STRATEGIC AND LEGAL ANALYSIS OF THE JORDANIAN FREE ZONE PROGRAM

FINAL REPORT

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ACRONYMS AND ABBREVIATIONS

ARA	Aqaba Regional Authority
CFZ	Commercial Free Zone
COC	Chamber of Commerce
COI	Chamber of Industry
COM	Council of Ministers
EPZ	Export Processing Zone
FZ	Free Zone
FZC	Free Zones Corporation
GOJ	Government of Jordan
IFZ	Industrial Free Zone
JIEC	Jordan Industrial Estate Corporation
MIT	Ministry of Industry and Trade
MOF	Ministry of Finance
TSG	The Services Group
USAID	United States Agency for International Development

EXECUTIVE SUMMARY

Introduction. The purpose of this report is to examine the policy and operating environment for the Jordan Free Zones Corporation, and to present recommendations as to the actions required to stimulate the contribution of the free zone program to the development of the non-traditional export sector in Jordan. This study was sponsored by the U.S. Agency for International Development Mission to Jordan, and conducted by The Services Group. The investigations and analyses it presents are the result of legislative analysis, data review, extensive field interviews, and site investigations.

Background on Jordan Free Zones. The first free zone in Jordan was established at the Port of Aqaba in 1973, providing facilities for maritime transshipment and storage in the port area. In 1978, the Free Zones Corporation (FZC) was established as the management organization for the Aqaba zone and with the authority to develop additional free zones throughout the country. The second free zone was developed at Zarqa in 1983, at a site near a major crossroads for regional overland traffic.

Recent Developments. Since their development, both the Aqaba and Zarqa zones have been almost entirely oriented toward commercial trade. Over the past year and a half, the level of commercial activity at both sites has increased tremendously. In 1991, the Gulf Crisis brought about a 400 percent increase over 1990 zone cargo levels. Most of the increase in traffic has been channeled through Zarqa, where the number of tenants rose from 200 in 1990, to 417 as of end-June 1992. While transshipment trade with Iraq has been greatly reduced, the Gulf Crisis and subsequent United Nations sanctions have had the perverse effect of increasing the demand for free zone space. Goods previously contracted for direct sale to Iraq are now being stored in the zones, and food and supplies shipped under the sanctions arrangements.

As a result, the zones are now fully occupied, there is a waiting list of 50 firms for facilities in Zarqa, and FZC corporate revenues increased by over 100 percent between 1990 and 1991, to JD3.4 million. Within this context, the FZC now plans to pay its outstanding debt and undertake expansion of the zones.

Role of the Zones in Industrial Investment. While commercial trade has brought about the growth of the FZC zones, investment in industry and export production has been concentrated outside the free zone regime, particularly in the Sahab Industrial Estate, on the outskirts of Amman, which is host to 246 firms (65 are exporters). Unlike export processing zones or industrial free zones (IFZs) that have served as catalysts for the development export-oriented manufacturing in other countries, industrial activity has failed to develop to any extent in either zone location. Today, there are only seven industrial firms in the Zarqa project (although 17 new applications were received in 1991), and none in Aqaba.

Key Constraints Identified in the Zone Law. The fundamental barrier to the development of the Jordanian free zones is the shortcomings of the prevailing law. These can be summarized as follows:

- Definition of the zone and the concept of extraterritoriality. The law sets forth the basic incentives to be extended under the free zone regime in a concise fashion, however, it has been interpreted much more broadly to confer an "extraterritorial" status on the zones. The application of this concept has been particularly detrimental to industrial users, as it translates into the exclusion of their manufactures from consideration as

Jordanian products, thereby making them ineligible for Certificates of Origin, or trade provisions established through bilateral protocols.

- Ambiguities surrounding the applicability of other laws. While zones are not considered to be part of Jordanian territory, interpretations of its provisions have resulted in the imposition of requirements that appear to be in conflict with the spirit of the law, and mitigate the advantages of zone status in some instances.

- Exclusive Mandate of the FZC. The law establishes the FZC as the sole entity responsible for developing and administering free zones in Jordan. As a result, there is no opportunity for other public or private institutions to engage in zone development.

- Lack of Clear Eligibility Criteria and Export Focus. The criteria for free zone status should be clarified as the law contains no explicit reference to the export orientation of zone industries, although it is mentioned in the regulations. Furthermore, no distinction is drawn between the incentives provided to industrial and commercial firms, as is common practice in other free zone laws.

- Zone ownership of real assets. The Free Zones Corporation currently only leases land or facilities to companies operating in the zones. The lack of ownership poses problems for industrial firms in exercising their rights of ownership to the buildings and improvements. Specifically: (i) zone regulations specifically prohibit mortgaging, thereby requiring buildings to be financed with internal sources; (ii) firms are also prevented from using their buildings as collateral for other loans, as is often required in obtaining routine financing; and, (iii) buildings and other improvements automatically revert to the Corporation upon expiry or termination of the lease contract. At that time, the zone can require that the investor remove any buildings or constructions.

In the last instance, there is currently legislation prepared which will amend the law to allow firms to purchase land in the zones. The other constraints noted have yet to be addressed.

Customs Clearance Procedures. Although Customs procedures in the free zones are reportedly more streamlined and flexible than those prevailing outside the zones, especially for temporary entry, they are oriented to the control of transit goods and collection of duties rather than for export manufacturing. Specific problems include:

- Overly complex procedures. A minimum of 13 and up to more than 20 signatures are required to clear goods from a free zone.

- Overzealous enforcement. Customs officers are rewarded directly with bonuses based on a portion of any penalties imposed for infractions discovered. This places a premium on finding even minor discrepancies, and has led to obstructionist behavior routinely noted by industrial firms both inside and outside the zones.

Capabilities and Constraints of the Free Zones Corporation. Established as an autonomous entity, the FZC has independent control over its finances and administration; decisionmaking is generally handled at the General Director or Board of Directors level. In other respects, such as staff salaries, the FZC is trated as a government department.

The FZC suffers from an unwieldy organizational structure; it is divided into eight departments, several of which have only one or two staff. The majority of the 272 staff are located at the zones, although the headquarters in Amman is responsible for nearly all managerial decisions. The zone offices serve essentially to supervise the movement of goods, monitor the site, and maintain the facilities and services.

The FZC head office has been able to assemble qualified and dedicated staff members in key positions, and is generally well-regarded by the public and private sector. It has proven to be efficient in carrying out its administrative duties: applications for zone space are routinely handled in two days for commercial firms, and two weeks for industrial projects. The General Director has taken an advocacy role in promoting reform of the free zone law to allow for private ownership of land in the zones. Key constraints identified at the managerial level include:

- poor organizational structure;
- lack of computerization and shortcomings in data collection and information management;
- inadequate attention to promotion; and,
- unclear objectives and lack of attention to strategic planning.

Free Zone Facilities and Expansion Plans. Neither the Aqaba nor the Zarqa zone has been designed to accommodate industrial users. Zarqa, in particular, is notable for its traffic congestion and general disorder, although both facilities are in need of maintenance and facilities improvement. The Aqaba zone has the added disadvantage of being located on five separate sites, thereby occupying the staff almost entirely with facilitating and monitoring zone merchandise movement.

Given this situation, the FZC is now in the process of undertaking or devising plans for new facilities development that will both address the question of near-term demand for commercial space and provide a competitively configured setting for export-oriented industry. The scope of the planned expansion is tremendous; if undertaken in its entirety it would increased the total area of developed zone property from the present 150 ha. to over 900 ha.

Specifically, a 100-ha. commercial expansion at Zarqa is already underway. The project entails land development and service provision only; cost for the first 40-ha. phase has been estimated at JD2.5-3 million. The development plans for Aqaba's southern coastal area are far more ambitious. The FZC has acquired three sites totalling more than 800-ha. of land from the Aqaba Regional Authority for establishing: (i) a commercial free zone (250-ha.); (ii) an industrial free zone (500 ha., with an option for an additional 800 ha.); and, (iii) an FZC container port development (60 ha.). While there is no cost to the FZC for the land, financing is needed for the infrastructure development, an amount that has been roughly estimated at JD30 million. However, using the JD7/sq.m. average for land development at Zarqa, it would appear that this estimate is extremely optimistic.
The current plan is to develop the Aqaba expansion program over a two-three year period. According to the FZC, a feasibility study is underway for the industrial zone, but the scope and content of the analysis were not made clear in the discussions. The FZC does not appear to have conducted a market analysis for any of the components of its expansion plans to date. Information regarding demand seems to be based upon applications and expressions of interest received by the FZC Investment Office.

Potential Role of the Private Sector. Privately developed industrial free zones are now an integral part of many economic development efforts worldwide. If the present free zone law is reformed to allow for private IFZs, a similar potential exists in Jordan. In addition to the legal constraints noted above, there is a widespread perception in the business community that will have to be overcome that free zones are suitable locations only for commercial activity. In addition, there is no precedent for the private development of industrial estates in Jordan -- speculative industrial development by the private sector has been limited to projects oriented to housing small-scale industry, and this is only a recent occurence. However, there are local financial resources and expertise that might be brought together for a private IFZ project, should sufficient demand be evidenced and a cost-benefit analysis prove positive. It is impossible to say whether private IFZ development is a realistic possibility for Jordan at this early juncture. However, if the Government moves forward with policy reform measures, a new free zone law is drafted, and the regional and international political climate stabilizes, significant interest may be revealed.

Recommendations. It is not surprising that the free zones of Jordan have had only marginal success in attracting industries given the present policy and operating environment. The following measures will be required to increase the free zones' effectiveness in promoting new investment in export industry.

Administrative/Procedural Reform. Significant improvements to the FZ regime can be realized simply through changes in the administration and application of existing provisions of the Free Zones Law and its implementing regulations.

Modify Customs Procedures. The procedures for free zone entry and exit should be streamlined and simplified. Specific procedures should be developed for industrial free zones.

Reform Parallel Regimes. The drafts of the Encouragement of Investment Law and the Law Governing Arab and Foreign Investments should be modified to incorporate specific incentives for export industry and services which approximate those of the free zones for 100-percent exporters located outside the free zone regime. Additionally, the temporary entry and drawback procedures should be improved and made more accommodating to the needs of export industry.

Improve the Operations of the Free Zones Corporation. Measures such as staff training, recruitment of qualified personnel, rationalization of operations, and development of MIS systems should be undertaken to improve the FZC's services and efficiency.

Re-examine Zone Development Strategies. Current expansion plans of the Free Zone Corporation should be re-evaluated in light of the need for both project-specific pre-investment analysis, and overall strategic planning.

Promote Jordan as a Center for Export Industry. The government and appropriate donors should support a comprehensive program for investment promotion, including promotional efforts tailored for the free zone program. No current institutional capacity or mandate exists for this task, which will require careful configuration and formulation.

Reform of Legislation. The Free Zones Corporation Law should be changed to address the constraints and limitations identified, optimally in the form of newly drafted legislation.

Develop Individual Projects. Upon passage of a new law, the development of individual IFZ projects should be supported by the FZC, donors, financial institutions, regional planning authorities and other government agencies, and efforts should be made to stimulate private free zone/industrial estate development.

While the constraints that have inhibited Jordan's free zone development are substantial, they can be overcome if a comprehensive effort is made to address them. If the measures outlined above are implemented as recommended, they will establish a competitive environment for both IFZ activity, and overall export development in Jordan.

I. INTRODUCTION

A. PURPOSE

The purpose of this report is to examine the policy and operating environment for the Jordan Free Zones Corporation (FZC) and to develop recommendations regarding the actions required to stimulate and enhance the contribution of free zones (FZs) in catalyzing export development and new investment in Jordan.

The report has been prepared as an element of the technical assistance provided under the Trade and Investment Program of the U.S. Agency for International Development's Jordan Mission (USAID). The legal and regulatory analysis and strategic assessment of the free zone program that has been undertaken is in keeping with the USAID's overall goal to promote broad-based and sustainable economic growth, as well as the specific objective of fostering increased foreign exchange earnings from the export sector.

This report is based upon investigations and analysis conducted in Jordan by a team of consultants from The Services Group (TSG), through a subcontract with Coopers & Lybrand.[1] The study was conducted over a three-week period, and data collected through a variety of mechanisms including: review of written data, analyses, and relevant legislation; interviews with key public and private sector representatives; site visits to the Jordanian free zones; and, discussions with export businesses operating within and outside the FZ regime.[2] The TSG team has benefitted greatly from the guidance and assistance of the staff of the FZC and USAID, who generously provided their support throughout the execution of the work program.

The analysis and recommendations presented in this document are those of the TSG team and should not be construed to represent the viewpoint of USAID/Jordan or of the individuals interviewed under the study.

B. BACKGROUND ON FREE ZONES

Although Jordan has been host to free zone users since the beginning of operations in the Aqaba FZ in 1974, the activity in both the Aqaba and the Zarqa projects has been almost entirely limited to commercial activity. While the free zone legislation provides for manufacturing and processing operations, few industrial firms have taken advantage of the regime as a platform for accessing the export market.

The historic orientation of the Jordanian FZ regime toward commercial and transshipment operations, combined with weaknesses in the legislative framework has led to misperceptions within both the public and private sectors regarding the objectives of, and opportunities presented by, free zone development. For this reason, a brief summary of the basic concepts which define a free zone program and the potential economic benefits they can generate is presented below.

The team was comprised of James Emery, Legal Analyst, and Cecilia Sager, Zone Development Specialist.

Over 40 persons were interviewed under the study. A partial listing is presented in Annex A.

Broadly defined, free zones are government-designated areas which provide a liberalized policy environment to support trade and economic activity. An outgrowth of the freeport concept, free zones today take a variety of forms, including: free trade status available to firms operating in Hong Kong; regional export incentive programs now fueling industrialization in Mexico and China; industrial estate-style export processing zones (EPZs) that have played a pivotal role in the economic growth in Taiwan and South Korea; the mammoth commercial free zones of Panama (Colon) and Miami; and the new office parks and export services centers that have been established in the Caribbean region.

1. Commercial Free Zones

While all types of free zones offer varying degrees of tax, tariff, and regulatory relief, it is important to draw a distinction between the Jordanian free zone activity, which is largely restricted to commercial operations, and the industrial free zones (IFZs) or export processing zones that have proliferated in developing countries worldwide over the past twenty-five years. Commercial free zones (CFZs) are warehousing areas wherein goods are entered, stored, and re-exported without substantial transformation.[3] CFZ merchandise is not subject to import or export duties unless and until it enters the national Customs territory. Other incentives accorded may include freedom from foreign exchange restrictions and streamlined procedures governing the entry and exit of goods.

For the investor, the principal attractiveness of the CFZ is the opportunity it provides for enhanced inventory and cash flow management. Goods may be shipped and stored near the destination market, repackaged, and then distributed as demand arises. CFZs have proven to be most successful in those locations that are natural centers for regional and/or international trade, such as the Colon Free Zone in Panama and the Miami Free Zone in the United States. While the volume and value of the goods passing through such zones can be considerable, they generate minimal foreign exchange, create few jobs, and promote neither technology nor skill transfer.

2. Industrial Free Zones

In contrast, industrial free zones have been established worldwide as centers of export manufacturing, and thereby hold the potential for a much greater impact on the national economy. IFZs provide a broad array of incentives designed to encourage investment in operations involving the manufacture or processing of goods for the export market.

IFZs are typically configured as secured industrial estates, offering standard factory buildings and/or land for sale or lease to their users. Although the first IFZs were established by public sector institutions (e.g., in Ireland, Taiwan, South Korea), increasingly, the private sector has taken the lead role in IFZ development worldwide.[4] IFZs have proven to be a valuable promotion tool in many

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[3] In some cases, CFZs also provide separate exhibition space for zone merchandise, other auxiliary facilities and services such as marketing assistance, trade shows, etc., and have been established in conjunction with duty-free malls as separate retail facilities.

[4] In Jordan, the term "private free zone" is used to denote single firms receiving free zone designation. To avoid confusion, we will continue that practice in this document. However, private free zones are generally understood to be industrial-estate style IFZs that are developed by private groups. Terms such as "single factory IFZs" or "special free zones" are more commonly used for individual businesses operating with IFZ status.

countries, providing a comprehensive package of investment incentives and a fully serviced location for both foreign and domestic export industries. For the most part, IFZ users import the bulk of their production inputs, draw upon the local economy for labor and basic services, and assemble or manufacture the final product which is then re-exported. In contrast to CFZs, sales to the national economy are generally a minor element of IFZ market strategies, which are instead oriented to the production of goods for international consumption.

In recent years, IFZs have come to play a pivotal role in the production strategies of multinational companies as well as smaller firms based in developed countries, providing a means to decrease labor costs, access new markets, and gain or retain their competitive edge in the world market. Industrial sectors that have been most prevalent in IFZs worldwide are labor-intensive, and include apparel production, textile manufacture, electronic assembly, and other light industrial sectors.

By itself, apparel production accounts for the majority of IFZ activity worldwide. However, the growing sophistication of the facilities and services provided by IFZs, combined with the skill base of the labor force in some developing countries, has led to the attraction of new, higher-value added activities to IFZs in such countries as the Dominican Republic, Costa Rica, India, and Mauritius, including information processing activities, computer-aided design, software development, and high-tech manufacturing and testing operations in electronics, agriculture, and pharmaceuticals.

II. EVOLUTION AND CURRENT STATUS OF THE JORDAN FREE ZONES

A. EVOLUTION

The Aqaba Free Zone was established in 1973 in order to facilitate trade for goods entering through the port of Aqaba. The zone became operational the following year, with facilities inside the existing port area for transshipment and storage. The Free Zones Corporation was established with separate headquarters in Amman in 1978 with a broader mandate to develop additional free zones. In 1983, the Zarqa site was established as the second principal free zone in the country, opening in 1984.

In 1984 the current legislation codifying and governing the Free Zones Corporation was passed. This legislation forms the basis for the organization of the Corporation as well as the operation and character of free zones. Subsequently, implementing regulations governing movement of goods, approval of projects, fees, and other procedures have been decreed.

The development of the Aqaba and Zarqa sites has been oriented primarily to commercial transit trade and not to industry. The Aqaba zone functioned as an important adjunct to the port in providing duty-free storage and staging areas for importers and transit operators. The Zarqa site was selected for its position near the major crossroads for highway traffic to Syria, Iraq, and western Saudi Arabia. Both facilities have been used extensively by traders supplying Iraq, whose dependence on the Port of Aqaba and transshipment through Jordan increased in the 1980s to become a principal avenue for imports. Neither zone has developed as an important industrial center, although industrial areas were incorporated into the design of the Zarqa site. By 1990, only seven industries had been established in the Zarqa zone.

B. CURRENT STATUS

The Gulf Crisis of 1990-1991 dramatically changed the utilization of Jordan's free zones. Until 1990, the number of firms operating in the zones and the traffic of goods moved through the zones had been increasing fairly steadily, as shown in Tables 2-1 and 2-2 below. In 1991, however, traffic increased by over 400 percent due to the Gulf Crisis, and the number of firms increased by over 60 percent. The greatest increases in firms established and goods traffic occurred in the Zarqa zone. Although the Gulf Crisis and imposition of United Nations economic sanctions on Iraq have severely limited the Iraqi transshipment trade, these factors have increased the demand for free zone facilities. This has occurred as a function of the interruption in trade, as goods previously contracted for direct sale into Iraq have been stored in the free zones, and food and medical supplies shipped to Iraq under the sanctions arrangements.

Therefore, although the impact of the crisis and sanctions has been to decrease dramatically the transhipment trade to Iraq, they have had the perverse effect on increasing the utilization of the free zones. Although the zones have absorbed much of the new activity, existing facilities are now essentially fully utilized and there are waiting lists for new applicants.

Table 2-1

JORDAN FREE ZONES CORPORATION
NUMBER OF OPERATIONAL FIRMS

	ZARQA	AQABA	TOTAL	NEW FIRMS
1987	110	20	130	
1988	135	34	169	39
1989	153	38	191	22
1990	199	50	249	58
1991	333	71	404	155
1992*	417	88	505	101

* YEAR TO DATE AS OF 6/30/92
Source: Jordan Free Zones Corporation

Table 2-2

JORDAN FREE ZONES CORPORATION
MOVEMENTS OF GOODS
TONS PER YEAR

	ZARQA		AQABA	
	ENTRY	EXIT	ENTRY	EXIT
1987	55,989	52,840	91,257	52,911
1988	76,681	67,607	78,728	51,718
1989	89,615	76,190	92,994	87,484
1990	99,655	105,932	65,215	59,146
1991	584,677	564,710	241,042	212,164

Source: Jordan Free Zones Corporation

The increase in traffic has also translated directly to the revenues of the FZC. Commensurate with the gradual increases in free zone activity, revenues had grown steadily from 1987-1990. (See Table 2-3.) In 1991, revenues increased by over 100 percent to JD3.4 million, while current expenditures have been kept in line, generating a substantial surplus. Detailed revenue and expense statements for 1991 are shown in Table 2-4. As can be expected, lease revenues storage fees and service charges are the primary sources of income, with salaries comprising the largest single expense component. Due primarily to this balloon in revenues, the FZC finds itself in a relatively healthy financial condition. The FZC plans to repay the outstanding debt of JD3.66 million (borrowed directly from the government), by the end of 1992, in addition to undertaking increased capital expenditures to expand its existing facilities.

Table 2-3
JORDAN FREE ZONES CORPORATION
(Jordanian Dinars)

	REVENUES	CURRENT EXPENSES	CAPITAL EXPENSES	SURPLUS	OUTSTANDING DEBT, EOY
1987	1,253,714	700,201	180,773	372,740	4,180,000
1988	1,302,817	675,547	579,866	47,404	4,050,000
1989	1,597,417	695,983	319,380	582,054	3,920,000
1990	1,679,692	718,693	469,380	491,619	3,790,000
1991	3,733,221	772,611	879,802	2,080,808	3,660,000

Source: Jordan Free Zones Corporation
Note: Surplus is derived as the excess of revenues over current and capital expenditures.

Although the vast majority of this increase in activity was in commercial operations, the number of industrial projects approved also increased from 7 to 17 in 1991. (A list of approved industrial firms is shown in Annex B.) The majority of these projects are being developed by Iraqi investors, and are located in Zarqa free zone. However, two private free zones for industrial projects have also been approved outside of the existing free zone sites. Nonetheless, the free zone program retains a predominantly commercial orientation. Many of the industrial firms within the zone have met with limited success, and are not specifically export-oriented.[5]

Table 2-4

JORDAN FREE ZONES CORPORATION: 1991 REVENUE AND EXPENSE STATEMENTS

<u>REVENUES</u>	
RENT	924,070
STORAGE FEES	786,632
SERVICE CHARGES	555,703
INSURANCE	346,271
COLD STORAGE	42,803
ASSIGNMENT FEES	234,877
HANDLING FEES	12,234
HOUSING FEES	4,618
OTHER REVENUE	369,652
INTEREST	256,361
TOTAL	3,733,221

[5] Separate data on industrial production and exports by the industrial firms is not tracked, and the totals are included in the figures cited above.

Table 2-4 (continued)

JORDAN FREE ZONES CORPORATION: 1991 REVENUE AND EXPENSE STATEMENTS

CURRENT EXPENSES

SALARIES	346,194
LAND RENTAL	26,635
TELEPHONE	4,327
WATER	4,651
ELECTRICITY	43,104
FUEL	8,906
MAINTENANCE, EQUIPMENT	10,310
MAINTENANCE, VEHICLES	9,346
MAINTENANCE, BUILDINGS	9,178
SUPPLIES	14,620
CLEANING	1,037
INSURANCE	24,223
OTHER	23,218
SOCIAL SECURITY	16,109
INTEREST	225,000
REFUNDS	740
FURNITURE & EQUIPMENT	5,013
TOTAL	772,611

CAPITAL EXPENSES

HOUSING	89,380
DEBT AMORTIZATION	130,000
WAREHOUSE CONSTRUCTION	152,300
LAND IMPROVEMENTS	506,010
FEASIBILITY STUDIES	1,392
TOTAL	879,082

Source: Jordan Free Zones Corporation. All figures in Jordanian dinars.

Although the free zones have made only a marginal contribution to the industrial development of the country, significant investment in industry has taken place in Jordan during the same period, including export-oriented industry. This investment has taken place in industrial areas zoned by municipalities, but most importantly in the facilities of the Jordan Industrial Estates Corporation (JIEC). At the Sahab Industrial Estate just outside of Amman, a total of 246 projects have been established, of which approximately 200 are fully operational; 65 of these firms export a significant portion of their production, utilizing the Temporary Entry or Drawback programs for their imported inputs. The estate has developed 175 of its 250 hectares of land which is fully occupied, and is now in the third and final phase to develop the remaining 75 hectares. Fifteen percent of this expansion area is already under contract by interested investors. In addition, the Irbid Industrial Estate, also developed by the JIEC, has attracted 31 industries since its opening in 1991.

Relative to the success of the JIEC projects, the reasons that the free zones have not attracted industrial development are numerous. These include:

inappropriate legislative provisions for industrial operations;

-- ill-defined legal basis of free zones in Jordan, resulting in confusion over relations with other legislation and exclusion of goods produced in free zones from consideration as Jordanian products;

-- inappropriate sites for industrial activity;

-- lack of range of facilities and services for industrial activity;

-- insufficiently developed institutional capacity of the FZC;

-- lack of responsiveness in zone management; and,

-- lack of streamlined Customs procedures for goods clearance.

These factors will be examined in detail in subsequent sections of this report. Taken together, however, they constitute a wide range of problems to be overcome before the free zones can assume a more dominant role in the attraction and facilitation of export-oriented industry. In a more general sense, the existing development of free zones in Jordan has established what appears to be a deep-seated view on the part of the Jordanian business community and government that the free zone program and the specific facilities do not constitute an appropriate framework or site for industrial development. They are largely written off as simply a mechanism for the transit trade, and there is little knowledge of the role industrial free zones play in other countries or the potential contribution they could make in Jordan.

III. FREE ZONE LEGAL AND REGULATORY ANALYSIS

The basic law governing free zones in Jordan is the Free Zones Corporation Law (Law Number 32 of 1984). This review is based on the English language translation of 1988, "The Consolidated Text of the Free Zones Corporation Law and the Amendments Thereto," as well as the regulations and circulars governing procedures and other details. The purpose of this review is to examine the provisions of the law from the standpoint of improving the ability of the free zones of Jordan to attract export-oriented industrial development. Specific recommendations for changes to the legislation and procedures are detailed in Chapter 6.

A. STRUCTURE AND SCOPE OF THE LEGISLATION

Exclusive mandate of the Corporation. The free zones law is relatively simple in structure, and sets forth basic provisions governing activities in the free zones and the Free Zones Corporation. The law establishes the Corporation as the entity responsible for developing and administering free zones (Article 4), and therefore much of the law is concerned with the functioning of the Corporation itself. In other countries, the emphasis is more on the activities undertaken in the free zones, the specific provisions accorded to zone enterprises, and the regulatory functions to be exercised by the zone authority. This co-mingling of the regulatory function of administering the provisions of the law in free zones and developing and managing the zones themselves has two principal drawbacks:

> **Prohibition of development of zones by other organizations.** There is no provision for development and management of zones by other organizations, as is now common practice with industrial free zones in other countries. Accordingly, there are no criteria or procedures for approving free zones, as this decision is mandated to the Board of Directors as an internal activity.
>
> **No designation or license for free zone enterprises.** There is no provision for a license or other document accorded to zone enterprises evidencing their approval as free zone companies. This status is based solely on the fact that they are located in the zones. Therefore, the basic legal document extending rights to the firms is the lease contract. On a procedural level, this is again an inappropriate melding of the landlord relationship with that of regulatory or supervisory agency.

Definition of free zone concept and the extent of extraterritoriality. The free zone law sets forth in relatively precise language the exemptions accorded to free zone firms in Article 13. These include a series of tax and other incentives as well as guarantees of capital repatriation, and appear to be well defined. However, in practice, the concept of a "free zone" in Jordan extends beyond these specific exemptions and assumes a greater degree of extraterritoriality than is otherwise warranted. This is particularly important for industrial activities to be undertaken in the zones. Products manufactured in the zones are not considered to be "Made in Jordan" by the Government of Jordan (GOJ), in terms of qualifying for bilateral and regional trade agreements. In addition, the products receive a special certificate of origin stating that they are manufactured in a free zone in Jordan by the Chamber of Industry.

The basis for this treatment appears to be based on a conception of free zones which considers the zones to be outside the jurisdiction of other laws, particularly laws governing economic activity. This is an interpretation of the law, and is not explicitly codified in its provisions. While Article 19 contains a closely worded statement that any conflicting provisions of other laws shall be nullified, this is not sufficient basis for not applying other laws which do not have any specific conflict with its exemptions and provisions.[6]

This character of the free zones in Jordan has created a number of obstacles to the attraction of industrial activity in the zones.

Certificates of Origin for goods produced in free zones. Certificates of Origin are granted by the Chamber of Industry. As a matter of policy certificates are not granted to goods produced in free zones, or are specifically worded to indicate that the goods are produced in the free zone. The Chamber interprets the eligibility in terms of the country of destination, and respects the provisions of the Arab Common Market for qualification for duty preferences, which specifically exclude goods produced in free zones. It is reported that other countries, including Egypt, Dubai, and Saudi Arabia, are not respecting this provision and grant Certificates for goods made in free zones providing they meet other rules of origin tests. This restrictive interpretation by Jordan is not in keeping with practice in other countries, nor with internationally respected norms for determination of country of origin as expressed in the Kyoto Convention, a codification of Customs practice accepted internationally.

Exclusion from bilateral trade agreements. The Ministry of Industry and Trade (MIT) has in the past negotiated bilateral trade agreements and established clearing arrangements to promote trade, in particular with other Arab countries. These agreements have been important mechanisms for trade, as commercial relations with several of these countries are dominated by governmental interests, for example with Libya and Iraq. MIT does not consider goods produced in free zones as eligible for these protocols. The rationale given is again that the goods are not considered to be Jordanian production, and further that the zone firms enjoy extensive benefits and tax incentives not available to other firms. While there are some tax advantages to locating in free zones, they are not significantly different from those of the proposed Encouragement of Investment Law. (See below.) Again, such an exclusion is not practiced by other countries with industrial free zone programs.

Poorly defined nature of exclusions. The extended concept of extraterritoriality applied to industrial activities in free zones in Jordan also creates some ambiguities regarding the application of other laws. For example, the requirement that all industrial firms register with MIT is applied to free zone firms. While this would normally be a formality, the act of registration submits firms to the provisions of the Jordanian Companies Law. Even if this is the desired policy, it should be clearly stated and not subject to a procedural matter. The registration requirements are also ambiguous with respect to Article 26 of the Storage and Investment Instructions issued by the Corporation, which clearly establish the Corporation as responsible for maintaining a register of companies.[7]

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5 This concept can be taken to the extreme. For example, a printing company in the Zarqa zone is exempted from other laws which require advance approval of printed matter in the country, because the operation is not considered to be printed in Jordan.

7 Specific procedures for designating a free zone firm have been developed by the FZC and are now under consideration. Under the new procedures, firms would register only with the FZC, as intended under Article 26, which would then forward the data to the MIT for informational purposes.

Article 16 clearly establishes the right to repatriation of capital, however it makes this subject to the instructions of the Central Bank. Additionally, although free zone firms are exempt from exchange controls, the cash deposit requirements placed on import letters of credit during the recent balance of payments crisis were also applied to free zone firms. More recently, a July 2nd Central Bank circular specifically singles out free zone firms as ineligible for commercial bank foreign exchange financing for their imports or transit operations.

These various exclusions and ambiguities have contributed significantly to the decisions of potential investors not to utilize the free zone framework for their projects, when it would otherwise give them advantages and reduce their costs. In particular, the decision by the MIT not to accept products made in free zones as of Jordanian origin has more than any other legal issue contributed to their inability to attract industrial investment, and relegated them in the minds of the private sector as areas simply for transit goods storage.[8]

B. SPECIFIC PROVISIONS

Organization of the Free Zones Corporation. The law sets forth the organization of the FZC and its fundamental characteristics. Although it is called a corporation and has a Board of Directors as its governing body, it is not legally established as a corporation but rather is a government department. The Board is structured to have representatives of the Ministries most directly concerned with free zone operations: the Ministry of Finance, whose representative serves as the Chairman; MIT; the Ministry of Transportation; the Central Bank; and the Director General of the Corporation. Customs exercises the interests of the Ministry of Finance, and the Director General of Customs is the Ministry's representative on the Board. This organization has several drawbacks for the operation of the corporation and the free zone program.

Lack of full autonomy. Although it is accorded full financial and administrative autonomy in the law, and in practice operates with substantial autonomy, the FZC would probably function better with increased independence, as is the practice with most public sector free zone corporations in other countries (Taiwan, for example.) Full autonomy would entail establishing the Board of Directors as the highest authority for the FZC, and eliminating the need for actions by Ministries or the Council of Ministers, such as the naming of the Director General. Greater autonomy would allow the Corporation to institute independent salary scales, which would facilitate the attraction of more qualified professional personnel. It would also limit the FZC's ability to borrow directly from the Central Bank, as it does now.

Lack of private sector representation. The Board does not include any representation by the private sector, particularly zone investors. While such representation may be inappropriate for a government department, it is very productive for autonomous organizations and has been utilized in many free zone programs which have corporate or representative bodies governing them.

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8 This perception is further fueled by Article 5 of the law which states that free zones are the sole authorized areas for storage of transshipped gods in Jordan. Most other countries have alternative mechanisms such as bonded warehouses where commercial trade can be stored free of duty upon posting of a bond.

Table 3-1
FREE ZONE AND ALTERNATIVE INCENTIVES

FREE ZONE	PROPOSED ENCOURAGEMENT OF INVESTMENT
Corporate Profits and Social Affairs Taxes: 12 year exemption.	7-15 year exemption depending on location; may be extended; additional 2 years if in Industrial Estate; up to 40% exemption for exports.
Personal Income Tax for expatriates: Full Exemption.	None.
Property and Municipal Taxes and Licenses: Full Exemption.	Exempt if in Industrial Estate.
Imports of Capital Equipment: Duty Exemption.	Full Exemption.
Imports of Production Inputs: Full exemption.	Exemption for approved inputs only; not linked to export production.
Import/Export Licenses: Exempt.	Required.
Bank Guarantees for temporary imports: Not required.	Required.
Capital/Profits Repatriation: No restrictions.	Upon application to Central Bank; after 2 years.
Limitations on Foreign Ownership: None.	49 percent in certain sectors.
Restrictive Eligibility: Positive Criteria.	Sectoral definition of eligibility.
Foreign Exchange Accounts: No limitation.	Up to $750,000 permitted.
Access to local financial markets: Restricted.	No restrictions.
Sales to Domestic Market: Requires prior approval and payment of duty on foreign content.	No restrictions, except for goods imported under Temporary Entry.
	Other: exemption for interest income from various sources; R&D, training and worker housing credits.

Incentives. The incentives accorded to zone firms are competitive with other free zone programs and also with competing regimes in force in Jordan. The standard exemptions on duty for imports, exemptions from trade controls, profits tax holiday, capital repatriation, are itemized in Article 13 and appear well formulated. Table 3-1 summarizes these incentives and compares them to those available outside the zones. For comparative purposes, the incentives from the proposed Encouragement of Investment Law are shown, as opposed to the current version of the law. The major differences between the current and proposed Encouragement of Investment Law are that the new version has expanded sectoral eligibility, longer tax holidays, and a simpler formulation. Reference to other laws or procedures is also shown where relevant, such as the provisions of the Foreign Investments Law and the Customs procedures for Temporary Entry.

From this comparison it is evident that the free zones enjoy certain advantages, particularly relatively to non-zone projects located in the Amman or Zarqa governorates, which now only benefit from a 5-year tax holiday. (Seven years is proposed.) However, the zone users are also limited in several areas, such as the ability to borrow locally. It should be noted that the extensive tax holidays and benefits are available equally to commercial firms: most countries limit such advantages to industrial companies, and then require that they be export-oriented.

Ideally, the incentives for firms outside the zone would approach those of the free zone for those firms which export most of their production. However, such a comparison is not strictly applicable as there is no legal requirement that free zone firms export all or most of their production. Therefore, some rationalization of the incentive programs both inside and outside the zones should be undertaken to: (i) preserve the benefits for industrial firms in the zone; (ii) limit those for commercial firms; and, (iii) establish an approximate parity for firms outside the zone. Doing so would reduce the objections that free zone firms enjoy excessive advantages compared to those outside the zone, and would limit the advantages accorded to purely commercial operations.

Eligibility Requirements. No specific criteria are employed for admission of commercial operations to the zone; however evaluation criteria are specified in the law for industrial firms. These are stated in Article 13 to be new industries utilizing advanced technologies, industries which use local raw materials, industries which generate skills transfers, and industries providing end products not available in the country. Additionally, Article 15 of the Regulations states that industrial operations be oriented to export markets, and provides for advance approval of local market sales. This appears to contradict the final provision of Article 13 of the law encouraging import substitution industries.

In practice, although the provisions of Article 13 of the Law are restrictive, they are not applied in a restrictive manner by the Corporation. The Department of Investment evaluates the projects, which are then referred to a Committee including MIT and the Central Bank. Industrial projects take generally 2-4 weeks for approval, which is a reasonable amount of time. The application form requests detailed information related to the utilization of raw materials, production characteristics, and financial projections for the projects. Although the evaluation and approval process does not appear to be cumbersome, two aspects should receive attention relative to improving the attractiveness of the regime:

> **Lack of explicit export orientation and clear criteria.** To qualify for the benefits, and establish the free zones as a location for export oriented industry, most zone organizations require that all or most of the production be exported, and provide clear criteria to qualify projects on economic or sectoral grounds. These criteria can be formulated in either positive or negative terms: positive criteria state the characteristics required for approval, whereas

negative criteria state only grounds for rejection. Most zones, if they apply these criteria at all, have found that negative criteria are the most explicit and efficient to administer.

Overly detailed application for industrial projects. The information required is not necessarily a part of the evaluation and approval process. If the criteria are made explicit then the application can be simplified to solicit only the important information required to evaluate the projects. In particular, financial projections are likely to be tentative and should not form part of the evaluation: the financial viability of the project should be the concern of only the investor.

Relations with the domestic economy. The conditions and procedures governing local sales and local sourcing by free zone companies are important aspects of the definition of the character of free zone operations. The provisions in the Free Zones Law and Regulations appear to be largely formulated for commercial transactions, and do not reflect the requirements of industrial firms.

Domestic market sales. Local sales are treated as imports, as is common to most free zone programs. However, there is no limitation on goods sold locally, a reflection of the emphasis on commercial activities as well as the lack of an explicit export orientation for industries in the zone. Local sales by industrial firms are subject to approval by MIT, which approves such sales if there is no local production of similar products. As a result, local sales by free zone firms are subjected to more severe requirements than direct imports, which with recent liberalizations are largely freed from quantitative restrictions. Most countries allow only a specified percentage of production to be sold locally, and do not require advance authorization. Exporting firms locating in a free zone will only be peripherally interested in the local market, and will prefer a straightforward limitation which will allow them to sell occasionally quantities locally without complicated and uncertain procedures. Additionally, duties are levied only on the foreign content, which often requires a cumbersome calculation which is done for each transaction. Most other countries would apply standard coefficients based on average production costs for the manufacturer, and not bother with the exacting calculation for each transaction.

Local sourcing. The local sourcing provisions of the law appear as well to be formulated to govern commercial transactions. For industrial operations, local sourcing should be encouraged, as the goods will be used in generating exports and increase domestic value added. Firms selling to the zone industries are generating indirect exports, and should receive credit for such. Article 4 of the regulations specifically states that goods sold into the free zone must be "duty paid" and therefore would not qualify for temporary entry or drawback provisions for the local supplier. This provision unnecessarily hinders local suppliers. Most countries qualify sales by domestic firms to free zones as exports, which enables the suppliers to qualify for the relevant tax incentives as well as duty exemption or rebate for the import content. Without such treatment, it creates a disincentive against local sourcing and may make direct imports more competitive.

Ownership of real assets. The Free Zones Corporation currently only leases land or facilities to companies operating in the zone. For industrial products, the standard period of the lease is 30 years, and may be renewed thereafter on a year-by-year basis. While this is sufficiently long for most industrial projects, the lack of ownership causes a number of problems for industrial firms, as land ownership is generally required to exercise rights of ownership over the buildings and improvements thereon.

Inability to mortgage. Article 23 of the Storage and Investment Instructions specifically prohibits mortgaging any constructions or buildings in the zones. This requires that buildings be financed with internal sources rather than long-term finance, which is the normal means of financing.

Inability to collateralize. In addition to the above restrictions on mortgaging properties, zone firms are also prevented from using their buildings as collateral for other loans, as is often required by Jordanian bank practice. This poses problems for firms in obtaining routine financing. Even the moveable assets of a free zone company, common in both industrial and commercial operations, cannot be collateralized without the approval of the zone director.

Buildings revert to the zone upon termination of lease. Buildings and other improvements automatically revert to the Corporation upon expiry or termination of the lease contract. In addition, the zone can require that the investor remove any buildings or constructions. This is a clear disincentive to locating in the zone, as an investor may lose his entire investment in buildings and real improvements if he is forced to cancel his project for any reason.

There is currently legislation prepared which will amend the law to address this problem, by allowing firms to purchase land in the zones, thereby according them all the rights of ownership.

Customs clearance procedures. The most fundamental characteristic of successful free zones around the world is the ease and facility accorded to the import and export of goods. In Jordan, Customs clearance procedures are complex and can be time consuming, introducing delays into normal trade transactions. Although the implementation of procedures in the free zones is reportedly more streamlined and flexible than those prevailing outside the zones, especially for temporary entry, they are overly complex and are oriented to the control of transit goods and collection of duties rather than for export manufacturing. Export manufacturing by its nature does not generate tariff revenues, and the role of Customs must be carefully balanced between the control of duty-free goods within the country and the promotion of exports and trade.

Overly complex procedures. A minimum of 13 and up to more than 20 signatures are required to clear goods from a free zone. The free zone procedures are not significantly different from those employed outside the zones, and often introduce delays in the import and export of goods.

Overzealous enforcement. Customs officers are rewarded directly with bonuses based on a portion of any penalties imposed for infractions discovered. This places a premium on the discovery of even minor discrepancies which routinely may occur, and has led to obstructionist behavior routinely noted by industrial firms both inside and outside the zones.

Lack of differential treatment. Industrial firms operating in free zones have different characteristics than commercial operations. Unlike many commercial operations, they have long-term investments and will not disappear as soon as a shipment is made. Although routine discrepancies may occur in the normal process of importing and exporting, industrial firms complain that they are treated like criminals and are suspected of fraud even in otherwise explicable situations. Furthermore, despite track records over long periods of time operating without any evidence of fraud, no recognition of this is made by Customs agents.

These problems are largely beyond the control of the FZC yet are an important aspect of free zone operations. Without streamlined procedures and an understanding of the nature and requirements of export manufacturing operations, the free zones are stripped of one of their potential appeals and contributions to industrial development. Similar problems with Customs administration have been noted in previous studies and have indeed been the object of most efforts to improve the trade and investment climate in Jordan. Without a consensus on the need to change these procedures, other efforts to improve the trade and investment environment will bring limited results. The treatment of industrial operations in free zones offers a suitable place to initiate such reforms.

This legal and regulatory review has concentrated on the obstacles and constraints posed by the current legislation and its implementation. Many aspects of the legislation and regulations governing the free zones are well formulated and can support export industry, and are not specifically covered here. However, without attention to reform of the above-mentioned constraints, results generated by other efforts to increase the contribution of the zones will be limited.

IV. ASSESSMENT OF THE FREE ZONES CORPORATION

A. ORGANIZATIONAL FRAMEWORK

1. Legal Basis

As noted in Chapter 2, although the FZC became operational in 1978, its legal basis and institutional structure was formally established in 1984 with the passage of Law No.32, "The Free Zones Corporation Law." It is this document which sets forth the framework for the organization and operations of the FZC, and which delineates is authority and functions as the entity responsible for administering and developing the free zones.

The law establishes the FZC as an autonomous body, governed by a Board of Directors made up of key ministerial officials and the Director General of the Corporation. Each of these individuals are appointed by the Council of Ministers, upon recommendation of the Minister of Finance. (See Chapter 3, Section B, for more information). As appropriate, the FZC draws upon the Legal Counsel of the Ministry of Finance as its independent legal advisor, and the GOJ Bureau of Auditing for its external auditor.

While autonomous, the FZC is legally accorded the status of a government ministry, and the rights and privileges of such an institution. Therefore, though the FZC has independently exercised considerable financial and administrative authority, it is also subject to all civil service regulations, including those regarding salary levels. In addition, the Law itself places restrictions that limit the FZC's independent decisionmaking powers. Although the Board of Directors is established as the governing body of the Corporation, several Board decisions are subject to the approval of the Council of Ministers, including:

- determination of service dues payable to the free zones;
- contracting of loans and agreements;
- acceptance of the annual budget; and,
- determination of the category of industries that may establish in the free zones.

As described below, the operational autonomy of the FZC is limited even further by the application of the budgetary provision, in particular.

2. Staffing and Organizational Structure

The Director General is the Chief Executive Officer of the FZC, and is responsible for executing all policies and practices set forth by the Board, managerial and personnel oversight, and financial/strategic planning. He is supported by the Assistant Director in his managerial functions. As shown below, on a functional basis, the Corporation is divided into eight separate Departments.

Table 4-1

FREE ZONE CORPORATION
ORGANIZATION AND STAFFING

Department	Number of Staff
Promotion and Studies	1
Legal Affairs	1
Administration	24
Finance	5
Investment	5
Auditing and Inspection	4
Technical (engineering)/1	7
Free Zones (on-site):/2	
Aqaba	92
Zarqa	133
Total Staff	**272/3**

Source: Free Zones Corporation

/1 All engineering staff, including the Director, are based at the zones.

/2 Detailed organizational information on the individual free zones is presented in Section B.

/3 Unofficial estimates of total staff by FZC personnel ran as high as 300-400 persons. The variation may be accounted for by the use of temporary employees in the zones, who are not captured in the FZC's personnel records.

Each Department is headed by a Manager or Director, with the exception of the Free Zone Department, which is administered by the Director of each zone, overseen by the FZC Director General. Apart from the free zone and engineering staff, all FZC personnel are based at the head office in Amman, although frequent trips are made by the Director General and key managers to the zone sites. In terms of staffing, several points should be made:

- the majority of the staff are located at the zones themselves, as is appropriate;
- only one individual is responsible for promotion, an activity which is critical to the success of any free zone program; and,
- the Administration Department appears to be over-staffed, but in fact bears responsibility for administrative matters related to the individual zones as well as the main office, as does the Finance Department;
- the number of staff on-site appears excessive, although within the current political context, an increased emphasis has been placed on close scrutiny of goods and staffing levels have been raised accordingly.

From an organizational perspective, this structure is unwieldy and in need of rationalization: various functions might be consolidated in one department (e.g., finance and administration) or, in other cases, responsibilities redistributed. The Department of Auditing and Inspection, for example, deals with the both the auditing of basic administrative matters and with recordkeeping regarding zone activity, each of which might be subsumed by other departments (e.g., the Administration and Technical Departments, respectively). The FZC recognizes this issue and is presently undergoing an organizational review, drawing upon the outside expertise of the Public Service Institute, which is likely to result in recommendations to modify its present framework.

B. CAPABILITIES AND CONSTRAINTS

1. Administration and Finance

The operations of the Administration Department generally function smoothly, but are inhibited to a certain extent by the lack of true autonomy for the FZC. For example, since the Council of Ministers must approve the annual budget, if personnel needs arise during the course of the fiscal year, an annex to the budget must be drawn up by the Director General specifying the need/cost of the proposed positions, approved by the Board and then submitted to the Council. Likewise, acquisition of office equipment, such as computers, copiers, etc., if not included in the annual budget, requires Council-level approval.[9]

Technically within the area of administration but one of the principal constraints affecting all departments and functions of the FZC, is the lack of a computer system. At present, all records regarding the administration and operations of the FZC and the activity that takes place in the zones themselves are prepared manually. There is an immediate need for the development of a customized Management Information System (MIS) that can accommodate the diverse data management needs of the FZC, including:

- **Administration:** Personnel records, inventory and supply information, facilities and equipment procurement and maintenance, etc.

- **Finance:** All aspects of financial recordkeeping, including budget preparation, accounts receivable/payable, zone/zone user accounts, preparation of cashflow projections, monthly/quarterly/annual financial statements, employee payroll and benefits, and financial planning.

- **Zone and Zone User data:** Including information on investor applications, project status, traffic of goods by value and volume, Customs data, tracking of exports and local sales, etc.

- **Investment and Promotion:** Such as number of enquiries received, followup actions, status of project, sectoral data, investment trend data, basic economic information, etc.

9 Reportedly, the approval of the Council is routinely received for both policy and operational matters, and the review and decisionmaking process has been generally effectively administered to date. Nevertheless, unwarranted delays are encountered with regard to rudimentary administrative matters.

With regard to the areas cited above, it is important to note that much of this information is simply not available in the FZC in any form, that is, no records are kept at all on some aspects of user activity, records that are routinely maintained in other zone programs. The FZC is now preparing a budget annex that will cover the purchase of a computer system for the office. As discussed in Chapter 6, such a system should be comprehensive and networked with the zones.

Financial management of the operations of the FZC are totally centralized in the Amman head office. The zones have only petty cash, transferring rental funds monthly. As with personnel records, zone payroll is tracked and disbursed from the head office. Given personnel constraints, total financial centralization is perhaps justifiable, however, it undoubtedly reduces the efficiency and responsiveness of the zone management.

2. Zone Regulation

The FZC approval process for both commercial and industrial applications functions efficiently, requiring 1-2 weeks for commercial firms, and up to one month for industrial users.[10] The lease contract is the sole document which grants zone status to an industrial or commercial operation, there is no license or permit as is common practice in other countries. In general, the procedures for application are straightforward and few problems were noted by the zone users interviewed. Although criteria for designation of zone industries is set forth in the legislation in broad terms, rarely is approval denied.[11]

With the loose wording found in the legal regulations, it is not altogether surprising that the FZC does not separately track the export or local sales of the industrial production of the zone users, which are bundled in with those if the commercial firms. Given the sheer volume of zone user applications and transactions at present, the quantitative data on zone operations to be collected virtually necessitates the use of a MIS system, as outlined above.

The Directors of the Zarqa and Aqaba zones bear responsibility for supervising and regulating the activity that takes place within their projects. Based upon discussions with users of the Zarqa zone, the role of the Director is broad, extending into routine transactions, transfers, and approvals. Given that there are over 400 firms now operating in Zarqa, and 88 in the Aqaba zone, delegation of authority to technical personnel within the zones, as well as improved coordination with Customs officials would appear to be in order.

3. Zone Operations

There has been a marked upsurge in the level of activity in both the Zarqa and Aqaba zones since 1991, arising from changes in the regional commercial trade flow resulting from the Gulf Crisis. The five-fold increase in zone traffic has brought heightened demands for zone space, strained the

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10 A Certificate of Registration from the MIT must accompany industrial applications, complicating and extending the application process somewhat.

11 For a complete discussion of the legal requirements and procedures associated with the approval process, see Chapter 3.

capabilities of zone infrastructure, and brought the need for effective management and operations into sharp focus.

As discussed in Chapter 2, both zones are nearly full and the revenues generated have increased commensurately. Table 4-1 below presents the lease rates currently charged at the zones, as well as those at the Sahab Industrial Estate for comparative purposes. While the rental of serviced land at Sahab is 50 percent higher than in the zones, there is a marked difference in the facilities and services provided. Moreover, Sahab offers its users the option to purchase land within its premises, and alternative not available to FZC users.

Table 4-2

COMPARATIVE LEASE RATES, 1991
(JD/square meter/year)

	Serviced Land	Buildings
Sahab Industrial Estate	1.500 /1	10.000
Zarqa Free Zone	1.00	13.000
Aqaba Free Zone: Airport	0.750	NA
Highway Site	1.250	13.000
Port Site	NA	Daily Rate

Source: Jordan Free Zones Corporation and Sahab Industrial Estate

/1 The Jordan Industrial Estate Corporation also offers the sale of serviced land at a rate of JD 16/square meter.

Commercial leases in the FZC zones are of one year duration or land; fifteen years for land with improvements. The zone provides only basic services.[12] Industrial projects receive thirty year leases. All leases are renewal on an annual basis upon expiration. However, under the law, for industrial users at the end of that lease all property and improvements revert to the zone. In this respect, the FZC zones are at a competitive disadvantage relative to the JIEC estates, for firms engaged in export manufacturing. Nevertheless, as discussed below they are now enjoying considerable success in attracting commercial tenants.

a. Zarqa Free Zone

For the users of the Zarqa zone, the frenetic level of activity and rising number of tenants has resulted in traffic congestion, shortfalls in maintenance and basic service delivery, and a near-gridlock at times in the zone administration office as businesses work with clearance agents, Customs, and zone personnel to process their shipments. Nevertheless, according to tenants, goods routinely clear in 1-2 days for both import and export. Such timely processing is credited to the tenacity of the users and clearance agents, while zone management and Customs procedures are viewed as problematic, but still superior to the situation outside the zone.

12 The zone is responsible for the provision of water and sewerage services, as well as, garbage collection. Zone users must make their own arrangements for telephone and electrical hookups.

The Zarqa staff is comprised of some 133 persons, including 33 guards, 36 persons engaged in goods inspection/movement; 28 laborers; 28 basic service providers (e.g., maintenance, landscaping, drivers); and 11 in management and administration. As is true at Aqaba as well, most of the zone employees are engaged in either security or goods monitoring.

While many of the present occupants have learned how to work within the present situation, it is important to note that only seven of the 417 firms currently operating in Zarqa are manufacturers (an additional seven industrial projects are under construction). For the commercial user, with minimal facilities and service requirements, the locational and regulatory advantages available at Zarqa appear to outweigh the drawbacks; there are already 50 commercial applications for space in the zone expansion that is presently underway.[13] However, from the viewpoint of a prospective industrial investor, Zarqa falls far short of international standards in terms of its facilities, services, and general appearance.

Although the zone master plan has set aside areas for congregation of industrial buildings, given that there are only seven industries established, these firms are surrounded by commercial warehousing, open-air storage areas, and scattered undeveloped plots. There is minimal landscaping and no real green areas on the 100-ha. developed portion, although plans for the expansion reportedly accord more attention to zone appearance. There is also little in the way of the types of services and amenities that have become quite common in both public and privately owned industrial estate/free zones in other countries. Within Jordan, in its facilities, services, and design, Zarqa compares unfavorably to the Sahab Industrial Estate, which has enjoyed a great deal of success in attracting both domestic- and export-oriented industry.

In summation, the Zarqa zone has benefitted from the recent turn of events in international trade and is attracting new tenants and generating revenues at a record pace from its commercial operations. Nevertheless, in terms of its economic impact, total employment in the zone is estimated at no more than 3,000 workers, most of whom are engaged in clearance, transport and other support activities, rather than the commercial (700 workers) and industrial (500 workers) operations. Although the upsurge in industry applications in 1992 cannot be ignored, it would be overly optimistic to view it as a new trend in industrial investment and economic growth in Zarqa. It is unlikely that zone will meet the needs of most industrialists, who will instead seek to obtain private free zone status, or perhaps elect to locate in Sahab and operate under alternative export promotion schemes.

b. Aqaba

The first free zone in Jordan, Aqaba was established near the southern port city to capitalize on the natural maritime market for transshipment and commercial trade. The original free zone site was within the port area, on grounds held by the Port Authority, and was abandoned in 1978, when the zone was re-designated to include two sites approximately five kilometers from the port on the main highway. Today, the unusual configuration of the zone has expanded to include the following:

1. The first of the present sites, a 25-ha area, was developed in three sections, and contains warehouses, hangars, and 18-ha. of open yards.

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[13] The expansion plans call for the development of an additional 100 ha. of land, including a new administration building which will serve as the head office for the FZC. Expansion plans for both the Zarqa and Aqaba projects are discussed in the following chapter.

2. The second site, a 10,000 sq.m. cold storage facility (which can be used to store both frozen and refrigerated goods) was built on a 5-ha. plot across the highway. In addition, construction is beginning of three warehouses (5-6,000 sq.m. under-roof) on this site.

3. A 30-ha. open storage area for heavy machinery was added in 1980 on the road to the Aqaba airport, still quite near the highway site.

4. In 1984, an administration building and two warehouses were constructed on 19,000 sq.m. of land leased from the Port Authority, within its grounds.

5. In addition, the zone has recently obtained a 10,000 sq.m. site at the port for container storage that it will soon be developing.

The FZC owns none of the 61 ha. of land which the Aqaba Free Zone occupies. Each of the three sites outside the port are provided rent-free by the Aqaba Regional Authority (ARA), the principal governing body for the area, the other two sites are leased from the port at a rate of JD1/sq.m./year.[14] The multi-site nature of the Aqaba Free Zone has obviously added to the administrative effort required to maintain adequate control over merchandise movement and the zone workforce. The total staff of the zone numbers some 92 persons, 32 of whom are guards, and including 21 inspectors. The fact that nearly 60 percent of the workforce is dedicated to the security and supervision of zone facilities and merchandise is a direct reflection of the difficulties involved in monitoring the zone.[15]

With five separate locations, little provision has been made to provide common facilities and services to users. (Although the zone does serve as a liaison for users with the Port Authority for payment of port charges, as described below.)
According to the Zone Director, Aqaba's facilities are 90-percent utilized and all of its 88 users are commercial firms using public warehouse space. Total zone employment is estimated at only 300 persons. No private warehouses have as yet been established, however, interest has been expressed by several firms, and discussions are underway regarding new construction on the open lots in the first site described above. There have also been inquiries from several industries.

The Aqaba zone management works closely with the Port Authority and Customs in coordinating the offloading, clearance, and transport of goods. According to all parties concerned, the system functions smoothly for the most part. The Port Authority provides 24-hour service and uses its own personnel to unload the cargo designated for the free zone under Customs supervision onto the trucks, upon presentation of proper documentation. The Port Authority invoices the Aqaba FZ for the port charges which, in turn, bills the users, thereby simplifying the process.

A Customs official and a FZ representative accompany the shipment to the site, where it is cleared by Customs. Again, assuming that all Customs documentation is in order, interviews indicate that

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[14] Rights to the use of the new container facility yard were obtained in two increments. The first 5,000 sq.m. will be rented to the FZ at the prevailing JD1/sq.m. rate, the remaining 5,000 sq.m. will be leased at a new rate of JD2.5/sq.m./year.

[15] Of the remaining staff, the majority (16) are comprised of laborers and drivers, 10 are in administration/clerical positions, and there are three persons responsible for general safety.

incoming and outgoing goods can be cleared in 1-2 days. As in Zarqa, nearly all firms rely on clearance agents to handle the documentation required. In discussions with Customs, the need for additional on-site personnel in the free zone sites was expressed. While Customs has posted inspectors in the zones, its relies on the FZC security for surveillance. Both Customs and the Aqaba zone track merchandise flows and records are reconciled on a regular basis. Any discrepancies found are the responsibility of the zone.

Like Zarqa, the Aqaba Free Zone is not designed to accommodate the needs of industrial users and is intended instead to facilitate commercial trade. Even for simple storage needs, the sites are in need of improvement -- spread out over several kilometers, there is no landscaping, general maintenance appears low, and roads are unpaved or in disrepair. Nevertheless, the level of zone activity has grown substantially over the past year and a half, and the FZC is now seriously considering moving forward with plans to restructure the project altogether to address the constraints of its current configuration. This would entail the consolidation of the commercial facilities at a single location, south of the port, as well as expanding the zone to include a separate, industrial facility. Altogether the expansion plans would entail the phased development of more than 800 ha. of land in the Aqaba southern coast region --- more than ten times the size of the existing facilities. While it is clear that the present situation is in need of improvement, it is also apparent that a detailed feasibility study is required prior to embarking on such a substantial growth program. Possible ramifications of this development plan are discussed in Chapter 5.

c. Private Free Zones

In a recent development, private free zones are now permitted to be constructed on land that is not held by the Corporation. The FZC has already received four applications for the establishment of private free zones, that is, individual industrial operations, granted the rights and privileges of free zone firms, that are located outside the confines of the zones. Because of the newness of the private free zone concept, no formal procedures have yet been developed by the FZC to govern their operations. However, reportedly, the same Customs control measures will be exercised in these projects, and the service charges levied by the FZC will also apply.

Three applications have been received and approved for private free zones:

1. A Dutch chemical plant, located near the Aqaba port which is nearly completed. The 17,000 sq.m. facility will utilize local raw materials and employ 100 workers.

2. A Saudi Arabian meat packing plant, also to be located near Aqaba. The firm plans to import sheep and cattle from New Zealand, which will be slaughtered and packaged for local sales and export to the Saudi market. An estimated 500 workers will be employed in the 400,000 sq.m. plant.

3. A joint venture between the Jordan Fertilizer Company and an Indian firm that will produce chemicals, to be located near Shedia, employing 100 workers in the 50,000 sq.m. plant.

The fourth application is for the establishment of a steel manufacturing plant near Aqaba. The plant will be export-oriented, employ 700 workers, and occupy 150,000 sq.m. of space.[16]] According to the Director of Investment of the FZC, another six letters of interest have been received for private free zone designations. If they follow the pattern of the four projects outlined above, they are likely to be capital-intensive, resource-based operations.

4. Zone Promotion

The FZC presently does not engage in any active promotional activity. The staff of the Promotion and Studies Department consists solely of the Manager in Amman. The Zone Directors handle investors enquiries at Zarqa and Aqaba.

Promotional materials are limited to a simple four-color brochure (available in English) featuring photographs and general descriptive text about the Aqaba and Zarqa projects and the Jordanian zone program. No operating cost information is presented, data that is critical in engaging investor interest, nor is there concrete, current data provided regarding the general business and economic environment. In addition, the Free Zone Law and implementing regulations are presented in an attractive small booklet, in Arabic and English, which is a necessary element of any zone promotional materials.

The FZC has plans to begin actively promoting investment in the zones and has recently signed a JD20,000 contract with the Royal Scientific Society, a quasi-governmental organization, to produce new brochures, a video, and an investor guide. While this would appear to be a step in the right direction, there is still a need for a coordinated promotional strategy, especially if the FZC wishes to increase industrial investment in the zones. As discussed below, promotion and strategic planning go hand in hand, and both are in need of attention.

5. Strategic Planning

In conversations with the private sector, the FZC was cited as one of the most responsive government agencies in Jordan. It is notable for its success in streamlining the investment approval process, its efforts to facilitate relations with Customs, and the capabilities and experience of key personnel. However, the economic and market conditions in the nation, region, and the world, have undergone substantial changes over the past ten years. Notwithstanding the ongoing boom in commercial trade, the FZ program in Jordan has fallen short of its objectives in terms of employment generation, increased foreign exchange earnings, technology and skill transfer, and has therefore had only a limited impact on national economic development.

Recognizing the need to improve the attractiveness of the free zone program for industry, and specifically, export-oriented manufacturing, the FZC is now taking a more pro-active role in serving as an advocate for legislative reform, liberalization of trade regulations, and promotion of Jordan as an investment location. At the same time, the overall strategy of the Corporation, with regard to its own goals and objectives, remains unclear.

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[16] Discussions have also been held between the investors and the FZC about the possibility of locating the plant in the new Industrial Free Zone planned for Aqaba, should it be developed.

While the internal measures that are underway to improve the capabilities of the Corporation in areas such as rationalizing the organizational structure, computerization, development of promotional materials, are desirable, they appear to have been initiated on a largely ad hoc basis, at the point when the needs have become too pressing to ignore. In other cases, the basis for decisions seems questionable, for example, why should the headquarters of the FZC be relocated to Zarqa? Amman, as the center of government, business and population, would seem to be the optimal, central location. Or, if the FZC moves ahead with the large-scale development planned for Aqaba, couldn't an equally persuasive case be made for relocating the main office to the new facilities there? It is critical for the success of the Corporation that immediate attention be directed toward a formal strategic planning effort, especially in light of its current plans to greatly expand the scope of its operations and facilities.

In undertaking such an initiative, the FZC will be constrained by a lack of sufficient information on which to base strategic decisions, except in the broadest sense. The absence of formal data collection and analysis regarding the operations, production, and performance of the industries that are located in the zones, or of investors that have expressed interest, has produced a gap that will be difficult to cross in effective planning.

Nevertheless, it is imperative that a formal plan be developed, which takes into consideration not only the general objectives of the Corporation, but the economic, market, social, and political realities that make up the present business climate. Once an overall strategy is formulated, specific research and studies can be conducted to test its viability. The FZC has a potentially valuable role to play in Jordan's economic development, but the specific form that its contribution will take has yet to be defined, or demonstrated.

V. EVALUATION OF NEW ZONE DEVELOPMENT OPTIONS

A. FREE ZONES CORPORATION EXPANSION PLANS

Commercial trade in the Jordanian free zones has been rapidly evolving of its own accord, and in recent years, this has had a positive impact on demand for space in both the Zarqa and Aqaba projects. However, it is also true that commercial firms operate in response to the market factors of the moment, and that as regional and world trade patterns change, the commercial base of the free zone sector in Jordan is an unsteady platform for its long-range success.

The FZC has only begun to realize the potential of the Jordanian free zone program as a center for export manufacturing activity. Given the present legal/institutional structure, facilities, staffing, and resources, this is a formidable task. In the context of the international zone community, the free zones of Jordan fall far short of the new standard that has been established in other countries with programs specifically targeted to the needs of export industries. Neither Zarqa nor Aqaba was designed with the manufacturing sector in mind and, notwithstanding attempts to segregate industrial activity within the zones, the present facilities cannot be considered attractive locations for export investment, especially for foreign firms.

Realizing this situation, the FZC is now in the process of undertaking or devising plans for new zone facilities development that will both address the question of near-term demand for commercial space and provide a competitively configured setting for export-oriented industry. The scope of the planned expansion is tremendous; as shown in Table 5-1, if undertaken in its entirety it would increased the total area of developed property from the present 150 ha. to over 900 ha. With such an ambitious development program under consideration, it is important to examine the reasoning on which it is based, as well as the specific elements it encompasses.

1. Zarqa Free Zone

The total land area of the Zarqa Free Zone is approximately 550 ha., of which an estimated 360 ha. is suitable for development. The initial phases of development have encompassed 1,000,000 sq.m. of land, divided between warehouses, open yards, industries, etc. (See Table 5-1). The Zarqa expansion will develop an additional 1,000,000 sq.m. of land; initial land preparation has already begun on the first 40-ha.

The FZC will only provide developed, serviced land in the expansion site. All buildings will be privately constructed by tenants. This approach will clearly keep development costs lower than they might otherwise be. The estimated cost for the first phase is an estimated JD2.5 - 3 million, or approximately JD7/sq.m. If the remaining 60 ha. were to be developed for the same cost, the expansion expense would total JD7 million. This figure does not include the new head office for the FZC which will also be constructed at Zarqa in the near term, nor whatever additional administrative, general service, or common facilities that might be included in the master plan.

Table 5-1

FREE ZONES CORPORATION:
DEVELOPED LAND AND PLANS FOR EXPANSION
(square meters, 000's)

	Developed	Proposed Expansion
Zarqa Free Zone		
- Commercial (private)	500	--
- Car sales lots	125	--
- Factories	125	--
- General Storage	100	--
- Open Yards	100	1,000/1
	---	-----
Total	950	1,000
Aqaba Free Zone		
- Cold Storage	50/2	
- Factories	--	5,000
- Warehousing/Covered Stor.	70	2,500
- Open Yards	480	--
- Container Holding/Port	10	600 /3

Total	610	8,100
Sahab Industrial Estate		
- Warehouses	--	60/4
GRAND TOTAL:	**1,560**	**9,160**

/1 In the expansion, the FZC will provide serviced land for commercial firms. All warehouses/facilities will be privately constructed by the users.

/2 Total land area. Includes 10,000 sq.m. under roof and 6,000 cubic tons of storage space.

/3 The developed land is for container holding alone. The 600,000 sq.m. planned development is for a free zone container port facility.

/4 The warehousing constructed will be privately financed. The FZC will bear responsibility only for ensuring the lawful use of the facilities.

The unmet demand at the Zarqa free zone is substantial. As noted in the preceding chapter, there are presently 50 approved applications awaiting space in the expansion area. Based upon discussions with the FZC Engineer, the typical plot area will be 1-2,000 sq.m., or an average of 1,500 sq.m. Under these assumptions, the FZC has confirmed demand for approximately 75,000 sq.m. of space.

In this context, it would appear that the first phase of development should be more than sufficient to meet demand for the near future and potentially beyond, should the pace of the market slow. Development of the remaining 60 ha. should therefore be based upon careful market analysis -- e.g., monitoring of the volume of goods, their origin and destination, frequency of shipments, etc.; data on investor leads for both Zarqa and Aqaba provided by the FZC Investment Department; and, assessment of overall trade patterns in the region, as they develop. Drawing upon this data, demand projections should be formulated and coordinated with the Engineering Department, to ensure that development does not outpace or fall short of demand.

Consideration should also be given to enhancing the overall appearance of the expansion, relative to the existing facilities. This will be especially important with the relocation of the head office to Zarqa and the traffic of potential investors though the zone that will result.

2. Sahab Industrial Estate

In an innovative arrangement, the FZC and the JIEC will cooperate in the establishment of a free zone "annex" adjacent to the Sahab Industrial Estate. The annex will consist of two warehouses, financed by private Jordanian banks, that will be used as staging areas for imports for exporters located in the estate and operating under the temporary admission or duty drawback schemes. The FZC, along with Customs, will provide the requisite personnel to ensure the adequate surveillance of the goods and their movements.

Although the plans appear to be well advanced for the establishment of the free zone facilities at Sahab, it is unclear as to whether there is a true demand for space in the warehouses and, as a related issue, how the interaction between the zone and the estate will actually function. As discussed earlier in this report, the Customs clearance procedures for temporary admission and duty drawback are particularly cumbersome already. How the introduction of the free zone as a new element in the equation will affect these procedures is difficult to predict. For example, exporters interviewed were uncertain as to whether they would:

- be obligated to use the warehouse to store their imports;
- be subjected to multiple/redundant clearance requirements; or,
- if they would be required to store their goods in the FZ warehouse, to be cleared on an "as needed" rather than a per shipment basis.

The treatment of issues such as will have a direct impact on the exporters' interest in using the facility. Given the amount of attention that has already been directed toward enhancing Customs procedures both within and outside the free zones, and the uneven results that it has generated, is possible that operations at the Sahab zone may prove to be even more complicated than the established procedures. In this context, the success of the project will rest to a great extent on the extent to which the JIEC, FZC, and Customs will work together to coordinate and facilitate the operations. Attention should be directed by the JIEC and the FZC to disseminating information regarding the facilities, procedures, and intended uses of the annex, well in advance of its activation.

3. Aqaba Free Zone

The FZC's development plans for Aqaba's southern coastal area are far more ambitious than the projects described above. The FZC has acquired more than 800-ha. of land from the Aqaba Regional Authority for commercial, industrial, and port development. The land has been given to the FZC free of charge, although a value will be placed on the land by the GOJ to provide the basis for its capitalization. The proposed expansion is comprised of the following:

1. Industrial Free Zone Site. The IFZ site is located at the intersection of the newly completed southern bypass around Aqaba and the main road to Saudi Arabia. It is adjacent to the road, with a frontage of approximately 2,500 meters and extending back about two kilometers, for a total of 5 million sq.m. of land. Although portions of the site will require substantial levelling and fill, for the most part it is flat with an incline toward the coast. At present, the only other development along this portion of the highway, which is zoned for industrial use, is a truckers way station that is being established 4 kms. to the north. The site is six kms south of a 4-lane road that will connect the bypass to the Port Authority's container port, which will be 12 kms. away by truck. The FZC also has an option on all the land behind the site extending to the mountain range, an additional 800 ha.

2. Commercial Free Zone Site. Located on the southern boundary of the Port Authority's container terminal, the commercial free zone site is adjacent to industrial land and faces a large tract of land that the ARA has zoned for tourism development. Land development does not appear to be a problem at the 250-ha. site. Bus transport is frequent along the road, and the site is 22 kms. from the Saudi border.

3. Container Port. In an agreement with the Port Authority, the FZC has also been given direct access to the Bay (500 m. frontage) to erect its own container port on a 600,000 sq.m. site. The intention is for this port to be dedicated solely to servicing the free zone users of the new industrial and commercial projects.

In developing this expansion program, it is clear that the FZC is seeking to take advantage of the opportunity to acquire industrially zoned land in the Aqaba area while it is still available. The ARA is now finalizing its land use plans "for all time," barring the extension of development across the mountain range.[17] Conversations with the ARA revealed that with the large tract of land that has been allocated for tourism development, and the natural barrier of the mountains to the east, there is a finite area to be used for industrial purposes. The FZC sites, including the industrial option, will use roughly half of the industrially zoned land to the south of the city that has not already been developed.

The FZC's plan is to develop the Aqaba expansion program over a two-three year period. According to the FZC, a feasibility study is underway for the industrial zone, but the scope and content of the analysis were not made clear in the discussions. The FZC does not appear to have conducted a market analysis for any of the project components to date. Information regarding demand seems to be based primarily upon applications and expressions of interest to the FZC Investment Office.

From a site selection perspective, each of the projects is well-located in terms of infrastructure. Both electricity and telephone lines run along the highway, water is plentiful, and the ARA is currently involved in discussions with the World Bank to provide financing for the construction of a sewage treatment plant that would serve the entire southern coast region. However, the labor situation may

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17 It should be noted that in the meeting with the ARA the concept of the designation of all of Aqaba as a "free zone" was discussed. It appears as though this idea has received serious consideration, to the extent that the ARA participated in a committee which included ministerial officials (MIT, Ministry of Housing), the FZC, and the Port Authority, to examine the idea. Based upon an internal study, the ARA has recommended not to proceed with the initiative, preferring to engage in controlled land use planning for the region. If the concept is still under debate, it is strongly suggested by the TSG team that the recommendation of the ARA be accepted.

prove problematic if substantial industrial development takes place. With a total population of only 55,000, the city's unemployment is so low as to be virtually non-existent. Aqaba is now attracting workers from other parts of the region and country, and housing shortages are beginning to develop.

Should the ARA and city planners be able to keep pace with the population inflow, with regard to civil works, social services, housing requirements, etc., the development of the FZC's projects could support the further development of Aqaba as an industrial and commercial center. On the other hand, it is clear that the ARA is heavily promoting the tourism sector and development of "tourist cities" is already underway. Within this context, availability of labor may prove to be a critical obstacle.

While there is no cost to the FZC for the land, the Corporation would need to obtain financing for the infrastructure development, an amount that has been roughly estimated at JD30 million. Given the cost of the land development at Zarqa and the scale of the Aqaba development plans, it would appear that this figure is extremely optimistic. Using the JD7/sq.m. average for land development, the cost of this element would be JD56 million. Assuming that administration, Customs, and, cafeteria facilities, etc., are also developed at each site, substantial construction costs must also be added to the figure. Finally, should the FZC proceed with its plans to develop its own container port at the Port Authority site, it is difficult to estimate the dramatic increase to the overall cost.

It is impossible to say without a detailed, systematic analysis of the projects whether they are viable. As stated in the previous chapter, there is a need for the FZC to adopt a methodical, rigorous approach to formulating development plans of this magnitude. Again, a case can be made for the consolidation of Aqaba's commercial facilities at the new site. The present situation is difficult for both the zone administration and the users, and it is likely that the quality of both the services and the facilities would be significantly improved at the new commercial zone. However, it will be difficult to justify constructing an entirely new port facility for the FZC, when the existing port is operating at roughly 50 percent of its capacity. Likewise, it has yet to be demonstrated whether the plans for the IFZ facility are realistic, whether the economic and market factors support its development, and whether the FZC has a clear understanding of the scope of the effort.

B. OTHER POTENTIAL IFZ DEVELOPERS

The FZC is the only entity that is legally authorized to develop free zones in Jordan, apart from the "private free zone" designations that have been accorded to single firms. However, there is a need for reform of the zone legislation, as discussed in Chapter 3, and thereby the potential for liberalizing its provisions to provide for new entrants in the area of Industrial Free Zone Development. In this context, discussions were held with various member of the GOJ and the business community to garner their reaction to the concept, as described below.

1. Jordan Industrial Estate Corporation

The Jordan Industrial Estate Corporation was frequently mentioned as a potential development group for an IFZ project.[18] In fact, the JIEC has proven to be a successful developer and operator of

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[18] The Director General of Customs, however, was receptive to the concept of privately developed IFZs, regarding it as preferable to the current practice of individual factories designated as private free zones, and the added burden such operations place on Customs for control and monitoring of goods.

industrial facilities and could potentially play a similar role within the Jordanian free zone program. Thorough the experience the JIEC has gained in the development and operation of the Sahab and Irbid estates, it has established credibility with the local and foreign business community that might serve it well in overcoming the largely negative image that has developed in Jordan regarding the free zone concept from the viewpoint of the industrial sector.

The JIEC is familiar with the needs and practiced in the provision of a broad range of services and facilities to industrial firms. Furthermore, unlike the FZC, it has the full organizational autonomy and decisionmaking authority that has proven to be a key element in many of the successful public IFZ projects that have been established in other countries.

The idea of designating a portion of the Sahab expansion as an IFZ warrants consideration. In countries such as Costa Rica, some of the most successful industrial developments have been mixed-used industrial parks that feature IFZ firms operating alongside partial importers, indirect exporters, and local service providers. Such an arrangement has stimulated local sourcing by the IFZ firms, and offers the other exporters facilitated access to Customs and other regulatory agencies established on-site. Each group operates under the provisions of its particular regulatory regime, subject to the same control measures and reporting requirements that would apply in a traditional location.

Costa Rica, however, is particularly advanced in terms of the sophistication and simplicity and sophistication of its regulatory and control measures for the export sector, which have been centralized, streamlined, and are largely computerized. In Jordan, careful analysis would have to be directed to the workability of such a scheme, given the problems that have plagued exporters, especially those outside the free zone regime, in Customs clearance. The functioning of the Sahab free zone warehousing facility may prove to be an appropriate testing ground for the concept. In this context, it is even more important that sufficient attention be devoted to ensuring that the Sahab/FZC/Customs procedures assist, rather than obstruct export activity.

At present, in addition to the 75-ha. final expansion phase at Sahab, the JIEC is reportedly considering the development of new industrial estate projects at three different locations: (i) between Amman and Zarqa; (ii) between Amman and the International Airport; and (iii) in the Aqaba region. With sufficient access to labor, infrastructure, and services, the first two locations would appear to be equally suitable for IFZ development. In discussions with the Municipality of Amman, the recently completed Master Plan indicates that the Amman-Zarqa corridor has been planned for development of small and medium-scale, as well as "special use" industry. There has also been consideration of establishing a commuter rail system between Amman and Zarqa, which would greatly facilitate worker access. The area along the road to the airport, while zoned for agricultural use, is thought by several individuals interviewed to be more appropriate for industrial development, and obtaining zoning variances based on a cost-benefit analysis would not be difficult.

At a minimum, initiation of these projects, and especially, any industrial development that the JIEC might undertake in the Aqaba region, should be carefully coordinated with the FZC, in light of its current plans for IFZ development. The Board of Directors of the two organizations share several members, and data collected through market analyses and other pre-investment studies should be discussed and its implications determined for each group. The possible role of the JIEC in IFZ development could also be addressed in such a forum.

2. Private IFZ Development

Privately developed industrial free zones and export processing zones are now an integral part of many zone development efforts worldwide. In countries such as Mauritius, Dominican Republic, Costa Rica, Mexico, and throughout the new IFZ programs in Africa, the private sector is taking the lead in project development. If the present free zone law is reformed to allow for private IFZs, a similar potential exists in Jordan. However, in conversations with the private sector, several facts have become apparent with a direct bearing on private IFZ potential:

- there is a widespread perception of free zones as suitable locations only for commercial activity;
- the regional market has historically been the focus for the export sector, and the denial of Certificate of Origins to free zone firms is therefore viewed as a major obstacle to IFZ development in general;
- speculative industrial development by the private sector to date has been limited to projects oriented to housing small-scale industry or artisan activity;
- there are private firms and individuals with significant financial resources and financing sources available looking for investment opportunities that might consider IFZ development, should a cost-benefit analysis prove positive;
- there is substantial expertise in the business community in key areas such as real estate development, engineering, finance, and business management, that could be drawn together for a private IFZ project, should sufficient demand for such a facility be evidenced; and,
- foreign participation in a private IFZ project would be an alternative of potential interest to the Jordan business community, especially if the foreign partner brought prior experience in IFZ or industrial estate development to the project.

In general, the reaction of the business community to the concept of private IFZ development can be characterized as ambivalent. Given that there is currently no legal basis for the establishment of private IFZs, it is difficult to discuss in concrete terms the opportunities such projects would represent. There is a general view that the GOJ would not authorize the establishment of such zones, especially due to Customs considerations. (The Director General of Customs, however, was receptive to the concept of privately developed IFZs, regarding it as preferable to the current practice of individual factories designated as private free zones, and the added burden such operations place on Customs for control and monitoring of goods.)

On the positive side, the business community seems receptive to considering any opportunity to engage in a profitable venture, providing that it makes good business sense. Unlike the situation in many developing countries, the financial sector is prepared to consider taking on such projects, provided that sufficient pre-investment analysis is undertaken to demonstrate their viability. There is a widespread awareness of the importance of the extra-regional market to the future of the Jordanian economy; at the same time, there is considerable skepticism regarding the Jordan's competitiveness in attracting foreign investment to any IFZ, within the present regional political environment.

There is insufficient data and it is impossible to say whether private IFZ development is a realistic possibility for Jordan at this juncture. If the GOJ moves forward with policy reform measures, a new free zone law is drafted, and the regional and international political climate stabilizes, significant interest may be revealed. However, as presented in Annex C, private IFZ development requires a substantial commitment on the part of the development group; private long-term investment is generally undertaken when there is confidence that key factors will remain relatively stable, or become more favorable, as the project is implemented.

VI. STRATEGIC RECOMMENDATIONS FOR JORDANIAN FREE ZONE DEVELOPMENT

A. ACTION PLAN TO STIMULATE FREE ZONE INDUSTRIAL INVESTMENT

Given the constraints mentioned in the previous sections, it is not surprising that the free zones of Jordan have had only marginal success in attracting industries and, furthermore, that some of these industries lack an explicit export orientation. The following action plan itemizes the specific measures that will be required to increase the free zones' effectiveness in promoting new investment in export industry. These actions are further detailed in the sections following this summary in terms of the specific procedural, organizational, legislative, and complementary measures recommended. In some cases, the actions proposed address issues that are outside the Free Zones Corporation and reform of the law, but which will contribute to stimulating economic development through export expansion.

Administrative/Procedural Reform. Significant improvements to the FZ regime can be realized simply through changes in the administration and application of existing provisions of the Free Zones Law and its implementing regulations. Specifically, were the concept of "extraterritoriality" to be applied in Jordan as it is in most other free zone countries, the rationale for excluding free zone products from Bilateral Trade Protocols and withholding Certificates of Origin would be eliminated. Free zone manufactures are entitled to, and should be granted, equal status in terms of all trade agreements. Likewise, the present requirement that free zone firms register with the MIT prior to obtaining zone status, should be discontinued, at it conflicts with the IFZ regulations, and contributes to the general ambiguity as to the applicability of the laws of Jordan within the free zone context.

Modify Customs Procedures. The procedures for free zone entry and exit should be streamlined and simplified. Specific procedures should be developed for industrial free zones.

Reform Parallel Regimes. There are currently drafts of the Encouragement of Investment Law and the Law Governing Arab and Foreign Investments under review. These drafts should be modified to incorporate specific incentives for export industry and services which approximate those of the free zones for 100-percent exporters located outside the free zone regime. Additionally, the temporary entry and drawback procedures should be improved and made more accommodating to the needs of export industry.

Improve the Operations of the Free Zones Corporation. A number of measures such as staff training, recruitment of qualified personnel, rationalization of operations, and development of MIS systems will improve the FZC's services and efficiency, and can be implemented without significant costs.

Re-examine Zone Development Strategies. Current expansion plans of the Free Zone Corporation should be re-evaluated in light of the need for both project-specific pre-investment analysis, and overall strategic planning given the possibility of other organizations taking a direct role in developing industrial free zones. Specifically, plans should be coordinated between the projects of the JIEC and the Free Zones Corporation to ensure that appropriate development strategies are adopted to serve the needs of the export sector.

Promote Jordan as a Center for Export Industry. The government and appropriate donors should support a comprehensive program for investment promotion, including promotional efforts tailored for the free zone program that will complement the marketing programs of the individual projects to be developed. No current institutional capacity or mandate exists for this task, which will require careful configuration and formulation.

Reform of Legislation. The Free Zones Corporation Law should be changed to address the constraints and limitations itemized in Chapter 3. These modifications should take the form of a newly drafted piece of legislation rather than an amendment, as the changes are substantial. The legislative reforms should encompass the following key areas:

- explicit definition of the extent of exemptions from other laws and the definition of extraterritoriality;
- a definition for industrial free zones, as distinct from commercial free zones, which specifies their objectives and activities without altering the character of commercial operations in the existing zones;
- permitting the development of industrial free zones by organizations other than the FZC, which would include both parastatal organizations such as the JIEC, and private development groups;
- redefine the role of the FZC, clearly distinguishing the regulatory functions of administering the law and the real estate development functions, while preserving the overall responsibility for commercial free zone development and management;
- provide increased autonomy for the Free Zones Corporation.

Develop Individual Projects. With all of the above steps accomplished, the development of individual projects should be supported by the Corporation, donors, financial institutions, regional planning authorities and other government agencies, and efforts should be made to stimulate private free zone/industrial estate development.

These steps, depending on the political consensus that is generated in their support, can be accomplished within a period of one-two years. The following matrix (Table 6-1) summarizes the measures to be taken, the responsible parties, and the approximate duration of the effort. (Most can be conducted concurrently.) Some of the measures may require additional external technical assistance, for which support may be obtained from donor organizations, both bilateral and multilateral.

Table 6-1

ACTION PLAN FOR FREE ZONE DEVELOPMENT

Action	Responsible Agency	Time Required
Administrative/ Procedural Reform	FZC, MIT, COI	4 months
Modify Customs Procedures	MOF	4 months
Reform Parallel Regimes	MIT, MOF	8 months
Improve FZC Operations	FZC	1 year
Re-examine Zone Development Strategies	FZC, JIEC	6 months
Promote Jordan for Exports	MIT, FZC, JIEC	Ongoing
Legislative Reform	FZ, MIT, MOF, COM	1 year
Develop Individual Projects	FZC, JIEC, private sector	Upon passage of new law

Key:
FZC Free Zones Corporation
MIT Ministry of Industry and Trade
MOF Ministry of Finance
COM Council of Ministers
COI Chamber of Industry
JIEC Jordan Industrial Estates Corporation

In order to help promote understanding of the industrial free zone concept, generate consensus among the government, the Corporation, and private industry, an exposure tour to countries which have successfully developed industrial free zones should be considered. Participants should include representatives from the Free Zones Corporation management, the Ministry of Industry, Customs, the Central Bank, the Ministry of Finance, and the Chamber of Industry. Such an effort would expose key individuals to other forms of organization of free zone programs, illustrate the role of private zone/industrial estates, and provide concrete evidence of the potential economic impact of industrial free zones.

B. NEAR-TERM ACTIONS

As noted above, it is strongly recommended that a new free zone law be drafted to address the constraints identified in this analysis. However, if this is not possible in the current economic and political setting, there are still measures that can be taken that will enhance the operating environment for free zone users and export industry, without involving legislative changes. To a great extent, these activities can be undertaken concurrently, and should be viewed as a priority by the FZC, USAID, and the Government of Jordan, to achieve the goal of diversified and sustainable economic growth.

1. Administrative and Procedural Reforms

The perception of the free zones as "extraterritorial," and therefore free zone products as non-Jordanian goods has been a major obstacle to industrial investment in the zones. As mentioned above, Jordan is most likely losing competitiveness by adhering to this position, as other Arab nations have abandoned it. There is no legal provision in the free zone legislation that warrants this interpretation and the COI should be urged to reconsider its present position and grant equal status under the Arab Common Market arrangements to zone producers as that accorded their non-zone counterparts.

Likewise, the MIT should abandon its practice of excluding free zone products from eligibility under bilateral trade agreements in force with other Arab countries. These protocols are important elements in the competitiveness of Jordanian products, within and outside the zone. If the Government truly wishes to promote the development of the export sector, it should do so across the board, and include zone products in the agreements. Moreover, as discussed in Item 3 below, if the parallel regimes such as Duty Drawback and Temporary Entry are strengthened, establishing a roughly equal ground for firms outside the free zones, the criticism that free zone firms benefit from advantages not available to firms outside the zones loses its validity. The current position can and should be reversed by MIT in the terms of the bilateral protocols and other trade agreements it negotiates.

Finally, the registration process for free zone firms should be altered so that the FZC serves as the sole authorization for business establishment and zone status, and the requirements for registration with the MIT should be discontinued. Provisions to this effect are already in place in the zone regulations, and simply need to be detailed and enforced. Data regarding the firms and their activities can be forwarded to the MIT for informational purposes, which will be kept up to date as a FZC Board member, in any event. The present system further contributes to the ambiguity surrounding free zone status, and the applicability of other Jordanian laws to zone users, in addition to complicating the designation process.

2. Modify Customs Procedures

The importance of specialized, streamlined Customs treatment of free zone goods has been emphasized throughout this document. Current practices, while superior to those employed for export industries located outside the free zones, are nonetheless overly bureaucratic and are a source of frustration for many zone manufacturers. While an average of one-two days for clearing entry and exit of goods is quite rapid, the paperwork requirements imposed on zone users to ensure smooth operations are onerous, involving seven different offices for approval of one manifest. In addition, the sheer number of individuals involved, combined with the bonus incentive for identifying discrepancies in the documents submitted by the firms, lays the groundwork for devoting an inordinate amount of time to what should be simple, routine procedures.

In this light, it is recommended that the free zone Customs regulations be revised to eliminate the multi-layered approvals that now obstruct efficient business operations. Several different studies of Customs practices have already been conducted, drawing many of the same conclusions, and lacking only implementation. The Ministry of Finance should make the adoption of the recommended reforms a priority, as well as the development of zone-specific procedures. Consideration should also be given to the participation of senior Customs officials in a short program of training/exposure to alternative, simplified forms of control that are employed in other free zone-sponsoring countries, perhaps as an adjunct to the exposure tour mentioned above.

Finally, it should be noted that the Customs department would also like to see improvements implemented in several areas that will directly benefit the free zone program. At present, its efficiency is inhibited by the need for the precise codification of procedures (which might be simply approached through the development of a straightforward operations manual), lack of computerization, and insufficient staff and resources for training. Optimally, these department-wide problems should also be addressed in the near term.

3. Reform Parallel Regimes

Reform of the free zones regime will only deal with part of the policy framework governing export industry. Other firms with export potential may, for a variety of reasons, prefer not to locate in free zones or under the free zones regime. However, the incentives afforded other firms should approximate those of the free zone regime. In particular, the existing exemption from income tax based on the proportion of export production should be increased, as recommended in other studies, to 80 percent or double the current level. This would allow firms that approach the criteria of qualification for industrial free zone status a comparable tax treatment.

Additionally, constraints identified for industrial export firms, particularly the procedural aspects of the Temporary Entry and Drawback provisions, should be reformulated to make them more flexible and responsive to the needs of manufacturers. This can be done without sacrificing control, and can be implemented at the procedural level, without modifying legislation.

4. Improving the Operations of the FZC

As noted in Chapter 4, the FZC is currently receiving technical assistance in undertaking an organizational assessment which will result in recommendations to improve its organization and management structure. Notwithstanding the actions arising from this study, further refinement of the organizational structure is likely to be required to clearly separate the zone development functions of the FZC from its regulatory and administrative duties, in anticipation of legislative reform.[19]

Attention should also be directed toward ensuring that the structure is designed to facilitate ongoing and open communication with Government entities with a role in the implementation of the free zone regime, such as Customs and the Central Bank. While policies may be set and agreed upon at the Board level, significant problems have arisen in other zone-sponsoring countries due to inadequate coordination and resulting turf battles, procedural stonewalling, and other conflicts among the institutions responsible for putting policy into practice.

[19] Consideration should also be given to the merits of current plans to relocate the headquarters of the FZC to Zarqa, as opposed to remaining in Amman, if it is to serve as regulatory/administrative center for the national free zone program.

As a part of the determination of the optimal FZC organizational structure, staffing needs should be identified, and job descriptions modified and/or new personnel hired to meet the needs of the Corporation. Training programs should be instituted at various levels to ensure that the staff is fully versed in the key elements of the FZC's responsibilities, as well as schooled in the particular demands of their positions. Should a new free zone law be enacted as recommended, and the FZC established as an autonomous body with the freedom to set competitive salary levels and implement employee incentive schemes, it will be much better positioned to motivate and reward its staff, and to attract personnel with the requisite experience and skills to fill openings that arise.

Other areas that are in need of near-term attention include improved data collection, management, and dissemination. While the FZC has plans to purchase and install a computer system (pending budget approval), the design and implementation of a MIS program tailored specifically for the Corporation is highly recommended. Computerization will clearly facilitate basic administrative operations such as personnel management, financial/accounting, and clerical functions, and will also form the technological foundation for improving the administration of the free zone program as a whole. The FZC's historic reliance on manual recordkeeping has resulted in a dearth of operational data in key areas such as status of various zone projects, value flow of goods, percentage of goods entering the local market, etc. Moreover, elements of this system could also be networked to that of Customs, as a fail-safe mechanism.

Finally, as discussed under Section 6 below, the FZC should assume added responsibility in the area of promotion, as the responsible authority for the Jordanian Free Zone program. The Corporation's initial focus should be on providing reliable, current information on the national program regarding its legal requirements, investment trends, individual zone projects, and other data collected in the MIS. This information can be presented in the form of simple brochures and computer print outs; to an investor, accuracy is more important than style. Should a new FZ law be enacted, particular attention should be directed toward ensuring that an even hand is maintained in the preparation and distribution of promotional materials, given the FZC's dual role as developer and regulator.

5. Re-examining Zone Development Strategies

In addition to structuring and successfully implementing its regulatory responsibilities, it is important that the FZC take an objective look at the facilities, services, and overall operations of its existing zones at Zarqa and Aqaba. While the growth in the volume of traffic that has recently occurred in each location is significant, it has been almost entirely confined to transshipment and warehousing activity. In fact, neither of the developed zones is well-suited to attracting industrial activity and it is doubtful that the commercial orientation of the projects will diminish over time.

Therefore, in its capacity as a zone developer/operator, the FZC needs to engage in a strategic planning exercise, including defining its core objectives, a methodical assessment of market demand. The market analysis, in particular, will provide the essential input required to detail future actions vis a vis zone operations and development, taking into account such factors as:

- the locational attributes of the FZC zone sites;
- the performance of the zones thus far within the industrial sector; and,
- the projected impact of the establishment of new Industrial Free Zones or other export-oriented facilities by entities such as the JIEC or private firms.

A strategic planning exercise is particularly crucial at this point for the FZC, given the significant expansion plans that are now being developed for new industrial and commercial free zones at Aqaba. The relative merits of devoting Corporate resources toward what is essentially an entirely new realm -- IFZ development -- versus funding the improvement and expansion of its commercial facilities, merits careful consideration.

It is recommended that formal pre-investment analyses be conducted of the new projects, utilizing or encompassing the market analysis outlined above, as well as examining the critical locational, economic, financial, and design aspects of the expansions. Given the multi-site configuration of the Aqaba free zone, and the current position of the FZC as a tenant on the property of other Government bodies, the plans for consolidation of the zone appear warranted. Conversely, the need for the FZC to incur the costs of constructing its own container facility in Aqaba when the 1991 traffic at the Aqaba port was more than 40 percent below the 1988 volume is doubtful.

It is also recommended that the FZC coordinate its development planning with that of the JIEC. Based upon the success that the JIEC has experienced thus far in its two industrial estate ventures and the demand that has already been evidenced for the final phase of development of Sahab, it is extremely well positioned to embark on the establishment of additional industrial estate facilities or of an Industrial Free Zone project as well, should it elect to do so under the new free zone law. It is in the interest of both corporations, and the country as a whole, that efforts be directed toward ensuring that their initiatives are complementary, rather than duplicative. Information should be shared regarding site selection, market orientation, and other elements of their development plans. The net result will be to increase the likelihood of success of each organization.

6. Promotion of Jordan for Export-Oriented Industry

New investment is presently taking place in Jordan in absence of any promotional institution or program. However, much of this investment can be attributed to the financing provided by returning Gulf workers and cannot be expected to continue beyond the short-term. If the export sector is to benefit from the current liquidity of the Jordanian financial sector and, equally important, to attract new, foreign investment, a pro-active approach to investment promotion must be adopted.

Such an effort can be launched through the MIT, the COC/COI or other organizations, thereby avoiding the difficult and time-consuming effort of establishing a new promotional entity, and would warrant the support of the government of external donors. Basic information on investment conditions and opportunities in Jordan, investment and export promotion laws/policies, economic and market characteristics should be prepared and updated on a regular basis. These efforts should be coordinated with entities such as the FZC, the JIEC, and local professional service providers, which already have undertaken or are now preparing informational and/or promotional materials independently.

With regard to the free zone program in particular, as the official regulatory body, the FZC should serve as a full-service information source for potential investors regarding the regime. Translations of free zone legislation and regulations should be available in English and French, as well as, easy to follow guidelines as to the steps involved in establishing or investing in a free zone project. In addition to promoting its own zones, as new non-FZC projects are developed, the Corporation should work with the developers/operators to make sure that their promotional efforts are complementary, rather than duplicative, and that it is kept abreast of new developments (e.g., building construction/facilities development, new tenants, services, etc.) as they arise. National free zone promotion is best approached as a cooperative effort, to ensure continuity and cost effectiveness.

C. LEGISLATIVE REFORM

For the most part, the measures outlined above can be undertaken without enacting a new free zone law or complementary legislation. However, it must be emphasized that extensive legislative reforms are necessary to address the constraints to industrial activity in the free zones as well as increase the autonomy of the Free Zones Corporation. These reforms, if implemented, will change the content of the existing law sufficiently to justify its complete reformulation, rather than simply amending the existing legislation.

Development of a new law has two additional advantages: (i) it will help to simplify the legal regime governing free zone economic activity, as a single text and legal reference can be utilized; and, (ii) it will have a powerful promotional impact -- representing the investment opportunities that are available through the establishment of a new free zone regime.

For ease of reference, the changes presented here follow the order and organization of the existing law, while directly addressing the constraints noted in this document. They are presented as general principles, and are not necessarily drafted in precise legal language, which should be formulated in Arabic by experienced legal experts.

1. Structure

The law should be subdivided into Chapters which group articles according to function and purpose. For example, these chapters could include:

- Definitions and General Provisions
- The Free Zones Corporation
- Eligibility and Application for Free Zone Status
- Entry and Exit of Goods
- Incentives and Exemptions Accorded Zone Firms
- Other Provisions

The law should be concise and straightforward. As with the existing law, detailed information on zone procedures can be subsequently enacted through implementing regulations.

2. Definitions

The following definitions will clarify subsequent provisions of the law and should be added to Article 2:

- "Industrial Free Zone" denoting a free zone exclusively for the use of industrial firms.

-- "Industrial Free Zone Enterprise" denoting a firm or business entity approved by the FZC as qualifying for free zone status, which is engaged in manufacturing or transformation of goods.

-- "Industrial Free Zone Developer (or Operator)" denoting a firm which develops and operates an industrial free zone.

-- "Commercial Free Zone Enterprise" denoting a firm or business entity approved by the FZC as qualifying for free zone status, which is engaged in the transhipment, re-export, or importation of goods, or the provision of related services to other free zone enterprises.

-- "Free Zone Enterprise" shall mean any industrial or commercial free zone enterprise or developer.

-- "Private Free Zone" shall mean any industrial free zone containing only one enterprise (in keeping with the current usage of the term in Jordan).

3. Structure, Role, and Functions of the FZC

Article 3 should be changed to establish the FZC as an independent corporation, with capital stock subscribed by the appropriate government agency, as well as other public entities with an interest in free zone development. The capital of the FZC should include the value of the fixed assets of the Corporation as it exists now plus the accumulated surplus. Provisions may be made to increase the capital if this constitutes an overly limited capital base.[20] The head office of the Corporation need not be stated in the law, as it is currently in Article 3.

Article 4 should be reformulated to include explicitly as separate subheadings the approval of applications for industrial and commercial free zone enterprises, and authorize the establishment of industrial free zones by other industrial free zone developers or operators.

It may be desirable to soften the provisions of Article 5 to allow other sites (e.g., bonded warehouses) to be utilized for the storage of transit goods, in accordance with Customs regulations.

Article 6 should be broadened to include private sector representatives. These should be named as representing specific groups, and would typically include representatives of:

-- Industrial Free Zone Enterprises;
-- Commercial Free Zone Enterprises;
-- A representative of the private sector in general, such as the Chamber of Industry or Commerce.

These members should be nominated by the members of the organizations they represent; the provisions for nomination of public sector representatives can remain the same. The article should

[20] The project team is not familiar with the Jordanian Companies Law or other potential legal models for parastatal corporations. This recommendation is intended in general terms to establish formally the independent status of the organization, as opposed to that of a government department.

specifically state that the Board of Directors is the highest authority for the Corporation. The relevant Ministries all have representation on the Board and can voice their perspectives via this forum.

In keeping with the above, in Article 7f and g, as elsewhere throughout the legislation, all references to approvals or submissions to the Council of Ministers should be replaced with the Board of Directors. Very importantly, the provision of Article 10 that the Director General be appointed by the Council of Ministers should be changed to make his appointment the responsibility of the Board of Directors.

In Article 12, item c should be eliminated and replaced with a provision to increase the capital subscriptions. This will eliminate the possibility of ongoing governmental transfers, and make any such government funding explicitly related to the capital of the Corporation.

The provision of Article 13a should be reexamined to clarify its appropriateness for an autonomous parastatal corporation.

Articles 14, 15, and 17 should be moved to the same chapter as the above provisions related to the functioning of the Corporation.

4. Designation of Free Zone Industries and Projects

The provisions of Article 13b should be reformulated in a separate set of articles which clearly states the following:

- Criteria for establishment as an industrial free zone enterprise, commercial free zone enterprise, and industrial free zone developer. The principal criteria for industrial free zone firms should be that they export most of their production, to be specified as a fixed percentage (normally 75-80 percent);
- The procedure for application, with a specific period for review by the FZC of 30 calendar days, (less for commercial operations, in keeping with current practice);
- The requirements for qualification or designation of an industrial free zone (these are normally more extensive than those of an industrial free zone enterprise), which specifically include the eligibility of public or private organizations other than the Free Zones Corporation;
- The requirements for qualification or designation as a private industrial free zone, which may include demonstration of particular needs for locating outside of existing zones.
- The explicit notation that 100-percent Arab or foreign owned firms, branches or other affiliates of foreign firms are eligible for free zone enterprise status.
- The maintenance of a register of firms by the FZC, and the issuing of a Free Zone License to all approved enterprises. This registration should be stated to be the only registration required of any free zone enterprise.

5. Rights and Responsibilities of Free Zone Developers

Because the concept of an industrial free zone developer/operator is new, it will be useful to define the rights and responsibilities accorded to them. This will further serve to clarify the distinction between the development role and the regulatory role formerly combined and vested in the Free Zone

Corporation. These rights and responsibilities of a free zone developer would also apply to the Corporation insofar as it develops free zone projects, and will include:

- Each Industrial Free Zone Developer shall be a separate entity incorporated in Jordan.
- An Industrial Free Zone Developer may be established by one or more private groups (foreign or domestic) or governmental parties.
- Each Industrial Free Zone Developer must either own or have leased all the land within a proposed zone area.
- An Industrial Free Zone Developer may contract a private party to engage in all aspects of management, control and promotion of the designated Industrial Free Zone; such parties shall be considered to be eligible for Industrial Free Zone status/benefits.
- An Industrial Free Zone Developer may sell his interest and rights in the zone to another private party after receiving approval for such sale from the FZC.
- An Industrial Free Zone Developer may lease, sublease or sell land or buildings to Industrial Free Zone Enterprises.
- An Industrial Free Zone Developer may make improvements to the zone site and its facilities; provide infrastructure and other services.
- An Industrial Free Zone Developer shall maintain adequate security measures, in collaboration with Customs and the FZC, provide facilities for Customs services and an FZC office, and contribute to the cost of such services.
- An Industrial Free Zone Developer shall adopt rules and regulations for businesses within the zone, which shall promote its safe and efficient operation.
- An Industrial Free Zone Developer shall maintain adequate and proper accounts and other records in relation to its business and report on zone activities, performance, and developments to the FZC on a regular basis.

6. Treatment of Free Zone Goods

A separate Chapter should be formulated which defines, in general principles, the entry and exit of goods from free zones. As is currently done in the FZC Storage and Investment Instructions, the exact procedures will be specified in the new implementing regulations or other instructions. The general principles should include:

- exemption for all goods entering free zones from all Customs duties, taxes, fees, etc. except as expressly provided for in this law.
- exemption from all import and export licensing requirements.
- exemption from all other controls over importation which may be imposed, except those which may be specified in the implementing regulations to preserve public safety.
- treatment of goods imported to the Customs territory from the free zones by commercial firms as imports, subject to payment of duty on the foreign content of the goods.
- limitation of the importation of goods produced by industrial free zone enterprises to the Customs territory to a fixed percentage of the production of that enterprise. The percentage should be fixed to emphasize the criteria of export orientation, and normally would not exceed 25 percent. This importation may require the authorization of the FZC, however this should be extended to a firm on a blanket basis and not required for each transaction.

- classification of the sale of goods from the Jordanian Customs territory to the free zones as exports, making their producers eligible for any export incentives which may exist outside the free zones.
- explicit classification of the export of goods by industrial free zone enterprises to foreign markets as Jordanian products.

7. Zone Incentives

The incentives and exemptions accorded to free zone firms should also be formulated in a separate Chapter. This would include the provisions of Article 13d, summarized as follows:

- Industrial Free Zone developers should qualify for the same incentives as industrial free zone enterprises.
- Industrial Free Zone Enterprises should enjoy a corporate profits tax and social affairs tax exemption commensurate with those available to other export-oriented industry in the country, of at least 10 years, if not the current 12 years.
- Additionally, the tax rate following the holiday period should be reduced to a moderate level, 10 or 15 percent, commensurate with the orientation of industrial free zone firms to export markets.
- The profits and social affairs tax exemption should be reduced substantially or eliminated altogether for commercial firms. The tax advantages accorded to industrial firms are rarely accorded to commercial firms, whose economic impact is more limited.

- Exemption from income tax for expatriates. This simplifies many arrangements for expatriate salaries, which are otherwise often paid overseas to avoid local taxation.
- Exemption from municipal and building taxes, reflecting the provision of related services by the free zone developer.
- Explicit provisions for the free and unrestricted transfer of foreign capital and profits earned thereon.

Articles 13.d.iii and vi are treated in the Chapter on entry and exit of goods. In addition to these provisions contained in the existing Law, the following explicit exemptions should be included to clarify the scope of the exemptions for free zone enterprises:

- Exemption from controls over foreign exchange transactions.
- Exemption from the Law Governing Arab and Foreign Investments.

Under General Provisions, the existing Articles 18 and 19 should be preserved. Article 18 should be reworded to eliminate the reference to the Council of Ministers. Article 19 is important in that it establishes the specified nature of the Free Zones Legislation, and the primacy of the Free Zone Law over other legislation which may conflict with it. This provision has proved useful in resolving disputes in the past.

D. DEVELOPMENT OF IFZ PROJECTS

Finally, attention should be directed toward stimulating and supporting private IFZ development, which has proven to be a major attraction to many foreign firms in other zone host countries. Privately developed IFZ/industrial estates have proven to be especially attractive to foreign investors, as they are often times able to provide a broader range of facilities and service options than their public counterparts, and have established a reputation in many countries for being highly attuned to the requirements of international business.

To attract private sector interest in the development of IFZs, the support of a broad range of institutions will be critical. The FZC, MIT, national and regional planning authorities, financial institutions, and donor agencies, can each play important roles in laying the groundwork to encourage this type of large-scale, long-term investment in Jordan. For example, donor agencies in other countries have commonly financed pre-investment studies for IFZ development of both a general and project-specific nature, that can stimulate interest in private zone development. Likewise, information on the free zone law and other relevant legislation, as well as civil works, environmental concerns, land use planning, and other projects under development is required in order for the potential developer to formulate an appropriate strategy. For domestic firms, in particular, access to finance at acceptable terms and conditions is critical, both commercial and investment banks should be encouraged to serve as lending institutions for private projects.

ANNEX A

INTERVIEWS CONDUCTED -- Partial Listing
(Alphabetical by organization and individual)

GOVERNMENT OF JORDAN

Aqaba Regional Authority

Mr. Mohammad Abulmajid Arabeiat
Director of Research and Studies

Central Bank

Mr. Zawaneh
Director of Foreign Exchange

Mr. Michel Marto
Deputy Governor

Customs Department

Mr. Khalaf Al Hazaimeh
Zarqa Customs Director

Mr. Ahmad A. Heyari
Aqaba Customs Director

Mr. Mohammad Jamal
Director General

Mr. Khaled M. Rababa
Manager, Director General Office

Free Zones Corporation

Mr. Mohammad Hanagtah
Director, Aqaba Free Zone

Mr. Mahmood Khader
Director of Finance

Mr. Nwaf Al Khasawneh
Manager of Administration

Mr. Farouk W. Al Khatib
Investment Director

Mr. Mohammad H. Abu Muhareb
Manager, Studies and Promotion

Ms. Lemya Nimri
Translator/Secretary

Mr. Falah Al Qudah
Director General

Mohammad Abu Rjei
Director of Engineering

Mr. Naheed Suliman
Assistant Director General

Mr. Saud Aladwan
Director, Zarqa Free Zone

<u>Industrial Estate Corporation</u>

Mr. Fayez Suheimat
Director General

<u>Ministry of Finance</u>

H.E. Basel Jardaneh
Minister

<u>Ministry of Industry and Trade</u>

Dr. Samir S. Emeish
Director, Industrial Development Department

Mr. Jamil Gamo
Office of Encouragement of Investment

<u>Ministry of Planning</u>

Dr. Safwan Toukan
Secretary General

Port Authority

Mr. Akef Abu Tayeh
Assistant Director
Port of Aqaba

PRIVATE SECTOR

Ms. Salwa Bamieh
Acting Manager Director
MMIS Management Consultants

Mr. M. Dissi
Director
International Printing and Publishing Company
(Zarqa Free Zone)

Mr. Ibrahim Hdaib
General Manager
United Universal Garment Manufacturing Company
(Sahab Industrial Estate)

Mr. Bisher Jardaneh
Director
Arab Consult

Mr. Bashar Khair
Sabeel Property Management and Development

Mrs. Nimri
International Garment Company
(Zarqa Free Zone)

Mr. George Omsiya
Factory Manager
Universal Modern Industries

Mr. Abdul Aziz Saymeh
Department of Foreign Exchange
Jordan Investment and Finance Bank

Mr. Emad Z. Shamma
Production Director
Arab Electrical Industries
(Sahab Industrial Estate)

Mr. Ghaith K. Sharaiha
Director
Exports and Foreign Relations Department
Amman Chamber of Industry

Mr. Tayseer Wahbeh
Manager, Technical Department
Industrial Development Bank

Mr. Abdulla Warrayat
Global Carpet & Rug Industries
(Sahab Industrial Estate)

Mr. Sharif Ali Zu'bi
Advocate

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. H. Peter Delp
Deputy Director
Office of Trade, Investment and Promotion

Mr. Bassam Khatib
Project Officer

Mr. Barry J. MacDonald
Former Director
Office of Trade, Investment and Production

Mr. Tom Oliver
Mission Director

Mr. Don Reese
Director
Office of Trade, Investment and Production

Mr. Bastiaan B. Schouten
Deputy Director

ANNEX B

INDUSTRIAL INVESTMENT MOVEMENT

IN THE ZARQA AND AQABA FREE ZONES

THE INDUSTRIAL INVESTMENT MOVEMENT IN THE ZARQA AND AQABA FREE ZONES.

COMPANY NAME	DATE OF INVESTMENT	AREA IN SQ. MTRS.	LOT NUMBER	NATIONALITY	LINE OF PRODUCTION	MAIN MARKETS	CAPITAL JD.	LABOUR	PRODUCTION CAP. TONS 1991
AL SALAMA GENERAL CORP.	NOV. 6, 1982	3500	A-1/1	JORDANIAN	FIRE DISTIGWISHERS	ARAB COUNTRIES	40000	10	684.01
ABDULLA BROS. COMPANY	NOV. 6, 1982	3500	A-8	JORDANIAN	GARMENTS	DENMARK AND SCANDINAVIA	30000	60	18.96
INTERNATIONAL COMPANY FOR MODERN INDUSTRY	AUG. 1, 1983	34100	A-6-7/1	JORDANIAN	VEGETABLE OILS	JORDAN AND NEIGHBORING COUNTRIES	5000000	50	
RAMA CO. FOR AGRICULTURAL EQUIPMENT	MAR. 3, 1984	7000	D-1/1	JORDANIAN	AGRICULTURAL TOOLS AND ACCESSORIES	JORDAN	200000	15	35.264
INT'L CO. FOR PRINTING AND PUBLISHING	SEPT. 18, 1984	7000	A-2-3/1	JORDANIAN	PRINTING BOOKS & MAGAZINES	JORDAN	300000	42	90.88
RISHI NARAYAY	AUG. 19, 1986	2000	A-4/2	JORDANIAN	BEDROOMS AND CHAIRS	JORDAN	300000	4	66.962
INT'L GARMENT COMPANY	NOV. 11, 1989	WAREHOUSE SQ.M. - 432 SQ.M. - 2406 ADD. AREA PAVED LAND SQ.M. - 162		JORDANIAN	GARMENTS	USA	90000	150	71.085
INT'L GARMENT COMPANY	DEC. 4, 1990	SQ.M. - 432 + SQ.M. - 297 ASPHALTED LAND SQ.M. - 271 PAVED LAND		JORDANIAN	GARMENTS	USA	168000		
HAMI JAMIL SHOUI EL BANNA	JUL. 25, 1991	2112	D-1/1/2	IRAQI	ASSEMBLING & PRODUCING ELEC. PUMPS	UNDER CONST.	70000		
YOUSEF RASHEED ALANI	AUG. 10, 1991	3500	A-8/2	IRAQI	PLASTICS	UNDER CONST.	350000		
TALEB MOH'D SAEED HASAN	AUG. 12, 1991	1845	C-2/1	IRAQI	MFG. REFRIG. & THEIR DOORS	UNDER CONST.	400000		
SCIENTIFIC CORP. FOR CHEMICALS	AUG. 24, 1991	2550	D-2/2	IRAQI	CAR PAINTS, PASTES, GLUES ASSEMBLING & MFG. WATER PUMPS	UNDER CONST.	130000		
ALFADI INDUST'L COMPLEX	AUG. 24, 1991	1700	D-2/2	IRAQI	ASSEMBLING FLORESCENT LAMPS. MFG. CREAMS MFG. CURTAIN RODS & ACCESS.	UNDER CONST.	300000		
ALI KALBOUNI & BROS. CO.	AUG. 25, 1991	5000	D-2/2	JORDANIAN	INDUSTRIAL OIL	UNDER CONST.	953000		
IBRAHIM SYAH	JAN. 8, 1992	2250	A-2/1	JORDANIAN	PRODUCING AND REPRODUCING AND TRADING AUTOMOTIVE SPARE PARTS	UNDER CONST.	168000		
AL MIRQAB UNIVERSAL GROUP		10000	UNPAVED	JORDANIAN	PRE-FAB HOUSES	JORDAN AND ARAB COUNTRIES	300000		
NASSER AHMED MUKIRISH CO.		400000	AQABA	SAUDI	MEAT PACKING PLANT AND SHEEP BARN AND SLAUGHTER HOUSE	JORDAN AND ARAB COUNTRIES	US 7000000		

ANNEX C

BACKGROUND ON PRIVATE INDUSTRIAL FREE ZONE DEVELOPMENT

Introduction

Although free zone development in Jordan has been the sole responsibility of the Free Zones Corporation, there is a wide range of ownership configurations for free zones, specifically, industrial free zones (IFZs), that have been used in other countries. Increasingly, the experience of IFZ-sponsoring countries indicates a preference among foreign investors for zones that are developed and managed on a commercial basis as private projects. The preference for private projects appears to arise from the disparities between the public and private sector in terms of their performance as zone managers. Foreign investors in Costa Rica and the Dominican Republic, for example, regularly choose to base their operations in private IFZs despite rental prices that are two to four times higher.

The willingness of zone users to pay higher rents is based on the perception that a private IFZ yields a better long-term value and higher degree of service. In contrast to publicly owned and operated zones, private IFZ developers have risked their own capital and thus have a greater incentive to provide a quick, high-quality response to zone user needs. In addition, private IFZs typically offer a wider range of services. A brief overview of the key elements involved in private IFZ development is provided in this Annex.

Organizational Considerations

The strength of the development team is essential to the success of an IFZ project. Successful IFZ operators are characterized by their long-range planning experience and responsiveness to the needs of tenants. The characteristics of successful private zone development groups have often included the following:

- *Real Estate Development Experience* Many IFZ developers have had prior experience in the planning, construction, operations, and marketing of real estate projects. On their most basic level, IFZs are a specialized form of industrial real estate development. Successful private developers often have substantial interest in construction firms. This allows them to reduce development costs, and also to keep the incremental income from the construction side of zone facilities, as well as capitalize on economies of scale within related groups.

- *Marketing Expertise* An IFZ development team must coordinate its physical plan with its marketing strategy. The promotional focus for simple assembly operations, complex manufacturing, or export services will vary. The marketing of IFZs requires an understanding of international industrial activity and global trade, coupled with strong ties to the local business community.

- *Financial expertise* IFZ projects are large, long-term investments that can typically cost between US$15-25 million. They require substantial financial expertise in their planning and execution to ensure adequate returns. Along with the long-term strategic financial planning, knowledge of finance is useful in structuring loans, bonds, or stock arrangements, as well as innovative financing techniques. In addition to financial expertise, significant financial resources are also required for development. In developing countries, private IFZ developers have typically put up substantial equity in the projects, with debt/equity ratios of 60/40 or less, as local sources of lending for long-term projects have been difficult to secure.

Development of private IFZs has most often been undertaken by local private sector firms, or foreign firms with a strong local presence. These firms may not be primarily involved in IFZ development or construction, but instead have diversified interests and see investments in IFZs as a means of further consolidating and diversifying their investments in the country. Even for a well-qualified and experienced team, developing a private IFZ can be a complicated, costly, and long-term endeavor. Before undertaking a private IFZ project, substantial pre-investment investigations and analyses are critical to determine their viability.

Preinvestment Analysis

Preinvestment studies for development of an IFZ project can be undertaken either in a comprehensive Feasibility Study, or in a phased approach. Conducting a Feasibility Study is most practical in cases where a site has been identified and no doubt exists regarding the desire to move forward with the initiative. The phased approach is more time-consuming, but allows for a reasoned decision to be reached by the private developer based upon the locational, economic, and market analyses, and prior to undertaking the costly detailed design and engineering.

Key elements of pre-investment analysis include the following:

- locational analysis/site selection
- economic factor assessment
- market analysis and demand assessment
- site planning/engineering and design
- financial analysis

Sufficient data is usually provided through the execution of a Prefeasibility Study to determine whether or not a specific project is viable. Should the findings of the Prefeasibility Study be positive, the development group can then proceed to the Feasibility Study which is focused on detailed physical planning and engineering.

The level of detail of a Feasibility Study is sufficient to open the project for bidding to prospective contractors. Financial projections generated in the feasibility phase typically have an accuracy of +/- 10 percent and the analysis conducted is sufficient to obtain financing for the project.

Financing Requirements

Defining an IFZ project's financing needs and financial structure, and projecting its financial performance are important components of a Feasibility Study. From a financial perspective, an IFZ is a real estate project configured for specific types of industrial and services activities, operating under a special set of incentives and regulations. As such, financing is required for both fixed asset development, and for working capital expenses associated with project development.

Financing Capital Investments. Fixed asset development funding is typically required for:

- site acquisition and land preparation;
- development of internal infrastructure, including roads, electricity, water, sewerage, telecommunications, etc.;
- construction of standard factory buildings, administrative facilities and other buildings which may be required; and,
- development of external infrastructure (e.g., external access roads, utilities infrastructure, etc.), independently or in conjunction with the public sector utility or agency.

Of those different components, by far the largest cost is building construction, which typically accounts for 75-80 percent of total project costs. The external infrastructure requirements are often implemented as part of the investment programs of the public utilities responsible for each area, however this will depend on local practice and conditions. The developer of the zone, whether public or private, is normally responsible for all internal infrastructure, which again may be installed with the cooperation of the responsible utilities.

The land cost and preparation expense, as well as a portion of the internal infrastructure costs, are normally required up-front before construction can be undertaken. The typical development pattern will be to put in all the land improvements and infrastructure for each phase of construction, and then build individual buildings on demand, with a small inventory of speculative buildings.
The total development cost of an IFZ is often expressed as a unit cost figure, or cost per square meter of rentable factory space. The cost figure includes the land cost, land development, and construction costs. The normal range in developing countries is US$160-250 per square meter.

Working Capital Financing. Funding is also required to cover associated working capital costs such as personnel, office and relevant overhead expenses during the construction period. Depending on local practice and lender requirements, these costs incurred prior to operations may be capitalized and financed from project sources. Once operational, working capital infusions may be needed until revenues are sufficient to cover direct operating expenses of administration, marketing, travel, maintenance, insurance, depreciation, debt service, and various contracted services.

Typical Terms and Conditions. As long-term industrial real estate development projects, with long (3-6 years) development periods, large capital costs (US$15-20 million or more), and long payback periods, IFZs have specific and unique requirements for financing. Zone projects typically require long-term finance (i.e., with a repayment period of at least 8 years, and 2 to 5 years grace period on amortization of the principal) to ensure that gross revenues are sufficient to cover all operating costs, including debt service. As with most term lending, the loans are normally collateralized by the zone assets.

The risk in developing such projects lies in the need to build them out on a large enough scale to generate sufficient revenues in the later years to cover costs and debt service. The major costs are interest and amortization on the debt financing. Once the project is developed to a stage where it can meet these costs, then it can become highly profitable.

Other Financing Concerns. Although IFZs are generally developed in phases to ensure that the supply of facilities is kept in pace with demand, financing secured for zone development should carry some commitment of funding availability for future expansion. Because of the inherent limitations of demand forecasting, IFZ development must have the flexibility to respond rapidly to unexpected surges or declines in investor interest in a timely manner. Additionally, lending restrictions requiring buildings to have signed leases may be too inflexible to assure responsiveness in the absence of construction or bridge financing.

Similarly, the timing and nature of capital infusions is of issue. As all the resources are not needed immediately, the terms of the loan should allow for different drawdowns over time. As noted above, the IFZ will also have need for short-term bridge financing to accommodate working capital requirements until adequate revenues have built up.

Local currency or foreign exchange loans. IFZs are normally quite flexible as projects in terms of the currency denomination of the loan. Because their tenants are export firms and in most countries operate freely in foreign currencies, zone rents are also often denominated in hard currency or linked to the dollar or other index. Therefore, as with export-oriented projects, IFZs can usually support dollar or other hard currency loans without the currency risks involved with other types of projects. The foreign currency component of IFZ projects varies from country to country, but typically will be between 30 to 60 percent. For zones financed with local currency funds, access to foreign exchange for the imported components is critical.

Management and Operations

Within the development organization, the structure and organization of the management team is an important element. Especially during the start-up and early operating phase of the project, organizational complexity should be avoided. To this end, the initial organizational structure and staffing plan should be minimal, concentrating all essential management and operating functions in a chief executive officer, or General Manager.

The General Manager is normally responsible for overseeing the operations of other professional staff, which will vary depending on the resources of the parent company/agency and the size of the project. However, three critical areas must be covered: these include physical planning and construction supervision (engineering); financial planning and management, and marketing and promotion. Additional professional and support staff will also be necessary; but here again there is often some ability to share personnel with parent organizations. Additionally, many zones contract out a number of functions such as maintenance and keep very small full-time staffs.

Pricing Facilities and Services. The pricing of IFZ facilities and services is a controversial issue that is at the heart of successful zone development. On the one hand, rental rates charged by many public sector IFZs have been highly subsidized, priced well below market (economic) rates, assuming that the financial losses accrued are offset by incremental economic benefits. Private sector zone operators, on the other hand, are interested in maximizing rental revenues and earning a reasonable return on capital invested. Pricing of IFZ space in any country should consider the following:

- the rent cannot be so high as to deter investors from establishing operations;
- the rent charged must be competitive with competing IFZs in the region; and,
- the rental rate charged must be sufficient to not only cover operating costs and debt service requirements, but also generate a reasonable financial return.

Purchase of Land and Buildings. In some countries, particularly those with sizeable local business communities active in the export sector, there is great interest in the purchasing, rather than renting, IFZ space. Many IFZ occupants prefer to buy space because of their long-term commitment to the country as well as a financial package that encourages purchasing over renting, it is common practice in Barbados, Costa Rica, and Mexico. Generally, an administration fee, assessed on a per unit basis, is collected to cover services and operating amenities provided by the zone which would otherwise be included in the rent. Some private IFZ developers have preferred to sell buildings, as the immediate cash flow is increased and the financing burden is significantly reduced.

Offering Specialized Facilities and Services. In addition to physical facility requirements, many companies frequently seek out specific support services and amenities. The range of support services offered by many IFZs worldwide is extensive and varies by market and user, but may include such options as:

- job banks of the available workforce;
- provision of shared business facilities, temporary office services, or other services to assist start-up businesses;
- child-care facilities and services;
- on-site cafeterias, clinics, and recreational areas;
- cooperative arrangements with technical training institutions;
- specialized housing for workers and expatriate management;
- worker transportation; and,
- conference centers, meeting rooms, and product display areas.

In determining the services to be provided, market information is important, as the true "incentive value" of these services will vary from industry to industry.