	0.28	0.22	0.20	0.19
b. full cost recovery	4290.30	68.64	6.86	1.57	0.63	0.44	0.35	0.32	0.30
Waste Load (000 kg)	0	0	1	27	139	290	423	494	519
Tariffs per m3 needed for:									
a. recurrent cost recovery	0.00	18.55	4.45	1.02	0.41	0.29	0.23	0.21	0.20
b. full cost recovery	4465.41	71.45	7.14	1.63	0.66	0.46	0.37	0.33	0.32
Cost recovery to be reached in 2006	163%								
Volume Charge per m3	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51
Waste Load Charge per kg	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53
Subsidy/(Cross-Subsidy)	385.1	383.6	368.6	301.3	140.3	(11.6)	(142.0)	(212.8)	(242.9)

Electrical Distribution									
Power Sold (1000 kw)	1	70	697	3,057	7,566	10,808	13,510	15,011	15,768
Tariffs per m3 needed for:									
a. recurrent cost recovery	67.34	2.26	0.31	0.14	0.11	0.11	0.10	0.10	0.10
b. full cost recovery	412.77	7.79	0.86	0.27	0.16	0.14	0.13	0.13	0.13
Cost recovery to be reached in 2006	100%								
Price per kwh (US$)	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Subsidy/(Cross-Subsidy)	460.1	533.9	513.4	436.5	289.5	183.8	95.7	46.8	22.1

Revised Off-Site Infrastructure Model **Income Statement**

(constant US$ thousand)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
Operating Revenues									
Admin. Revenue (see Admin Finance Mod.)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brackish Water Sales	0.0	1.0	9.6	42.0	104.0	148.6	185.7	206.4	216.8
Potable Water Sales for bottled water	0.4	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Potable Water Sales via connection	0.0	0.0	0.3	7.8	40.1	83.6	121.9	142.3	149.5
Wastewater Charges	0.0	1.6	17.1	86.5	252.5	409.1	543.5	616.4	647.5
Power Distribution	0.1	9.1	90.6	397.3	983.5	1,405.0	1,756.3	1,951.4	2,049.8
Provisions	(0.0)	(0.5)	(3.7)	(16.2)	(41.5)	(61.5)	(78.4)	(87.6)	(92.1)
Total Revenues	0.6	16.0	118.7	522.3	1,343.4	1,989.6	2,533.9	2,833.8	2,976.4
OPERATING EXPENSES									
Personnel	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0	72.0
Brackish Water O & M	0.0	31.4	62.8	62.8	62.8	62.8	62.8	62.8	62.8
Water Supply & Treatment O & :M	0	102.5	205.0	205.0	205.0	205.0	205.0	205.0	205.0
PADICO water billing	0.0	0.1	1.3	6.3	16.9	25.7	33.2	37.4	39.2
Stand-by Generator O & M	106.3	106.3	106.3	106.3	106.3	106.3	106.3	106.3	106.3
Wastewater Treatment O & M	0.0	100.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0
Power Distribution O & M	75.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0
PEA	0.1	5.1	51.2	224.7	556.1	794.4	993.0	1,103.3	1,158.9
PADICO electricity billing	0.0	1.4	13.9	61.1	151.3	216.2	270.2	300.2	315.4
USAID Pay-back from water sales	12.0								
Miscellaneous	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Sub-total	275.4	579.9	913.6	1,139.2	1,571.4	1,883.4	2,143.6	2,288.0	2,360.7
Depreciation	201.2	335.3	335.3	502.9	502.9	670.6	670.6	670.6	670.6
Total Operating Expenses	476.6	915.2	1,248.9	1,642.1	2,074.3	2,554.0	2,814.1	2,958.6	3,031.3
Net Operating Income	(476.0)	(899.2)	(1,130.2)	(1,119.9)	(730.9)	(564.4)	(280.2)	(124.8)	(54.9)
Less: Interest	3.5	18.0	77.0	167.5	219.3	233.3	240.6	246.9	249.0
Net Income	(479.5)	(917.2)	(1,207.2)	(1,287.4)	(950.2)	(797.7)	(520.9)	(371.8)	(303.8)
Working Ratio	48402%	3630%	769%	218%	117%	95%	85%	81%	79%
Operating Ratio	83757%	5729%	1052%	314%	154%	128%	111%	104%	102%
Cost Recovery:									
Cumulative Revenues	0.6	16.5	135.3	657.5	2,000.9	3,990.5	6,524.4	9,358.1	12,334.5
Annual Recurrent + Capital Costs	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Cumulative Cost Repayment	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Extent of Full Cost Recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!

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Revised Off-Site Infrastructure Model

RATES NEEDED TO COVER FULL RECURRENT AND CAPITAL COSTS

Brackish Water

Revenue	0.0	0.9	9.3	40.8	100.9	144.1	180.2	200.2	210.3
O & M	0.0	31.4	62.8	62.8	62.8	62.8	62.8	62.8	62.8
PADICO	0.0	0.1	1.3	5.8	14.3	20.5	25.6	28.5	29.9
Net Revenue/(Loss)	0.0	(30.6)	(54.8)	(27.8)	23.7	60.8	91.7	108.9	117.6
Recurrent Cost Recovery	#DIV/0!	3%	15%	65%	100%	100%	100%	100%	100%
Investment Costs	1,362.0								
Life (years)	40								
Annual Repayment (5% discount)	79.2								
Recurrent + Capital Costs	79.2	110.6	142.0	142.0	142.0	142.0	142.0	142.0	142.0
Full Cost Recovery	0%	1%	7%	29%	71%	102%	127%	141%	148%
Deficit	(79.1)	(109.6)	(132.7)	(101.2)	(41.1)	0.0	0.0	0.0	0.0
Quantity Sold (m3)	0.1	3.3	33.0	144.9	358.7	512.4	640.5	711.6	747.5
Tariff needed for RCR only	0.00	9.50	1.90	0.43	0.18	0.12	0.10	0.09	0.08
Tariff needed for FCR	1497.56	33.47	4.30	0.98	0.40	0.28	0.22	0.20	0.19

Potable Water

Revenue	0.4	4.7	5.0	12.2	43.6	85.7	122.9	142.7	149.7
O & M	0.0	102.5	205.0	205.0	205.0	205.0	205.0	205.0	205.0
PADICO	0.0	0.0	0.0	0.5	2.5	5.2	7.6	8.9	9.3
Net Revenue/(Loss)	0.4	(97.9)	(200.1)	(193.3)	(164.0)	(124.5)	(89.7)	(71.2)	(64.7)
Recurrent Cost Recovery	#DIV/0!	5%	2%	6%	21%	42%	60%	70%	73%
Investment Costs	1,711.2								
Life (years)	36								
Annual Repayment (5% discount)	103.7								
Recurrent + Capital Costs	103.7	103.7	103.7	103.7	103.7	103.7	103.7	103.7	103.7
Cumulative Revenues	0.4	5.0	10.0	22.2	65.8	151.5	274.5	417.2	566.9
Cumulative Cost Repayment	103.7	207.4	311.1	414.8	518.5	622.2	725.9	829.6	933.3
Full Cost Recovery	0%	2%	3%	5%	13%	24%	38%	50%	61%
Deficit	(103.3)	(202.4)	(301.1)	(392.6)	(452.7)	(470.7)	(451.4)	(412.4)	(366.4)
Quantity Sold via connection (m3)	0	0	1	12	63	131	191	222	234
Tariff needed for RCR only	0.00	43204.20	381.89	16.88	3.27	1.57	1.08	0.92	0.88
Tariff needed for FCR	#######	43705.80	193.16	8.54	1.65	0.79	0.54	0.47	0.44

Revised Off-Site Infrastructure Model

Wastewater

Revenue	0.0	1.6	16.6	83.9	244.9	396.8	527.2	598.0	628.1
O & M	0.0	100.0	240.0	240.0	240.0	240.0	240.0	240.0	240.0
Net Revenue/(Loss)	0.0	(98.4)	(223.4)	(156.1)	4.9	156.8	287.2	358.0	388.1
Recurrent Cost Recovery	#DIV/0!	2%	7%	35%	100%	100%	100%	100%	100%
Investment Costs	4,800.0								
Life (years)	20.0								
Annual Repayment (5% discount)	385.2								
Recurrent + Capital Costs	385.2	385.2	385.2	385.2	385.2	385.2	385.2	385.2	385.2
Full Cost Recovery	0%	0%	4%	22%	64%	103%	137%	155%	163%
Deficit	(385.1)	(383.6)	(368.6)	(301.3)	(140.3)	0.0	0.0	0.0	0.0
Volume (000 m3)	0.1	3.2	32.3	141.5	350.3	500.4	625.5	695.0	730.0
Waste Load (000 kg)	0.0	0.0	1.2	27.0	139.1	289.9	422.9	493.6	518.5
Respective tariffs needed for RCR only	0.00	17.82	4.28	0.98	0.39	0.28	0.22	0.20	0.19
	0.00	18.55	4.45	1.02	0.41	0.29	0.23	0.21	0.20
Respective tariffs needed for FCR	4290.30	68.64	6.86	1.57	0.63	0.44	0.35	0.32	0.30
	4465.41	71.45	7.14	1.63	0.66	0.46	0.37	0.33	0.32

Electricity

Revenue	0.1	8.8	87.9	385.4	954.0	1,362.9	1,703.6	1,892.9	1,988.3
O & M	75.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0	151.0
PEA	0.1	5.1	51.2	224.7	556.1	794.4	993.0	1,103.3	1,158.9
PADICO	0.0	1.4	13.9	61.1	151.3	216.2	270.2	300.2	315.4
Total Operating Costs	75.1	157.5	216.2	436.8	858.4	1,161.5	1,414.2	1,554.5	1,625.3
Net Revenue/(Loss)	(74.9)	(148.7)	(128.3)	(51.4)	95.6	201.3	289.4	338.4	363.0
Recurrent Cost Recovery	0%	6%	41%	88%	111%	117%	120%	122%	122%
Investment Costs	4,800.0								
Life (years)	20								
Annual Repayment (5% discount)	385.2								
Recurrent + Capital Costs	460.2	542.7	601.3	821.9	1,243.5	1,546.7	1,799.4	1,939.7	2,010.5
Full Cost Recovery	0%	2%	15%	47%	77%	88%	95%	98%	100%
Deficit	(460.1)	(533.9)	(513.4)	(436.5)	(289.5)	(183.8)	(95.7)	(46.8)	(22.1)
Quantity Sold (kwh)	1	70	697	3,057	7,566	10,808	13,510	15,011	15,768
Tariff needed for RCR only	67.34	2.26	0.31	0.14	0.11	0.11	0.10	0.10	0.10
Tariff needed for FCR	412.77	7.79	0.86	0.27	0.16	0.14	0.13	0.13	0.13

Revised Off-Site Infrastructure Model

Tenant Fee

Revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stand-by Generator O & M	106.3	106.3	106.3	106.3	106.3	106.3	106.3	106.3	106.3
Indirect Operating Costs	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Total Operating Costs	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Net Revenue/(Loss)	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Recurrent Cost Recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Stand-by Generator Investment Cost	912.0								
Life (years)	20								
Annual Repayment (5% discount)	73.2								
Storm Drainaage Investment Cost	200.0								
Life (years)	40								
Annual Repayment (5% discount)	11.7								
Roads	1,000.0								
Life (years)	50								
Annual Repayment (5% discount)	54.8								
Telecommmunications	1,500.0								
Life (years)	30								
Annual Repayment (5% discount)	97.6								
Recurrent + Capital Cost Recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Full Cost Recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Deficit	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Leased Space (000 m2)	5	30	68	121	210	240	270	286	300
Monthly Tenant Fee per m2 needed for:									
Recurrent cost recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Full cost recovery	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!

Debt Service

IDA Credit									
Beginning Balance	0.0	700.0	2,900.0	4,800.0	6,300.0	7,100.0	7,700.0	8,200.0	8,200.0
Disbursement	700.0	2,200.0	1,900.0	1,500.0	800.0	600.0	500.0	0.0	0.0
Repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance	700.0	2,900.0	4,800.0	6,300.0	7,100.0	7,700.0	8,200.0	8,200.0	8,200.0
Service charge + commitment fee	4.4	22.5	48.1	69.4	83.8	92.5	99.4	102.5	102.5
Waiver	0.9	4.5	9.6	13.9	16.8	18.5	19.9	20.5	20.5
Net Interest	3.5	18.0	38.5	55.5	67.0	74.0	79.5	82.0	82.0
EIB Loan									
Beginning Balance	0.0	0.0	0.0	2,200.0	4,200.0	4,500.0	4,600.0	4,608.3	4,816.7
Disbursement	0.0	0.0	2,200.0	2,000.0	300.0	100.0	100.0	300.0	0.0
Repayment	0.0	0.0	0.0	0.0	0.0	0.0	91.7	91.7	91.7
Balance	0.0	0.0	2,200.0	4,200.0	4,500.0	4,600.0	4,608.3	4,816.7	4,725.0
Interest	0.0	0.0	38.5	112.0	152.3	159.3	161.1	164.9	167.0